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Losing Out Big Time

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Trade: The U.S. prides itself on its open economy and free markets. But a closer look at the data suggests backsliding on major competitiveness indicators. If it's not reversed soon, there will be no hiding the decline.

Tuesday, Cato Institute economist Daniel Griswold took issue with U.S. Trade Representative Ron Kirk's congratulatory claim that the U.S. is "the most open market in the world."

Actually, it slipped from No. 2 in 2000 to No. 26 in 2007, the last year for which data are available, in Cato's 2009 Economic Freedom of the World annual report.

"If an Olympics were held for the most open economy, the United States would be out of medal contention," Griswold wrote, citing tariffs, regulatory barriers and other factors.

It's reportedly down to No. 28 in 2008 data, and getting worse. Given that size of government, freedom to trade internationally and regulation are the criteria used in Cato's index, you can bet that the U.S. ranking will drop even lower in 2009.

It puts the U.S. behind Hong Kong, Singapore, the United Arab Emirates, Chile, the Netherlands, Ireland, Switzerland, Slovakia and Estonia, all nations that have seen their living standards rise based on an aggressive strategy of free trade.

Chile's experience is relevant.

Its standard of living skyrocketed after it began signing pacts a decade ago. It no longer calls itself a Third World country.

It was obvious last April when two volcanoes blew up in South America at the same time, one in Colombia and the other Chile.

News photos at the time showed the Chileans evacuating through the ash in gleaming late-model SUVs, while the Colombians hauled mattresses, chickens and their worldly goods on their backs, escaping on foot. Not long ago the two countries were virtually identical, but free trade has made Chile a different country.

Even so, the U.S. has isolated itself on trade, signing just 10 free-trade pacts with 17 countries since 1994. Today, three signed U.S. treaties, with Colombia, Korea and Panama, languish in Congress.

We're lagging in capturing fast-growing markets abroad. The National Association of Manufacturers this year found that among the top global exporters accounting for 80% of world trade, the U.S. is the biggest underexporter, ranking dead last at 15th out of 15, exporting the lowest share of its manufactured goods abroad.

It's significant because exports accounted for the bulk of U.S. growth last year. "The United States actually exports only half as much of its manufacturing production as the average for other major manufacturing nations," NAM Vice President Franklin J. Vargo said in testimony to Congress.

This translates into lost jobs, lost opportunity and lost global clout. The U.S. Chamber of Commerce says the U.S. is forfeiting 585,000 American jobs by forgoing free-trade pacts — and yet the Obama administration has done nothing but talk about them.

Competitiveness isn't lost through a single event; rather, it's lost over time as the effects of many bad policies are felt. Right now, on trade, the U.S. is going in the wrong direction. It could turn things around quickly by getting back on the free-trade bandwagon.