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Common Myths and Facts about Trade

Clarifying the Trade Debate Is Crucial to Ensure the Prosperity of America and the World

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International trade, usually a low-key issue, has sparked a heated debate under the current administration. As with any hot issue, several common misperceptions afflict the debate. This essay seeks to address and refute these misperceptions with the aim of improving the quality of the trade discourse among policy makers and the interested public.

The three myths discussed here are jobs, international relations, and unilateral liberalization. Trade barriers cause short-term job losses but have little long-term employment impact. Higher trade barriers do not improve other countries' behavior. Finally, lowering trade barriers benefits a country's economy, regardless of what other countries do. A clear view of these facts is crucial for best addressing trade disputes, including with major trade partners like Canada, Mexico, the European Union, and China. For more, see the recent Competitive Enterprise Institute study, "Traders of the Lost Ark: Rediscovering a Moral and Economic Case for Free Trade."

MYTH: America Loses More Jobs to Foreign Competition than Are Created by Trade.

FACT: Trade Affects the Types of Jobs, Not the Number of Jobs. When the North American Free Trade Agreement (NAFTA) took effect in 1994, the United States labor force was 132 million people. As of this writing, it is 162 million.[1] With 30 million more people working today, NAFTA critics are clearly in error when they claim the agreement has cost American jobs. But free trade supporters should not give NAFTA the credit. The size of the labor force is tied to the size of population more than anything else.

Trade policy does have short-term employment effects. The Trump administration's steel and aluminum tariffs will create an estimated 33,000 jobs in those industries—and destroy an estimated 179,000 jobs in steel and aluminum-using industries, which will face higher input costs.[2] That is a net loss of 146,000 jobs, without accounting for the negative effect of other countries' retaliatory tariffs on American exporters. Other new trade barriers are costing thousands more jobs in industries ranging from motorcycles to blue jeans to musical instruments to cherry farming.[3] Displaced workers will find new work eventually, but they and their families potentially face several months of belt-tightening for no good reason.

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Trade does affect the *types* of jobs people do. Tariffs shift workers from higher-value jobs to lesser-value ones, and hurt worker pay as a result. In the long run, this does not affect the number of jobs, but it does lower take-home pay, and raises consumer prices.

MYTH: Tariffs Can Force Other Countries to Improve Their Trade Policies.

FACT: Trade Barriers Do Not Improve Other Countries' Behavior. In fact, it usually worsens it; other countries nearly always retaliate. America has legitimate grievances against other countries' trade policies, especially China. The question is what the U.S. can do to get China to make needed reforms. Tariffs are not the answer.

Instead, America and other countries need to use the World Trade Organization's dispute resolution process, apply diplomatic pressure, and enact bilateral or multilateral agreements that can be far more effective in reforming China's unfair policies. The Trans-Pacific Partnership (TPP) would have enacted binding reforms, but the Trump administration, in its early days, withdrew from the TPP. A repressive China will always be poorer than the free world. A free and rich China would be an ally, not a threat.

MYTH: Don't Lower Trade Barriers without Getting Some Reciprocal Deal.

FACT: Lower Trade Barriers Help the Economy, No Matter What Other Countries Do. Tariffs and other trade barriers hurt the economy. The Trump administration's haphazard approach to enacting them also has a dampening effect on long-term investment, as companies are unsure how best to react. Right now, more than 2,000 companies are lobbying Washington for exemptions from new steel and aluminum tariffs.[4] Commerce Secretary Wilbur Ross is refusing to disclose the government's process or criteria for deciding granting exemptions, despite bipartisan Senate pressure for transparency. In the meantime, as with any other trade barrier, the new tariffs open the possibility of rent seeking—both by companies seeking protection from foreign competition and by federal employees heading to K Street to lobby their former government employers.

Trade barriers cause all these problems; lowering trade barriers will greatly lessen them.

For Further Reading:

Iain Murray and Ryan Young, "Traders of the Lost Ark: Rediscovering a Moral and Economic Case for Free Trade," Competitive Enterprise Institute *Studies in Capitalism* No. 4, August 2018.

Notes

[1] St. Louis Federal Reserve, Federal Reserve Economic Data, Civilian Labor Force, https://fred.stlouisfed.org/series/CLF16OV.

[2] Joseph Francois and Laura M. Baughman, "Does Import Protection Save Jobs? The Estimated Impacts of Proposed Tariffs on Imports of U.S. Steel and Aluminum," Trade Partnership Policy Brief, March 5, 2018, http://tradepartnership.com/wp-content/uploads/2018/03/232EmploymentPolicyBrief.pdf.

[3] Bloomberg News, "Losers Far Outnumber the Winners in Trump's Global Trade War," July 17, 2018, updated August 23, 2018, https://www.bloomberg.com/graphics/tariff-tracker/.

[4] U.S. Senate Committee on Homeland Security and Governmental Affairs, "Johnson, McCaskill Press Commerce for Tariff Exclusion Information," August 30, 2018, https://www.hsgac.senate.gov/media/majority-media/johnson-mccaskill-press-commerce-for-tariff-exclusion-information.