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The Bogus Concerns Behind Hillary Clinton's TPP Switcheroo

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October 20, 2015

Some myths simply refuse to die. The idea that free trade hurts middle-class Americans is one of them. And one is that previous busters of this particular myth—such as Hillary Clinton—have now become its chief peddlers.

There was a time when Clinton used to lecture unions about the wonders of free trade, insisting,

"The simple fact is nations with free-market systems do better." Yet there she was at the Democratic presidential debate last week repudiating the TPP trade pact with 11 other Pacific Rim countries—a sprawling trade agreement that she herself painstakingly helped President Obama negotiate, and once called the "gold standard" of trade deals. Why repudiate it now? Because, she said, she couldn't "look in the eyes of any middle-class American and say 'this will help raise your wages.'" (Translation: "I badly want labor's endorsement over that lovable socialist cad Bernie Sanders.")

That trade and globalization have decimated the American middle class has become conventional wisdom among union-friendly liberals. But if TPP is anything like the 1992 North American Free Trade Agreement (NAFTA)—Hillary's husband's crowning achievement, which got the ball rolling again on free trade in this country—it'll actually prevent labor from driving the middle class into a hole.

Ross Perot famously warned that NAFTA would create a "giant sucking sound" as American jobs were stolen by Mexico. This fear was not completely unfounded, given that unions in their heyday had bid up U.S. manufacturing wages beyond globally competitive rates. Hence it was not implausible that once tariffs impeding the cross-border flow of goods were removed, automakers and other manufacturers would take their factories and run for the nearest exit doors.

But that didn't actually happen.

A 2004 Congressional Research Service brief found no net negative impact on aggregate employment levels in the 10 years since NAFTA. Indeed, even the most dire estimates by the labor-friendly Economic Policy Institute could attribute only 500,000 job losses to post-NAFTA trade annually. This works out to less than 3 percent of the 15 million permanent jobs that the

American economy routinely wipes out every year due to technological advances, shifts in consumer demand, and domestic competition.

If fears about job losses from NAFTA have proven to be overblown, worries about middle-class wage cuts turned out to be completely false.

A 2007 Cato Institute study by Dan Griswold comparing appropriate benchmark years in business cycles found that average real wages of American workers didn't go down but up by 8.2 percent in the previous decade. And hourly compensation—which includes wages and benefits—rose by a whopping 22 percent. What's more, median household incomes in 2006 were up 6.1 percent from 1996.

So why didn't NAFTA drive middle-income Americans to the poor house as predicted?

The best guess is that the economic gains from the agreement were large enough to accommodate labor-induced profligacy. Standard trade theory predicts that trade enhances the productivity of all parties by pushing them to specialize in those industries where they have a comparative advantage—or where they can get the highest possible returns. The result is a far more sophisticated division of labor across countries as capital and labor are redeployed from lower- to higher-return activities.

Take autos, for example. Before NAFTA created a unified market among Mexico, Canada, and the United States, cars were by and large produced and sold in the same country because tariffs bumped up prices too much when cars crossed borders. The upshot was a relatively small consumer market and a small manufacturing footprint.

NAFTA changed all that. It allowed American automakers to generate new efficiencies from a single manufacturing platform spanning three countries. Ford or General Motors could obtain engines from Mexico, transmissions from Canada, and then build the car in America, notes Michael Robinet of Michigan-based consultancy IHS Automotive. This allowed them to not just cut production costs but also improve product quality and find a bigger market for each vehicle.

This might have postponed the day of reckoning for the bloated retiree legacy costs that labor unions had tacked on over the years. In other words, far from decimating the much-vaunted union-generated American middle class, NAFTA might have given it a new lease on life.

TPP's effects are hard to predict given that the pact has been negotiated in secret, and details are only now filtering out. There might be genuine reasons to worry about this deal.

As *Vox*'s Tim Lee has noted, industry and labor groups are increasingly using multilateral trade pacts not to advance free trade but to push their own interests through special protections. Hollywood wants to slap fines on trade partners that offer insufficient copyright protections and Big PhRma for insufficient patent protections. Unions, meanwhile, want these deals to impose First World wage and workplace standards on emerging countries, wiping out any potential gains of trade for both America and its trade partners. But these are reasons opposite to the ones that Clinton has cited for opposing the deal.

The fact of the matter is that a reasonably clean TPP, Berkeley's liberal economist Bradford DeLong notes, would boost global wealth by $3 trillion with no evidence of any "downward pressure on real wages in the United States." It would be a win for the world and a win for America.

President Obama opposed NAFTA when he was campaigning—only to switch course once in the Oval Office. Let's hope President Hillary Clinton has a similar change of heart on TPP and trade if and when she assumes office. Pulling switcheroos, after all, is a special talent of hers.