America Benefits from Free Trade

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by Carla Hills, Intellectual Capital
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The case for free trade does not easily fit on a bumpersticker. But the arguments are not hard to understand. Consumers gain from free trade because they can buy the best goods and services at the lowest prices. Manufacturers gain by having access to raw materials and goods that make them more competitive. The economy gains as a result of increased competition, which encourages innovation and technological development. Access is good

In short, free trade creates a more efficient and productive economy that grows more rapidly and generates greater prosperity for our people.

As the world's largest exporter, importer and investor, Americans have a major interest in ensuring that global markets are open. Today, our trade and investment earnings and payments account for about one-third of our $7 trillion economy. With less than 5% of the world's population, we produce more than 20% of the world's output. Overseas customers buy more than half of our computers, cotton, aircraft and soybeans; more than one-third of our construction machinery, semiconductors and machine tools; and over a quarter of our farm machinery, flat glass and corn. We need access to foreign markets to sell the goods we produce.

The benefits of an "open-door" policy

We don't talk enough about the benefits of an open global economy. The subject was ignored in the recent presidential election. When we hear anything about trade, we are more likely to hear that exports are good, implying that imports are bad -- really a pitch for mercantilism, not open trade.

But, open trade — imports as well as exports — is essential to our economic well-being. Although about 90% of what Americans consume is produced here at home, we need some foreign goods, like oil, to keep our economic engine running at full speed. And, as nations sell us the products that they produce, they earn the foreign exchange with which to buy goods and services from us.

If trade ended tomorrow, not only would jobs at big corporations such as Boeing, Microsoft, General Electric and Caterpillar disappear, but jobs also would vanish at smaller companies that depend on foreign markets or require products or technologies not available domestically. And, our workers, who are also consumers, would pay more for a range of goods if our borders were closed.

The growth factor

That is why economists almost universally favor open trade. But, the argument for free trade extends well beyond economic theory. In the real world, there is a high correlation between open markets and economic growth. Countries that have pursued policies to open and deregulate their economies have performed better than those with protected and over-regulated markets.

Because our barriers to trade and investment are generally lower than those that exist in other countries, it is in our interest to persuade our trading partners to lower their barriers. That is particularly true with respect to nations in Asia and Latin America, the two fastest growing regions of the world. As they remove their trade restrictions, we gain disproportionately in terms of new opportunity.

Studies show that U.S. companies that are active internationally enjoy higher growth, experience fewer failures, create more jobs, pay better wages, provide greater benefits and offer more job security than those that do not.

A smaller pie

Those who oppose our nation's efforts to negotiate agreements with our trading partners to open markets would shrink our opportunity and doom us to slower growth. History has taught us the danger of seeking to solve our economic problems by maintaining barriers that shrink the economic pie.

In our dynamic economy, companies may fail for a variety of reasons: technological advances, shifts in consumer taste, mismanagement and competition. Although domestic competition is far more pervasive in the United States than foreign competition, as economist Robert Samuelson points out "it somehow seems worse to us that Sony might hurt Zenith than Wal-Mart might hurt K-Mart."

Today, most dislocated U.S. workers get new jobs fairly swiftly -- in about 15 weeks. But, for some, particularly those with narrow skills, or no skills, job losses can be very painful. Such problems need to be faced with compassion and sound policy.

The perils of protectionism

There is no single policy solution to the problem of structural unemployment. Education, retraining and relocation can help, particularly if sponsored at the community level, or by the firm that hires those they train. But trade protection is the worst possible policy option to deal with jobs thought to be lost to foreign competition, because in the long run it will cost more jobs by making our companies less competitive -- all without addressing the fundamental problems of noncompetitive firms.

America is great today because of its impressive participation in global markets. We must be in the forefront of the movement for free trade which is gathering momentum around the world or our nation will be left out and our entrepreneurs and workers will lose out.

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