

ISSUES IN PERSPECTIVE

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The Revolt against Free Trade and the Global Economy

With the presidential campaigns of Bernie Sanders (Democrat) and Donald Trump (Republican), the specter of protectionism is raising its ugly head again. Both Sanders and Trump favor a wholehearted rejection of the Trans-Pacific Partnership (TPP), the Trans-Atlantic Trade and Investment Partnership and the Trade in Services Agreement, all of which the US negotiated with 11 Asian nations. Protectionism is a noun which characterizes a world of high tariffs (taxes on imported goods), the slowing of world trade and the subsequent contracting of the world economy. As a response to the onslaught of the Great Depression, for example, Congress passed the Smoot-Hawley Tariff Act of 1930, which established the highest tariffs in American history—and which contributed to a staggering 66% decline in world trade between 1929 and 1934. This tariff only exacerbated the severity of the Great Depression. History demonstrates that trade made easy, affordable and fast causes more trade, more jobs and more prosperity. So why are Sanders and Trump against these trade initiatives? Why do they wish to return to a time of high protective tariffs and more difficult barriers to world trade?

Both politicians cite the loss of jobs to China, for example, as a result of free trade policies now dominating the world. According to economists David Autor, David Dorn and Gordon Hanson, between 1999 and 2011, about 985,000 jobs were lost due to Chinese imports. But, in balance, during this same period 5.8 million American jobs were lost and during the Great Recession over 8.7 million jobs were lost—both of which had little to do with global trade. Also in balance, it is important to remember the number of export jobs created due to trade. According to the US Commerce Department, in 2014, for example, exports supported 11.7 million jobs, (7.1 million for goods and 4.6 million for services).

Sanders and Trump have been especially focused on the TPP and the other agreements mentioned above. Indeed, Trump maintains that the US TPP negotiators were incompetent and, if he were president, he would slap a 45% tariff on all Chinese goods. Besides the absurdity of such a tariff and the significant negative trade effects such a tariff would bring, what exactly did the TPP and other agreements above actually accomplish? Columnist Tom Friedman offers a succinct summary of the salient benefits of these agreements:

1. As a result of these agreements, the 11 TPP nations agree to permit their workers to form unions and negotiate contracts and bring an end to child and forced labor practices. In addition, these 11 must adopt laws on minimum wages, hours of work and occupational safety and health regulations. These standards will level the playing field with American workers.

2. The agreements will prohibit custom duties on digital products, make certain that nations share source codes in order to get into new markets and ensure free access to all cloud computing services for the TPP countries—all areas of growing American strength.
3. The agreements take significant steps towards halting human trafficking in countries such as Thailand, Myanmar and Bangladesh. They require each nation of TPP to improve access for human rights groups to assist victims of trafficking. If these nations do not do so, they will lose their trade benefits.
4. They place restrictions on state-owned companies that compete with our private businesses (e.g., Vietnam's oil company). There are also criminal penalties for stealing US industrial secrets.
5. There are strong intellectual property protections for America's software industry, one of our significant export assets, and they also provide protection for pharmaceutical companies.
6. There are important regulations to combat trafficking in endangered wildlife parts, such as elephant tusks and rhino horns. They also end all subsidies that stimulate overfishing.
7. Most importantly for the United States, TPP will be a check on China's growing economic (and military) power in Asia. As Friedman writes, "if we walk away from the TPP all our friends in the Pacific will just sign up for China's RCEP (Regional Comprehensive Economic Partnership), which will set trade rules in Asia and include weak intellectual property protections, no labor or environmental protections and no disciplines on state-owned industries."

Columnist David Ignatius wisely concludes that "Globalization has undeniably hurt some American workers and cost some manufacturing jobs. But there's strong evidence that trade has benefited the US economy and created whole new industries in ways the United States is dominant. That's the essence of the 'creative destruction' that makes a market economy so potent: It relentlessly pushes innovation and change. . . . Candidates should be talking about how to protect the workers who are harmed by foreign competition. The debate should focus on trade-adjustment assistance, job training and better education at all levels." A good example of this innovation and change is Pittsburgh, which was devastated by the collapse of the US steel industry during the 1970s, partially due to foreign competition in the manufacturing of steel. But today, due to innovation and creativity, new businesses, new jobs and larger incomes have developed in the Pittsburgh area around the University of Pittsburgh Medical Center and Carnegie Mellon University. The same thing has happened in Allentown-Bethlehem, Pennsylvania, where I used to live. This metroplex was once the center of Bethlehem Steel and the Mack Truck Corporation. Those industries basically collapsed in the 1970s and 1980s. Today, this valley is known as the "silicon valley" of the east. New industries and new jobs with good paying salaries have emerged and the region is thriving once again.

History demonstrates with compelling logic and evidence that protectionism is not wise and is in effect damaging to the American economy. One of the major causes of the depths of the Great Depression of the 1930s was high, protective tariffs. We must not enter into another era

of high protective tariffs. Sanders and Trump are sending a simple message about trade that is wrong, deceptive and harmful to the American economy. My prayer is that voters will take the time to think and analyze the nature of the global economy, how it has benefited the American economy, and the harm protectionism has done and will do in the future.

See Frederick W. Smith in the *Wall Street Journal* (26-27 March 2016); Thomas Friedman in the *New York Times* (16 March 2016); David Ignatius in the *Washington Post* (17 March 2016); and Robert J. Samuelson in the *Washington Post* (20 March 2016).