



Insight

# Setting The Record Straight on Trade

JACQUELINE VARAS | JULY 21, 2016

This campaign season has been packed with anti-trade rhetoric on both sides. The presumptive Republican presidential nominee [vehemently opposes](#) the [Trans-Pacific Partnership](#) (TPP), a trade agreement between the U.S. and 11 Pacific Rim nations currently awaiting ratification. The Democratic nominee, who previously supported the agreement, also [opposes](#) TPP. This reversal comes after she [helped to negotiate](#) the deal as Secretary of State and [declared it](#) “the gold standard in trade agreements.”

The nominees share a [similar dissatisfaction](#) with the North American Free Trade Agreement (NAFTA), which established a single market between the U.S., Canada, and Mexico over 20 years ago. And trade skepticism is not just confined to the presidential race; the 2016 draft platforms of both parties include harsh language on trade, with Republicans [denouncing](#) “major deficits” from trade and Democrats [blasting](#) several main provisions of TPP.

It is not surprising that public opinion [mirrors](#) the sentiment of presidential candidates in an election year. However, Americans have been exposed to a great deal of misinformation about trade. It’s time to set the record straight.

## Protectionism is Bad Policy

Protectionists believe that American workers should be shielded from foreign competition. Rather than fully embracing international trade, they argue that it is better to discourage imports through taxation as a way to encourage domestic production. This way of thinking is misguided; [over half](#) of all U.S. imports are used by manufacturers to produce final goods. This lowers production costs for American business, lowers prices for consumers, and spurs economic growth. Furthermore, imports give American consumers access to a wider variety of products (including goods not available in the U.S.). Imports are not a weakness, but [a strength](#). Protectionism also ignores the proven [benefits of competition](#). Increased competition gives companies an incentive to create higher-quality products and sell them at lower prices. This requires both innovation and increases in productivity. By restricting their choices, protectionism hurts consumers; if American businesses cannot take advantage of the global supply chain, consumers will only be left with lower quality, high-priced goods.

Finally, protectionists aim to shield workers in fading industries from labor market shifts. The U.S. labor market does not look the same today as it did 20 years ago. We now have new [tech-based](#) jobs and productivity gains from technological advancement. For example, [automation in manufacturing](#) has enabled [output to rise](#) even as [manufacturing employment falls](#). By attempting to protect workers who are negatively affected by these positive advancements, protectionism stands in the way of innovation. It also leads to dangerous, [anti-growth](#) policies.

## High Tariffs Hurt Americans

Economists generally agree that imposing high tariffs on imports reduces economic growth. The Smoot-Hawley Tariff Act of 1930, which raised the average tariff rate by 20 percent, has long been believed to have intensified the Great Depression. By advocating for higher tariffs now, protectionists may be asking history to repeat itself. Previous AAF research has shown that current proposals to raise tariffs on goods from China and Mexico could cost consumers an additional \$250 billion per year. Anti-trade advocates justify this price tag by arguing that restricting trade will bring jobs back to the U.S. However, trade is not a job killer: by stimulating economic growth, *trade generates jobs*. More than one in five U.S. jobs is linked to trade and nearly 5 million jobs were created as a direct result of NAFTA. Furthermore, manufacturing jobs in export-intensive industries pay 18 percent more on average.

High tariffs restrict trade by reducing imports. What many do not realize is that tariffs also reduce exports; without the ability to sell goods to the U.S., foreign nations cannot easily obtain U.S. dollars. This hinders their ability to purchase goods made in America. And by limiting trade, Americans lose out on substantial economic benefits: in 2014, international trade was estimated to boost annual U.S. income by \$13,600 per household. Instead of sheltering workers from change by restricting international trade, we should welcome its economic benefits.

## Multilateral Trade Agreements Are Valuable

Republican presidential candidate Donald Trump has explicitly stated that the only trade deals he would pursue are those between the U.S. and one other country, called bilateral trade agreements. However, multilateral trade agreements are equally – if not more – valuable.

Larger trade agreements grant the U.S. access to a greater number of markets around the world. This includes more potential buyers for U.S. businesses and more choice for American consumers. If the goal of trade advocates is to lower trade barriers between the U.S. and our trading partners, multilateral trade agreements are indispensable.

Confining the U.S. to bilateral trade agreements would also threaten our global standing. In addition to TPP, the U.S. has the potential to enter into several major trade agreements in the coming years. These include the Transatlantic Trade and Investment Partnership (TTIP), an agreement between the U.S. and the European Union (EU), and the Trade in Services Agreement (TiSA), which would bind together 75 percent of the global services market. By not partnering with these countries, the U.S. would miss out on an opportunity to increase economic growth, solidify relationships with our allies, and maintain global leadership.

## Conclusion

International trade is a valuable asset. It leads to greater efficiency, economic growth, and higher wages. While anti-trade rhetoric will likely continue in the lead up to this year's election, the reality is that smart trade agreements promote growth and prosperity.