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THE BENEFITS OF FREE TRADE: A GUIDE FOR POLICYMAKERS

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International trade is the framework upon which American prosperity rests. Free trade policies have created a level of competition in today's open market that engenders continual innovation and leads to better products, better-paying jobs, new markets, and increased savings and investment. Free trade enables more goods and services to reach American consumers at lower prices, thereby substantially increasing their standard of living.

Moreover, the benefits of free trade extend well beyond American households. Free trade helps to spread the value of freedom, reinforce the rule of law, and foster economic development in poor countries. The national debate over trade-related issues too often ignores these important benefits.

The positive effects of an open market are clearly evident in the stellar growth of the U.S. economy over the past decade. Since 1990, the U.S. economy has grown by more than 23 percent, adding more than $2.1 trillion to the nation's gross domestic product (GDP) and raising the wealth of the average American consumer by more than $5,500.[2] The economy responded well to the expansion of trade that occurred after the signing of the North American Free Trade Agreement (NAFTA) in 1993 and the establishment of the World Trade Organization (WTO) in 1995 as a forum for settling trade disputes. For example:

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- Since 1990, imports of real goods and services have increased 115 percent.
- The number of full-time jobs has increased by 13.4 percent since 1991. The share of the labor

1. The author wishes to thank Aaron Schavey, Policy Analyst in the Center for International Trade and Economics, for his contributions to this paper.
2. Heritage calculation based on data from WEFA, Inc., *World Market Monitor*, August 2000. This statistic is based on real GDP per capita.

force that works part-time because of an inability to find a full-time job is less than 3 percent.

- As of July 2000, the unemployment rate had hovered within one-tenth of a point from 4 percent for almost a year—the lowest rate in 30 years.[3]
- The stellar record of growth has continued in the United States at the end of the decade as well: Between 1998 and 1999 alone, total employment increased by 2 million.[4]

To be sure, many more policymakers today acknowledge the benefits of free trade than when Congress passed the Tariff Act of 1930 (the Smoot–Hawley Act). The devastation wrought by these protectionist tariffs led successive U.S. administrations to support free trade after World War II. Their grand vision of a world comprised of nations at peace who traded freely among themselves for the prosperity of all has animated U.S. foreign policy and invigorated efforts to facilitate the opening of markets in every region.

A growing number of countries continue to share the benefits of America's emphasis on trade. As noted in a recent report by the International Financial Institution Advisory Commission chaired by Allan H. Meltzer, a former member of the President's Council of Economic Advisers and Professor of Political Economy at Carnegie Mellon University:

> The Congress, successive administrations, and the American public can be proud of these achievements. The United States has been the leader in maintaining peace and stability, promoting democracy and the rule of law, reducing trade barriers, and establishing a transnational financial system. Americans and their allies have willingly provided the manpower and money to make many of these achievements possible. The benefits have been widely shared by the citizens of developed and developing countries.
>
> The dynamic American economy benefited along with the rest of the world. Growth of trade spread benefits widely. Per capita consumption in the United States tripled. As in other countries, higher educational attainment, improved health services, increased longevity, effective environmental programs, and other social benefits accompanied or followed economic gains.[5]

Despite these achievements, the United States, with one of the world's most open markets, continues to apply barriers to trade—most notably tariffs and quotas in the apparel and textile industry and in agriculture—that increase the cost of goods for consumers and harm people in developing countries who rely on this trade for their meager incomes. In this respect, the Trade and Development Act of 2000 (P.L. 106–200) enacted on May 18, 2000, by lowering some of these barriers to trade, is a step in the right direction.

Congress and the President should take every opportunity to articulate the benefits of trade to the American people and to expand international trade by any possible means, such as the unilateral lowering of trade barriers, the forging of regional and bilateral trade agreements, and working within international trade forums like the WTO. Ultimately, the straightforward and tangible benefits that derive from each of these steps will help both hardworking American families and impoverished people around the world.

BENEFITS OF FREE TRADE

The benefits of free trade are many and far outweigh any risks that foreign competition might

3. All above-cited Heritage calculations on imports and employment based on Bureau of Labor Statistics data.
4. U.S. Department of Labor, Bureau of Labor Statistics, *Issues in Labor Statistics*, Summary 00–13, June 2000.
5. Allan H. Meltzer, *Report of the International Financial Institution Advisory Commission* (Washington, D.C.: U.S. Government Printing Office, 2000), pp. 15–16.

pose to the U.S. economy. These benefits fall into four major categories.

Benefit #1: Free trade promotes innovation and competition.

Few people in America today sew all their own clothes, grow all their own food, build their own houses, or buy only products made in their own states. It would cost too much and take too much time, especially since Americans can acquire such items on the open market with relative ease. The same principle of practicality and cost applies on an international scale. It makes economic sense to buy a product from another who specializes in such production or who can make it more easily or for less cost.

Indeed, access to a greater variety of goods and services is the purpose of trade. Imports, then, are not a sacrifice, a necessary evil for the good of exporting. One exports so that one may acquire goods and services in return. This logic is evident on a personal level as well: A person works so that he has the means to buy necessities and possibly even luxuries. One does not make purchases in order to justify working.

Free trade is the only type of truly fair trade because it offers consumers the most choices and the best opportunities to improve their standard of living. It fosters competition, spurring companies to innovate and develop better products and to bring more of their goods and services to market, keeping prices low and quality high in order to retain or increase their market share.

Free trade also spurs innovation. The U.S. market has demonstrated repeatedly, particularly over the last decade, that competition leads to increasing innovation. This is evident, for example, in the intense competition to create the latest personal computer at the lowest cost. With the growth of electronic commerce has come unlimited choices of goods and services and lower prices for products. Computers are now available for free just for signing an annual Internet provider service agreement.[6]

In fact, America's greatest advantage lies in its ability to innovate and to build upon that continually expanding knowledge base. According to *The Economist*, the United States "has an 'innovational complex'—those thousands of entrepreneurs, venture capitalists, and engineers—unmatched anywhere in the world."[7] This resource results in an ever-growing number of new products and services that bolster America's competitive advantage in the global market and greater prosperity at home.

This competitive advantage derives largely from America's open market practices. Free trade promotes innovation because, along with goods and services, the flow of trade circulates new ideas. Since companies must compete with their overseas counterparts, American firms can take note of all the successes as well as the failures that take place in the global marketplace. Consumers then benefit because companies in a freely competing market must either keep up with the leader in order to retain customers or innovate to create their own niche.

In contrast, protectionist policies designed to restrict foreign competition exact a heavy cost on consumers. This is perhaps best demonstrated by the European Union (EU), which protects, for example, its members' agriculture industries from foreign competition through such policies as restricting imports of beef and maintaining a protectionist regime on bananas.

In June 1999, testifying before the Senate Committee on Agriculture, Nutrition and Forestry on the need to reform the European Common Agricultural Policy (CAP), U.S. Trade Representative Charlene Barshefsky observed that

> The European CAP, including $60 billion in trade-distorting subsidies, and 85 percent of the world's agricultural export subsidies, is among the largest distortions

6. Adam D. Thierer, "How Free Computers Are Filling the Digital Divide," Heritage Foundation *Backgrounder* No. 1361, April 20, 2000.

7. "America Rides the Wireless Wave," *The Economist*, April 29, 2000, p. 57.

> of world trade in any sector. Reform is in everybody's interest. The combination of high tariffs and subsidies make European consumers pay prices far above world markets for food. Export subsidies, in particular, place an immense and unfair burden on farmers in other countries, especially developing countries.[8]

The end result of these policies has been to deprive consumers across Europe of access to more goods at fairer prices.

Though Ambassador Barshefsky's statement demonstrates that the Clinton Administration has recognized the negative impact of protectionist policies, protectionism continues to thrive in America's own agriculture sector, perpetuated by federal subsidies on products such as peanuts and sugar.

The common misperception that American farmers need subsidies to survive belies the evidence that American farmers themselves have amassed—evidence that is a tribute to their efficiency and hard work. By using the innate talent to innovate that Americans have developed so well, farmers have vastly increased productivity over the years. In fact, between 1948 and 1996, U.S. agricultural labor productivity increased more than eightfold, and agricultural production doubled, even as total input use (including labor, land, and machinery) declined.[9]

Clearly, removing counterproductive barriers to competition, such as quotas and tariffs that limit access and competition, is both good economic policy and good public policy.

Benefit #2: Free trade generates economic growth.

By fostering opportunities for American businesses, free trade rewards risk-taking by increasing sales, profit margins, and market share. Companies can choose to build on those profits by expanding their operations, entering new market sectors, and creating better-paying jobs. According to U.S. Trade Representative Barshefsky, U.S. exports support over 12 million jobs in America, and trade-related jobs pay an average of 13 percent to 16 percent higher wages than do non–trade-related jobs.[10]

Opponents of free trade fear that efforts to remove protectionist barriers to foreign competition will result in the loss of blue-collar jobs in America, especially in the manufacturing sector. They believe that the North American Free Trade Agreement in particular threatens these jobs. Yet, as Chart 1 (page 5) shows, the facts belie this fear.

The nature of employment in the United States is indeed evolving away from manufacturing and toward more service-oriented and high-technology jobs. However, the record shows that trading freely with America's NAFTA partners, Canada and Mexico, has not resulted in an aggregate loss of manufacturing jobs. Instead, since 1994:

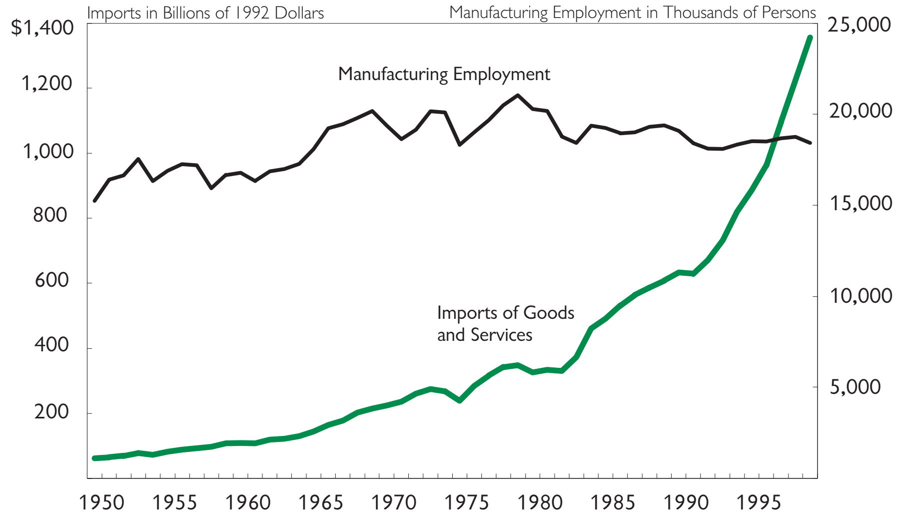
- 14 million new American jobs have been reported;
- The unemployment rate in America has fallen from 6 percent to 3.9 percent (as of April 2000); and
- The number of manufacturing jobs in America has remained steady, employing 18.3 million people in 1994 and 18.4 million in 1999, which represents 14 percent of the total American workforce.[11]

8. Charlene Barshefsky, U.S. Trade Representative, testimony on U.S. priorities at the WTO ministerial in Seattle, Committee on Agriculture, Nutrition and Forestry, U.S. Senate, 106th Cong., 1st Sess., June 24, 1999.
9. Federal Reserve Bank of Dallas, "The Economy in Action: Technology," at *http://www.dallasfed.org/htm/eyi/tech.html* (April 27, 2000).
10. Prepared testimony of Ambassador Charlene Barshefsky, United States Trade Representative, before the Subcommittee on Commerce, Justice, State, and Judiciary of the Committee on Appropriations, U.S. House of Representatives, 106th Cong., 2nd Sess., April 5, 2000.
11. U.S. Department of Labor, Bureau of Labor Statistics, at *http://www.bls.gov.*

On balance, not only has NAFTA *not* resulted in a loss of factory jobs in the United States, but it has not led to a loss in real wages for manufacturing workers. The average real wage in the manufacturing sector rose from $8.03 per hour in 1994 to $8.26 per hour in 1999 (in constant inflation-adjusted dollars).[12]

Chart 1 B1391

Employment in Manufacturing Industries and Real U.S. Imports of Goods and Services, 1950–1999



Source: Employment data from *2000 Economic Report of the President;* import data from WEFA, *World Market Monitor.*

Moreover, saving just one job in America's declining apparel and textile industry is estimated to cost the taxpayers more than $100,000 each year.[13] The workforce in this sector, which has declined by approximately 30 percent since 1989, comprises just 1 percent of total non-farm employment. The decline is a natural outcome, considering that the industry pays far less than the average national wage—nearly 20 percent less in textiles and 33 percent less in apparel.[14] Such lower-paying jobs become marginal as workers move to better-paying jobs in the broader market. In fact, over the past decade, 19 million more jobs have become available,[15] demonstrating that there are many opportunities for American workers to find jobs.

Since NAFTA took effect, total U.S. trade with Canada and Mexico has risen more than 86 percent—from $299 billion in 1993 to more than $550 billion in 1999. U.S. exports surpassed $2,350 billion in 1999, making up slightly more than 25 percent of overall GDP and more than 15 percent of all global trade.[16]

The growth in the U.S. economy also benefits people in poor countries who have access to the U.S. market, where both the demand for goods and services and levels of remuneration are much higher than they would be at home. To trade at this level enables their nascent businesses to acquire capital, fueling production and fostering the development of new industries. Impoverished people gain the opportunity to earn better wages, acquire more goods, and raise their standard of living.

In other words, this is a win–win scenario for Americans and people of countries that have been mired in poverty despite years of foreign aid.[17] The advantage for poor countries in being able to

12. In 1999, nominal wages for manufacturing employment rose to $13 per hour. See *http://www.bls.gov.*

13. Gary Clyde Hufbauer and Kimberly Ann Elliot, "Measuring the Costs of Protection in the United States," Institute for International Economics, Washington, D.C., January 1994, pp. 12–13.

14. U.S. Department of Labor, Bureau of Labor Statistics, at *http://www.bls.gov.*

15. *Ibid.*

16. WEFA, *World Market Monitor*, August 2000.

trade for capital—rather than having to rely on ineffective assistance programs that are subject to waste or fraud—is that the payoff is more immediate in their private sectors. Foreign investment allows their domestic industries to develop and provide better employment opportunities for local workers. This dynamic makes an increase in foreign direct investment one of the most important benefits of free trade for developing nations.[18]

Benefit #3: Free trade disseminates democratic values.

Free trade fosters support for the rule of law. Companies that engage in international trade have reason to abide by the terms of their contracts and international agreed-upon norms and laws. The World Trade Organization, for example, compels its member countries to honor trade agreements and, in any trade dispute, to abide by the decisions of the WTO's mediating body.

By supporting the rule of law, free trade also can reduce the opportunities for corruption. In countries where contracts are not enforced, business relationships fail, foreign investors flee, and capital stays away. It is a downward spiral that especially hinders economic development in countries where official corruption is widespread. As Alejandro Chafuen, President of the Atlas Economic Research Foundation, has noted, "True economic freedom is possible only under a system of limited government with a strong rule of law. Economic freedom has little value if corruption in government means that only a few will enjoy it."[19]

Trade likewise can falter quickly in countries where customs officials expect kickbacks at every checkpoint. In Western Africa, customs officials can stop trucks carrying goods as often as every hundred yards just to collect another bribe, as Mabousso Thiam, executive secretary of the West African Enterprise Network, testified at a 1999 Organisation for Economic Co-Operation and Development (OECD) conference on corruption.[20] Such arbitrary checkpoints spring up when countries cannot pay their customs officials livable wages, forcing them to choose between remaining honest but failing to bring home enough money to feed their families or taking an illegal bribe, as others often do. As U.N. Secretary General Kofi Annan has observed,

> Corruption is built on everything being in the hands of the government. So for everything you want, you need a permit. The person who gives you the permit wants a bribe. The person who's going to make the appointment for you wants a bribe. And so on.[21]

Free trade, reinforced by the rule of law, removes such incentives for corruption by spurring economic growth, increasing the number of better-paying jobs, and ultimately increasing the level of prosperity.

But free trade transmits more than just physical goods or services to people. It also transmits ideas and values. A culture of freedom can flourish whenever a great society, as 18th century economist Adam Smith termed it, emerges

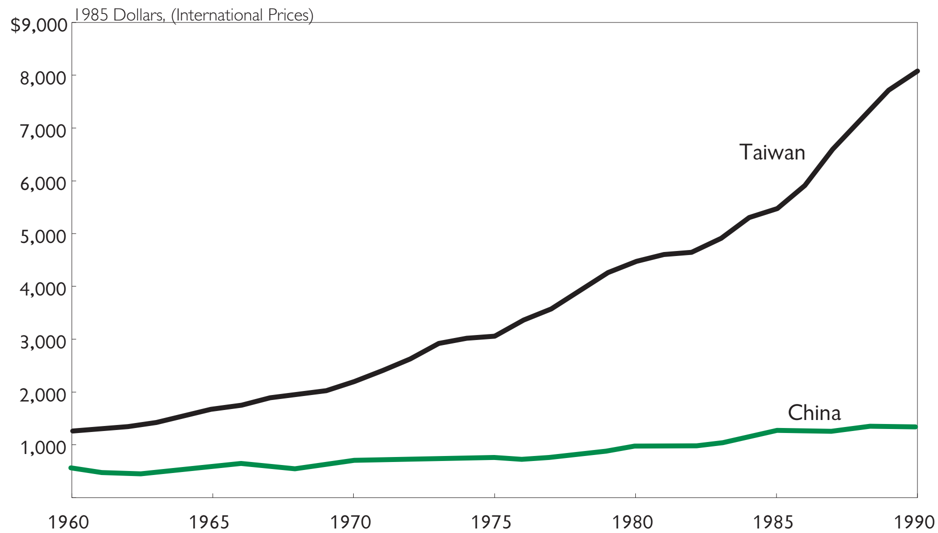
17. See Denise H. Froning and Aaron Schavey, "Breaking up a Triple Play on Poor Countries: Changing U.S. Policy in Trade, Aid, and Debt Relief," Heritage Foundation *Backgrounder* No. 1359, April 13, 2000. See also Denise H. Froning, "U.S. Foreign Aid Program," in Stuart M. Butler and Kim R. Holmes, eds., *Issues 2000: The Candidate's Briefing Book* (Washington, D.C.: The Heritage Foundation, 2000).
18. See Brett D. Schaefer, *The Bretton Woods Institutions: History and Reform Proposals* (Washington, D.C.: The Heritage Foundation, 2000), p. 77.
19. Alejandro A. Chafuen and Eugenio Guzmán, Chapter 3, "Economic Freedom and Corruption," in Gerald P. O'Driscoll, Jr., Kim R. Holmes, and Melanie Kirkpatrick, *2000 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2000).
20. From author's conference notes, Washington Conference on Corruption, hosted by the Development Center of the Organisation for Economic Co-Operation and Development, Washington, D.C., February 22–23, 1999.
21. Barbara Crossette, "U.N. Chief Faults Reluctance of U.S. to Help in Africa," *The New York Times*, May 13, 2000, p. A1.

with the self-confidence to open itself to an inflow of goods and the ideas and practices accompanying them. A culture of freedom can become both the cornerstone and capstone of economic prosperity.

Benefit #4: Free trade fosters economic freedom.

Chart 2 B1391

Real GDP per Capita in Taiwan and China, 1960–1990



Source: Alan Heston and Robert Summers, The Penn World Tables Mark 5.6. Latest update: January 1995.

As the foregoing discussion shows, the ability to trade freely increases opportunity, choices, and standards of living. Countries with the freest economies today[22] generally have adopted a capitalist model of economic development, remaining open to international trade and investment. These countries include the United Kingdom and many of its former colonies and dominions: Hong Kong, Singapore, New Zealand, the United States, Australia, and Canada.

Chile, which benefits from a diverse European heritage, likewise demonstrates that basing economic policies on a capitalist free-market model brings good results in that region as well.

Heritage's analysis of the 161 countries covered in the *Index of Economic Freedom*, published annually with *The Wall Street Journal*, indicates that free trade policies can foster development and raise the level of economic freedom. Every day in the marketplaces of free countries, individuals make choices and exercise direct control over their own lives. As economic growth occurs, note World Bank economists David Dollar and Aart Kraay, the poorest people can benefit just as much as—and in some cases more than—the wealthy.[23] With a sound infrastructure based on economic freedom, assured property rights, a fair and independent judiciary, the free flow of capital, and a fair system of low taxation, poor countries can create an environment that is friendly to trade and inviting to foreign investors.

Consider the experience of China and Taiwan. In 1960, real per capita income in the People's Republic of China tracked closely with that of the Republic of China on Taiwan. In the late 1960s, however, the government in Taipei chose to institute widespread reforms to guarantee private property, establish a legal system to protect property rights and enforce contracts, reform the banking and financial systems, stabilize taxes, distribute public land to individuals, and allow the market to flourish. The result for Taiwan has been an astounding record of economic growth. (See Chart 2.)

22. See *2000 Index of Economic Freedom*. A "free" score indicates that the country ranks in the top quintile worldwide in terms of overall economic freedom, based on such measures as low government intervention in the economy, low barriers to trade and investment, and low levels of regulation.

23. David Dollar and Aart Kraay, "Growth *Is* Good for the Poor," World Bank Development Research Group, March 2000, available at *http://www.worldbank.org/research*.

The *2000 Index of Economic Freedom* ranks Taiwan as the 11th freest economy in the world. With its economic freedom came the rise of democratic institutions. For the first time since the ruling party (the Kuomintang, or KMT) established a government in Taipei 50 years ago, a democratic transition of power took place in Taiwan as Chen Shui-bian, a candidate from a previously outlawed opposition party, assumed the presidency on May 20, 2000.

Despite this success, opponents of permanent normal trade relations with China argue that trade and economic liberalization will not bring democracy to mainland China or improve its human rights record. These critics assert that democracy is simply too foreign to the mainland—an argument that ironically echoes the mutterings of Asian authoritarian regimes about "Asian values." The development of political and economic freedom in Taiwan refutes such claims and points to the potential that more political and economic freedom can develop in China. Such an outcome would be in America's best interest because it would enhance regional stability, increase prosperity for the Chinese, and open China's immense market to Americans.

The U.S. trade agreement with China signed by the Clinton Administration in November 1999 is a step in the right direction. It will help open the Chinese market to American exports and foreign direct investment to an unprecedented degree. Economic freedom is the biggest benefit of trade extension, both for American companies looking to invest in China and for the Chinese people themselves. These foundations of economic freedom not only will allow the Chinese people to gain access to the outside world, but also will expose the Chinese government to—and compel it to enforce—the international consensus on the rule of law. Such issues as property rights and honoring contracts, which companies historically have found to be a problem when trying to make deals in China, will be subject to a higher force.

Establishing the backbone of property rights and free-market policies is essential for creating the sort of market stability that is important to foreign investors. In countries with an established rule of law that does not ebb and flow from one leader to the next, foreign investors are more confident and willing to take risks in bringing businesses into developing nations. It is one reason Taiwan and Hong Kong, for example, have flourished over the past few decades.[24]

Taiwan's success demonstrates that if China opens its market, economic and political freedom will have a real chance to develop. Members of the U.S. House of Representatives, by approving permanent normal trading relations (PNTR) with China on May 24, 2000, demonstrated their confidence in economic freedom by voting to lend U.S. assistance to this endeavor through freer economic exchange. Members of the U.S. Senate will have the same opportunity to endorse economic freedom when they vote on the matter in September.

It is reasonable to wonder how the concept of economic freedom, the fruits of which are so easily identified in wealthier countries, can apply to desperately poor countries that are concerned primarily with food supplies and access to running water and electricity. How does one draw conclusions from an apples-to-oranges comparison of prosperous high-technology countries, where children surf daily on the Internet using the family computer, and low-income nations like Burkina Faso where most children live in families that scrape by on little more than subsistence-level farming.

Indian economist Barun Mitra explains it succinctly: "Traders in the marketplace are like voters in a democracy. If [the] free flow of ideas is essential to sustain political freedom and a democratic polity, then free trade is critical to sustain economic freedom and an efficient marketplace. Liberty, after all, is indivisible."[25] Countries

24. See Stephen J. Yates and Larry M. Wortzel, "How Trade with China Benefits Americans," Heritage Foundation *Backgrounder* No. 1367, May 5, 2000.

25. Barun S. Mitra, "Is Free Trade Fair Trade?" in Pfizer Forum, *The Financial Times*, January 28, 2000.

that suffer under overregulation, corruption, and the lack of the rule of law benefit by removing barriers to trade and allowing their citizens to participate directly in the global marketplace.

Often, countries in Asia and the West can be widely disparate in the cultural and political realms, with economic repression and economic freedom existing in both regions. Nonetheless, a basic structure upon which to build economic freedom can be found in countries as different as Bahrain (an Arab monarchy), Singapore (an authoritarian city-state), the United States (a constitutional democracy), and Switzerland (a federal system of cantons encompassing at least four different cultures).

As a whole, sub-Saharan Africa remains the most economically unfree and poorest area in the world; but as the *Index* analysis shows, its poverty is not the result of insufficient levels of foreign aid: On a per capita basis, many sub-Saharan African countries receive the world's highest levels of economic assistance.[26] Rather, the main causes of poverty in sub-Saharan Africa are the lack of economic freedom embodied in self-imposed policies, and systemic and rampant corruption.

In fact, corruption is a cancer on the most legitimate efforts to promote economic development in many of these countries. While this is hardly a problem unique to Africa or developing nations, it is all the more damaging to them. The outlook for this region is not hopeless, however: Mauritius, which received the highest *Index* ranking in the region, has had some success in adopting free-market practices. Compared with other countries in its region, it merits relatively favorable scores in black market activity and regulation.

The *Index* findings for sub-Saharan Africa cast doubt on the assertion that huge transfers of wealth from industrialized nations to the less developed world will result in economic growth. The people of Zimbabwe and Congo, to name just two examples, are not poor because people in the West do not share enough of their wealth with them. They are poor because their governments pursue destructive economic policies that depress free enterprise or allow corrupt practices to derail the rule of law. Only when their ruling regimes increase economic freedom and unleash the power of the free market can these people embark on the road to prosperity. Anything short of free trade policies will continue to be both economically unwise and inhumane.

The United States can promote economic freedom in these countries through more effective means than economic assistance. As noted above, the United States imposes tariffs that add to the cost of selling products in the U.S. and makes imported goods less competitive with domestic products. Although America's average tariff rate of 2 percent is low by global standards,[27] the United States does not apply its tariff rate evenly on products that it purchases from its trading partners. Instead, it applies the tariffs according to the types of goods that reach America's shores.

Regrettably, the goods that face the highest U.S. tariffs are precisely those produced by the poorest countries, such as agricultural goods, textiles, and apparel. The high level of tariffs combined with the impact of quotas is prohibitive for countries struggling to create a presence in the global marketplace and lift their people out of decades of poverty.

This disparity in tariff rates exists primarily because poor countries tend to export more of the types of commodities that are subject to high U.S. tariffs. Low-income countries develop industries that meet the basic needs of their people and for which they have a comparative advantage. The textile and apparel industries and agriculture are key economic activities because they satisfy domestic needs and do not require sophisticated machinery or large amounts of capital to turn a profit. What they do require—and what these nations have—is a large labor force.

26. See Bryan T. Johnson, Kim R. Holmes, and Melanie Kirkpatrick, *1999 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 1999), Table 2.2, p. 24.

27. From U.S. International Trade Commission data, available at *http://www.usitc.gov.*

Consider Nepal and Bangladesh, in which textile and apparel products make up 85 percent and 77 percent of total exports, respectively.[28] These countries, with per capita GDPs of less than $300 each, face significant obstacles in trying to sell their products in the U.S. market. The average U.S. tariff rates on their products are 13.2 percent and 13.6 percent, respectively—more than six times the U.S. average.

The impact of these tariffs depends on their size and the responsiveness of U.S. consumers to the price changes on the products. In the case of some textile and apparel[29] and agricultural imports, consumers are highly sensitive to price changes and will buy a domestic product rather than an imported one should the latter become too expensive. For example, for every 1 percent increase in the tariff rate for imported knitted fabrics, consumption of domestic knitted fabrics increases by over 2.9 percent.[30] Thus, even a small increase in the tariff rate will discourage the purchase, and ultimately the production, of these imports, restricting primarily the access of developing countries to America's large market.

Ironically, any benefits that the tariffs may produce for the U.S. economy are miniscule compared with the total cost Americans pay for this protection. Economists at the Institute for International Economics estimate that consumers would save $70 billion if the United States eliminated all tariffs and quantitative restrictions on imports—or about $750 per American household.[31] Approximately 35 percent of these gains—or $24.4 billion—would accrue from liberalizing the apparel and textile sector. This is the purpose of the Agreement on Textiles and Clothing, which requires that all quotas on textile imports must be eliminated by 2005.

In the end, tariffs the United States applies to protect a sector that is naturally in decline will impose a significant cost on American consumers and the people of the low-income countries who make the products and lack other job opportunities. When a factory shuts down in Bangladesh or Nepal (in part because of the impact of prohibitive U.S. tariffs on its products), the unemployed have no safety net and few alternatives.

By comparison, the United States offers displaced workers numerous opportunities to find new jobs. The Trade Adjustment Assistance program, for example, helps people who lose their manufacturing jobs as a result of foreign imports to apply for welfare benefits and receive job training and job search and relocation assistance. The unemployed in America are able to find a new job in a median of 6.4 weeks.[32]

Reducing America's tariffs, promoting bilateral and regional free trade agreements, and working within the World Trade Organization to promote economic freedom through international trade is the best way to help Americans and the peoples of the developing world. The September 2000 vote in the U.S. Senate on granting China permanent normal trade relations will be both a key test of America's commitment to free trade and a crucial opportunity to improve economic freedom and choice for people in both the United States and China.

28. World Bank, *World Development Indicators on CD–ROM, 1999.*

29. Froning and Schavey, "Breaking up a Triple Play on Poor Countries."

30. This measure, called "elasticity of substitution," determines the responsiveness of consumers to a change in the price of an imported good. In this example, knitting mills and knit fabric mills have an elasticity of substitution of 2.916. An elasticity of substitution greater than 1 means that consumers are very responsive to a change in the price of the imported good. See U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints, Investigation," No. 332–325, May 1999, p. D12.

31. Hufbauer and Elliot, "Measuring the Costs of Protection in the United States," p. 3. Cost per household calculated from WEFA data; see WEFA, *World Market Monitor.*

32. Information available from the Bureau of Labor Statistics at *http://stats.bls.gov/cpsaatab.htm.*

CONCLUSION

Societies that enact free trade policies create their own economic dynamism—fostering a well-spring of freedom, opportunity, and prosperity that benefits every citizen. In recent years, the United States has demonstrated the power of this principle. Nor are American citizens alone in benefiting from those free trade policies that the U.S. enacts. By breaking the cycle of poverty, America's free trade policies can enable even the most impoverished countries to begin to create their own dynamic toward prosperity.

Nevertheless, despite all the evidence to the contrary, the opponents of free trade will continue to espouse the old argument that "the jobs created by globalization are often less sustaining and secure than the livelihoods abolished by it [in poor countries]."[33] Such a claim presupposes that some sort of agrarian utopia previously existed in these countries and that their peoples will not reap the benefits of economic development.

Clamoring to stop this wave of economic progress carried forward by technology and innovation is akin to arguing that the United States, to cite just one example, was better off before the Industrial Revolution. While one might argue that this was true of the white male members of the landed classes (although even then such a claim is dubious), for the majority of the population that did not enjoy such luxury, quality of life has improved immeasurably.

The Industrial Revolution brought freedom of movement and increased opportunity to all economic levels of society. It also set the stage for social and democratic progress of a magnitude that would have been impossible earlier. And although history suggests that this new era of market globalization may well be accompanied by new problems for which the solutions once again will lie in the power of human ingenuity and innovation, it also presents an unprecedented level of opportunity for people to achieve economic freedom and greater prosperity.

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33. William Finnegan, "After Seattle: Anarchists Get Organized," *The New Yorker*, April 17, 2000, p. 42.