Institute For Policy Innovation
IPI Ideas
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NO. 45 FROM THE IPI CENTER FOR ECONOMIC GROWTH JULY 2007

# PURSUING FREE TRADE AGREEMENTS AND FAST-TRACK AUTHORITY

*by Doug Bandow*

Support for free trade long has transcended party lines. But in recent years Democrats and Republicans alike have grown more hostile to open international markets. The Bush administration and Congress should overcome partisanship and reaffirm America's commitment to trade liberalization by renewing presidential "Fast Track" authority.

Mutual reductions in trade barriers offer the greatest economic benefits. Large-scale negotiations, such as those through the World Trade Organization, have helped open the world economy. Unfortunately, the so-called Doha round has been stalled over farm subsidies: The latest attempt to break the deadlock collapsed in late June.

Another option is unilateral dismantlement of trade barriers, a strategy followed by Hong Kong, New Zealand, and Singapore. Indeed, most U.S. tariff and quota reductions have been unilateral. As Daniel Ikenson of the Cato Institute points out, "the primary benefits of trade come from liberalization at home."[1] Unfortunately, such a proposal is unlikely to win political support.

The most realistic strategy is bilateral and regional agreements. Four free trade agreements (FTAs) are currently awaiting congressional approval. But newly empowered Democrats have criticized the accords and the Fast Track authority (or "trade promotion authority") under which they were negotiated. TPA, which expired on June 30, requires that Congress hold an up or down vote on FTAs without amendment.

The administration and Congress have formulated a new, supposedly bipartisan trade policy incorporating enhanced environmental and labor regulation in the negotiation process. House Ways and Means Committee Chairman Charles Rangel (D-NY) argues that the agreement "will remove the excuse of the ILO [International Labor Organization]" for trade opponents. But any restrictions are likely to act as a new barrier, sharply limiting the benefit of any resulting FTAs.

**Free trade is good for the U.S.** Free trade benefits both buyers and sellers. by basing production on "comparative advantage," that is, allowing people in different lands to produce the goods and provide the services at which they are most proficient. Moreover, note Richard Fisher and Michael Cox of the Federal Reserve Bank of Dallas, "Larger markets give companies a wider field to search for scarce capital, cheaper inputs and human talents. They provide added impetus for innovation, business formation and risk-taking."[2]

And with the world's largest and most productive economy, the U.S. is well positioned to take advantage of a freer global trading environment.

Overall, trade, production, and employment tend to rise together. An expanding economy raises demand both for imports and domestic products. Consumers with rising incomes buy more goods, both imported and domestic. American producers also import more intermediate goods, such as auto parts, computer components, and capital goods.

Prosperity has increased dramatically as globalization has intensified. Writes Fareed Zakaria of *Newsweek*:

> Over the past 20 years, as these forces have accelerated, the United States has benefitted enormously. Its companies have dominated the new global economic order; its consumers have reaped the lion's share of the resulting price reductions. America has grown faster than any larger industrial economy during these years: over the past two dec-

ades, American per capita GDP has roughly doubled. The median income of a family of four rose 23 percent between 1985 and 2005.[3]

Americans have done better economically even as imports have exploded. Dan Griswold of the Cato Institute observed in 2000:

> During the last five years, living standards have been rising for low-and high-income workers alike. More than 80 percent of the jobs created since 1993 are in occupations that pay above the median wage. Figures on the alleged decline of real wages are misleading because they overstate inflation and do not include the growth of nonwage benefits.[4]

Further liberalization would yield substantial additional benefits. Federal Reserve Chairman Ben Bernanke estimates that dropping all trade barriers would increase household income in the U.S. by between $4,000 and $12,000.[5]

Manufacturing employment *has* been falling—but at the same time, American manufacturing output continues to grow. Indeed, average factory worker productivity increased two and a half times from 1979 to 2005. The U.S. accounts for one-fifth of manufacturing value-added, more than any other country; real output has increased seven-fold since 1950 with no increase in the number of employees.

America's trade deficit remains high, but it is counterbalanced by the inward flow of economic investment. Far from costing the U.S. jobs, explains Griswold, "As a reflection of continued domestic demand and the desire of foreign investors to acquire U.S. assets, large trade deficits are typically associated with more output and more jobs."

**Free trade has political benefits as well**. Incorporating South Korea and Taiwan into the international economy raised their incomes and moderated their politics, encouraging democratization. Although economic freedom does not guarantee political freedom, it creates a positive environment for liberal reform. Moreover, trade involves positive cooperation which may ameliorate some ethnic and religious tensions.

FTAs sometimes yield geopolitical benefits as well, strengthening economic ties with nations in sensitive regions. NAFTA has aided Mexico, America's next door neighbor and source of substantial illegal immigration. The recently negotiated FTA with South Korea is particularly important since Seoul has been moving closer to China. Agreeing to a FTA with Taiwan could help ease that country's increased feeling of isolation.

Despite the many and positive benefits of free trade, there obviously are losers. Some individual jobs are lost, yet U.S. employment has been rising even as globalization has increased. Over the last decade the economy has averaged a million new jobs on net every year.

The fact that more jobs are created than destroyed obviously does not lessen the pain for those who end up unemployed. But attempting to preserve jobs with trade barriers on average costs more than $230,000 per job; in some industries American consumers have paid nearly $1.4 million per job "saved."[6]

Unfortunately, growing numbers of Republicans and Democrats are abandoning their once strong support for open international markets. Yet if there is one incontestable axiom of economics, it is that economic liberty yields growth and prosperity, rising employment and income, and accelerating technological advance. Thus, it is imperative that the president and Congress cooperate in support of an open international economy. America's prosperity is too important to sacrifice for the political advantage of either party.

1 Daniel Ikenson, "Leading the Way: How U.S. Trade Policy Can Over come Doha's Failings," Cato Institute Trade Policy Analysis No. 33, June 19, 2006, p. 20.

2 Richard Fischer and Michael Cox, "Globalization's Gifts," *Dallas Morning News*, April 13, 2007, www.dallasnews.com.

3 Fareed Zakaria, "The Democrats' Trade Troubles," *Newsweek*, May 21, 2007, p. 38.

4 Daniel T. Griswold, "WTO Report Card: America's Economic Stake in Open Trade," Cato Institute Trade Briefing Paper No. 8, April 3, 2000, p. 1.

5 Bernanke.

6 W. Michael Cox and Richard Alm, "The Fruits of Free Trade," 2002 Annual Report, Federal Reserve Bank of Dallas, p. 19.

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