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Free Trade: The Fairest Trade Policy for America

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A central theme in Barack Obama's campaign platform—and potentially in the President-elect's trade agenda—is the belief that free trade policies have been unfair to U.S. workers and businesses.

The essence of the argument is that because foreign workers are willing to work for lower wages than their U.S. counterparts, and because the underdeveloped societies in which they live do not have the same levels of environmental protection or labor standards that U.S. citizens enjoy, foreigners should not be allowed to freely compete in U.S. markets. They can sell their products here but only if the U.S. government raises the price of the imports to the level that U.S firms want to charge. In other words, they can sell, but they cannot compete on price.

It is true that U.S. trade commitments to lower tariffs and other trade barriers have exposed some of America's producers to foreign competition, and in some cases even driving them out of the marketplace. In many more cases, however, U.S. firms have responded by improving their products and their production processes. The benefits for U.S. citizens have been two-fold. In their capacity as workers, they have commanded increased wages on the basis of their increased efficiency and productivity. In their capacity as consumers, they have benefited from the availability of better products at cheaper prices.

Rebutting the "Fair" Trade Arguments. The special interest groups, lobbyists, and other proponents of so-called "fair trade" want to stop this process of improvement, demanding instead costly protectionist policies to prop up uncompetitive firms. Historically, the U.S. government raised prices of imports through the imposition of tariffs. Sometimes quotas were used to limit supply and drive up the price of imports indirectly.

These days, advocates of "fair trade" seek to drive up the price of imports by requiring foreign governments to raise their cost of production through their own regulatory process. They do this by threatening tariffs or quotas unless foreign governments adopt more restrictive—and costly—labor, environmental, and other standards. Rather than encouraging American firms to improve, the champions of "fair trade" would bolster America's competitiveness by making foreign producers less so.

Unfortunately, this tactic will only make it harder for the U.S. to open markets around the world for U.S. exports and prevent America from enjoying the lower prices and better use of resources that stem from reducing trade barriers. It is true that there can be unfair foreign competition that can harm domestic business; however, there are mechanisms in place in U.S. free trade agreements (FTAs) and within the World Trade Organization designed to address these problems. Trade liberalization has opened markets around the world to U.S. goods

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and services, created higher-paying jobs for Americans, and attracted the investment needed for long-term economic growth. America cannot afford to abandon open market policies.

Internationally uncompetitive corporate tax rates, rigidities in the labor market, corruption, and other policy failures often add to the cost of freer trade—costs that erecting barriers to trade will not reduce. Making U.S. trade policy tougher and trade agreements harder to negotiate will not boost America's ability to compete in the global market. Instead, policymakers should continue to liberalize trade with the open market policies that have been an instrumental part of America's economic success and dominance in world markets.

"Fair" Trade Is Unfair. Adding more restrictive labor, environmental, and other standards to the structure of America's trade agreements could eliminate the benefits that partner countries receive from free trade agreements with America. This would especially affect developing countries that use U.S. FTAs to advance domestic economic reforms and to lessen poverty. Demanding that developing countries implement and enforce U.S.-style regulations when many are struggling to create the very institutions needed to facilitate a healthy economy will not be successful—especially if these countries are denied access to the world's most important market and the economic growth that comes from that trade.

Keeping America's trade partners mired in poverty will do little to advance sound standards around the world and little to boost the U.S. and global economies. Historically, as a nation's prosperity increases, the desire—and more importantly, the ability—to adopt labor and environmental protections become stronger, resulting in policies that accommodate the individual needs of the country. Engaging in freer trade can better promote the evolution of good regulations by empowering countries with the economic opportunity to develop and raise living standards.

Moreover, making more stringent standards a part of trade agreements will not make freer trade "fairer" for America. Any negative consequences of freer trade—usually thought of as lost jobs or market share—are generally the result of inappropriate policies, not trade liberalization. Even in a country with relatively low tariffs and few investment restrictions, the interplay of tax, regulatory, labor, and other economic policies with relatively free flows of goods and capital can lessen or even negate the benefits of an open market.

The major economic benefits of free trade derive from the differences among trading partners, which allow any country embracing world markets a chance to become competitive. Free trade is fair when countries with different advantages are allowed to trade and capitalize on those differences.

Low wage costs, access to cheap capital, a highly skilled workforce, and other fundamental variables all play a role in determining what comparative advantage one country has over another in the global marketplace. Equalizing those differences in the name of "fairness" only negates or reduces a country's ability to benefit from participating in the global trade system.

Free trade allows a country to compete in the global market according to its fundamental economic strengths and to reap the productivity and efficiency gains that promote long-run wealth and prosperity. Indeed, there is no distinction between free trade and truly fair trade, and U.S. free trade policy should continue to support that ideal.

A Chance to Succeed. Embracing and taking advantage of globalization relies not just on free trade policies but on redressing the factors that lead to less competitive firms and workers in the first place. High U.S. corporate tax rates, complex and inefficient jobs and retraining programs, costly regulations, weak protection of property rights around the world, and other policy failures are the real threats to American competitiveness—issues that erecting trade barriers though "fair" trade policies will not resolve. Free trade is one of the greatest economic engines of change, inspiring innovation and bolstering growth. By keeping America open to trade, the new Administration can ensure that U.S. workers, consumers, and companies really get a fair shot to earn and keep their place at the top of the global marketplace.

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