

# WebMemo



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## Free Trade and American Prosperity

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For over 50 years, the U.S. and the world have reaped the economic benefits of gradual liberalization in trade and investment. Recognizing the benefits of open trade, the U.S. government has been a leading advocate of trade liberalization. Today however, the place of free trade in American policy-making is far from secure. Rising protectionist sentiment in the wake of the aborted United Arab Emirates ports deal, concern about the U.S.-China economic relationship, and frustration over the pace of global trade talks are combining to threaten further trade liberalization, both in America and around the world.

In the coming months, Congress must steel itself against protectionism. It should objectively debate and then approve free trade agreements with Oman and Peru, continue to support U.S. leadership and negotiations for new bilateral agreements and in the World Trade Organization (WTO) Doha Round, and resist the temptation of reactionary protectionism. Congressmen who talk about punitive tariffs or restrictive investment measures without actually intending to enact them still inflame public opinion. Congress would do well to spend more time recognizing the prosperity that exists in America due to free trade and pushing for further trade reforms.

As U.S. Ambassador Portman recently said, “We all must fight the protectionist forces with the facts, which show that benefits from trade are substantial.”<sup>1</sup> Today, the \$12 trillion U.S. economy is bolstered by free trade, a pillar of America’s vitality.

American exports support one in five U.S. manufacturing jobs. Jobs directly linked to the export of goods pay 13 to 18 percent more than other U.S. jobs.<sup>2</sup> Moreover, agricultural exports hit a record high in 2005 and now account for 926,000 jobs.<sup>3</sup>

In Colorado, international trade supports one of every twenty private-sector jobs and more than 20 percent of manufacturing jobs. South Carolina benefits from having one of every ten private sector jobs and more than 25 percent of manufacturing jobs supported by trade.<sup>4</sup> State by state, across the nation, international trade promotes opportunity.

Because today’s global economy offers unparalleled opportunities for the U.S., it is in America’s economic interest to continue to expand trade by lowering barriers to trade in goods and services. Freer trade policies have created a level of competition in today’s open market that leads to innovation and better products, higher-paying jobs, new markets, and increased savings and investment. Small businesses, a critical component of the U.S. economy, create two out of every three new jobs and account for about a quarter of America’s exports.<sup>5</sup>

Trade has been a driving force behind America’s high living standards and promises even more if

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[www.heritage.org/research/tradeandforeignaid/wm1040.cfm](http://www.heritage.org/research/tradeandforeignaid/wm1040.cfm)

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trade barriers can be broken down further. Gary Clyde Hufbauer of the Institute for International Economics estimates that trade liberalization over the last fifty years has brought an additional \$10,000 per year to the typical American household. If all trade barriers were eliminated and global trade and investment became truly free, Hufbauer estimates that American households would gain an additional \$5,000 per year. According to a University of Michigan study, if today's international trade barriers were reduced by just a third, the average American family of four would enjoy \$2,500 per year in additional income.

Freer trade enables more goods and services to reach American consumers at lower prices, giving families more income to save or spend on other goods and services. Moreover, the benefits of free trade extend well beyond American households. Free trade helps spread freedom globally, reinforces the rule of law, and fosters economic development in poor countries. A Center for Global Development study determined that a successful conclusion to the Doha Round would result in an additional \$200 billion flowing to developing nations, reducing poverty and economic hardship. The national debate over trade-related issues too often ignores these important benefits.

More generally, economic freedom leads to higher standards of living. According to The Heritage Foundation/Wall Street Journal *Index of Eco-*

*nomie Freedom*, countries with freer trade policies experience higher per-capita economic growth than countries that maintain trade barriers. Countries that opened their trade policies between 1995 and 2004 saw their per-capita gross domestic product (GDP) grow at an average compound rate of 2.5 percent. Countries whose trade policies were unchanged experienced an average compound growth rate of 2.1 percent. Finally, countries that increased their barriers to trade managed only a 1.8 percent average compound growth rate.

Despite more than five decades of evidence demonstrating the benefits of liberalizing trade, the impact of international trade and open markets on the U.S. economy remains a contentious issue. Fortunately, in past battles, free trade won the day, providing greater economic opportunity to Americans and allowing the U.S. to maintain its role as a leader in the international economic community. Defending free trade and fighting for new trade agreements are central tasks for Congress this year. Expanding global trade is one of the keys to building a stronger economy at home and promoting better relationships abroad. Trade is one of keys to American prosperity.

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2. Office of the United States Trade Representative, 2006 Trade Policy Agenda and 2005 Annual Report, at [www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2006/2006\\_Trade\\_Policy\\_Agenda/asset\\_upload\\_file765\\_9077.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Trade_Policy_Agenda/asset_upload_file765_9077.pdf).
3. *Ibid.*
4. 2001 data. International Trade Administration, U.S. Department of Commerce, "Exports, Jobs and Foreign Investment," at [http://ita.doc.gov/td/industry/otea/state\\_reports/states05-index.html](http://ita.doc.gov/td/industry/otea/state_reports/states05-index.html).
5. President George W. Bush, Speech on Small Business Week, April 13, 2006, at [www.whitehouse.gov/news/releases/2006/04/20060413-2.html](http://www.whitehouse.gov/news/releases/2006/04/20060413-2.html).