Insight

The Wrong Way to Improve American Trade and Jobs

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This week, congressional Democrats released their latest policy platform, A Better Deal on Trade and Jobs. It outlines a trade policy proposal which claims to protect workers from both domestic and foreign corporate interests. However, it would add another layer of bureaucracy and punish both American businesses and our trading partners. It would also discourage investment, innovation, job creation and economic growth.

Increasing Bureaucracy

A Better Deal contains several pillars to "fundamentally transform our trade policies." The first would create a new Independent Trade Prosecutor to pursue potential trade violations and retaliate in-kind. This new role would be repetitive and likely ineffective, as both the U.S. Trade Representative and the Department of Commerce already have the authority to investigate trade abuses.

Congressional Democrats similarly propose expanding government through the creation of a new council to review all foreign purchases of U.S. assets. The council would be required to evaluate the economic impact of these transactions and have the authority to halt all potential sales.

Economic impact analyses are beneficial. However, foreign investment should not be discouraged. The U.S. economy is growing; Americans will never stop creating businesses, building factories, or creating new wealth. Therefore, the United States does not contain a fixed amount of assets which are in danger of being foreign-owned. Total U.S. wealth has more than doubled from $44 trillion in 2000 to over $90 trillion in 2015. Furthermore, majority foreign owned businesses employed 6.4 million Americans in 2014.

Renegotiating NAFTA

The plan also argues for the renegotiation of the North American Free Trade Agreement (NAFTA). The reforms suggested by Congressional Democrats parrot those proposed by President Trump, who vowed to complete negotiations by the end of the year.

The Democratic proposal includes some pro-growth provisions such as removing barriers to U.S. exports and electronic commerce. It also focuses on misguided reforms which are potentially harmful. For example, the plan calls for "more balanced trade between the three countries." This may result in reducing U.S. trade to improve the trade balance, which would hurt U.S. producers, consumers, and productivity. The trade deficit is mainly driven by macroeconomic factors such as saving and foreign investment in the United States, not by trade policy.

Additionally, the plan argues that NAFTA's dispute resolution mechanism "empowers corporations to erode U.S. laws through international tribunals." Similar arguments were made against the Investor-States Dispute Settlement provision included the Trans-Pacific Partnership. However, only 16 cases have been filed against the United States under NAFTA. While the United States has never lost one, both Canada and Mexico have been forced to pay over $100 million each in compensation to foreign investors following losses.

Restricting Options

Another reform proposed by congressional Democrats would require that Buy America provisions apply to all taxpayer-funded projects. Buy America describes a long-standing government procurement preference for American suppliers. A Better Deal would mandate that federal funds be awarded only to U.S. companies for all federal public works and infrastructure projects, which would restrict choice and competition, leading to higher costs for taxpayers.

Finally, A Better Deal calls for concrete U.S. laws against currency manipulation. This is a practice in which countries artificially devalue their currencies in order to boost exports. Currency manipulation is a serious issue. However, if the United States passes laws against currency manipulation, other nations may retaliate. This means that the United States would be restricted in its ability to carry out monetary policy. For example, our trading partners would have likely imposed tariffs or other trade restrictions in response to U.S. quantitative easing following the Great Recession.

Conclusion

A better trade reform package would increase economic growth by removing trade barriers. The introduction of international commerce in the 19th century first sparked growth in the United States and it has continued to fuel it since. Instead of focusing on punitive measures against our trading partners, policymakers should work to expand overall trade as well as U.S. access to markets abroad.