

Free Trade versus Fair Trade

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The defeat of President Clinton's call for "fast-track" authority proves that people love monopolies in what they sell and free markets in what they buy. It means higher prices for what they sell and lower prices for what they buy. Businessmen and union leaders concoct all manner of myth-making to achieve monopoly power and international trade is no exception. Let's examine some of it.

There's the bugaboo about trade deficits, as in complaints that we buy more from Japan or Mexico than they buy from us. That's not only mythology, but it's not true. Let me use domestic trade to make my point. I buy more from my grocer than he buys from me, but is there a "trade deficit?" When I buy \$100 worth of groceries, the value of my current account (goods) rises by \$100 but the value of my capital account (money) goes down by \$100. By the same token, the grocer's current account (goods) goes down by \$100 and his capital account (money) rises by \$100. There's no trade imbalance whatsoever; I've given him \$100 worth of value and he's given me \$100 worth of value. Similarly, when a Japanese automaker sells us a \$15,000 car, his current account goes down by \$15,000, and ours goes up. He might purchase \$15,000 worth of AT&T stock instead of buying California oranges. But just as in the grocer example, his capital account rose by \$15,000, and ours goes down.

Protectionists (seekers of monopoly) sometimes argue that American workers can't compete with low-wage foreign workers. On its face, this argument is ludicrous. If true, we would export almost nothing; American wages are about the highest in the world, yet we are the world's major exporter. Wages alone explain virtually nothing about trade patterns. It's wages relative to productivity. For example, the fact that a Mexican road construction worker might earn just \$3 an hour, while his American counterpart

earns \$25 an hour, doesn't mean Americans can't compete. The reason is simple. American workers have more capital (modern heavy equipment) working with them, making the output of a day's work much greater.

How about tariffs saving jobs? That's kind of true, but they're saved at the expense of other jobs. Steel-tariff restrictions might save jobs for steelworkers, but they destroy other jobs. Steel tariffs raise steel prices. Thus, steel-using companies—like tractor, refrigerator, and car manufacturers—face higher production costs. Higher costs weaken their ability to compete both domestically and internationally. Politicians love this. Steelworker beneficiaries of tariffs will be eternally grateful and know whom to vote for. The invisible victims in steel-using industries won't know why they are unemployed. Politicians can blame their plight on anything from Reaganomics, the UPS strike, or global warming.

There is no intellectually respectable argument against free trade. The thousands of pages found in GATT and NAFTA are not about free trade, but they are for side deals and giveaways. Thousands of pages are not necessary free trade. At one time there wasn't free trade within our borders; here's what our Founders wrote to promote free trade: "No Tax or Duty shall be laid on Articles exported from any State. No Preference shall be given by any Regulation of Commerce or Revenue to the Ports of one State over those of another; nor shall Vessels bound to, or from, one State, be obliged to enter, clear, or pay Duties in another." That North American Free Trade Agreement is found in Article I, Section 9, of our Constitution. With a word change here and there, it could just as easily serve us internationally.