The errors of conservatives obscure the case for trade

By Adam Posen

The bogeyman approach has failed progressive agenda and the US economy, writes Adam Posen

Twenty years after Bill Clinton, former US president, signed the North American Free Trade Agreement, its very name chills the spines of US voters and congressmen alike. Even advocates of new regional trade agreements insist that they are not countenancing “another Nafta”. Yet Nafta-phobia is irrational. None of the terrible things that were, according to its opponents, supposed to result from its implementation have in fact occurred. Members of the free-trade area – Canada, Mexico, and the US – enjoy a large joint market and a common supply chain. Consumers in all three countries have gained.

It is true that America’s less-skilled workers have received an increasingly raw deal since the 1970s. But Nafta is not to blame. To claim otherwise is at best to mistake coincidence for causation. At worst, it is a cynical tactic employed to protect special interests at the expense of the common good.

Econometric studies have established that when US companies invest abroad, the net result is increased employment, stronger demand and more investment at home. This makes sense, since it should on average be the more competitive businesses that have the resources and opportunities to expand abroad, and investing should increase their productivity. This conclusion applies specifically to US companies that have invested in Mexico. Recent research has found that, on average, for every 100 jobs US manufacturers created in Mexican manufacturing, they added nearly 250 jobs at their larger US home operations, and increased their US research and development spending by 3 per cent.

At least until the 2008 financial crisis, US unemployment rates were much lower in the decades following Nafta than before the agreement came into effect, even at a time when the US labour force was growing steadily. Doomsayers claimed that after Nafta, US exports of corn and other agricultural products would lead to a surge of displaced Mexican farmers drifting northward. Yet US Border Patrol apprehensions from Mexico have been declining steadily since 2000, in line with most estimates of illegal immigration from Mexico to the US. The current tragedy of minors from Central America crossing the southwestern border illustrates how desperation, not globalisation, is what truly triggers migration.

True, there have been job losses as a result of competition from Mexican (and Canadian) exports. Some critics of Nafta estimate these at an average of 45,000 a year over the past two decades. But out of a US workforce of 135m workers – between 4m and 6m of whom leave or lose their jobs every month – that is less than 0.1 per cent of turnover. What about the 4m or more other American workers who change jobs every month, many of whom are forced to do so through no fault of their own? It is unclear why someone who loses their job because digital photography replaces film, or because the taste for business-casual decreases demand for suits, or because an industrial plant moves from California to Texas, is any less deserving of support than someone who loses their job because assembly of computers and flatscreen televisions moves to Mexico. It is clear, though, that since such a tiny fraction of total labour force churn in the US is due to Nafta, that deal cannot be a significant cause of wage or employment conditions at home.

Many on the left in the US nevertheless use international trade, and especially Nafta, as a scapegoat for the weakening of labour rights and growing inequality. Others have tried to use trade legislation as a bargaining chip with which to secure concessions on extending the American welfare state – something that conservatives oppose.

For all their efforts, opponents of trade legislation have won only meagre adjustment funds for workers whose job loss is supposedly attributable to international trade. Pro-trade Democrats and Republicans alike have seen these as the minimum concessions required to secure consent for liberalisation. But the result is that job losses attributable to trade are unjustifiably given an outsized significance in the public mind. Moreover, this relatively
This bogeyman-based approach to trade has failed both the progressive agenda and the US economy as a whole. America has ended up delaying or missing out on opportunities for trade expansion and thus income growth, while the welfare state continues to shrink.

In most countries, increases in openness to trade are associated with a more generous welfare state. In contrast, the US has steadily cut back benefits and worker protections at both the federal and state level. This has nothing to do with international trade. It is the result of legislative majorities that favour a smaller role for the state. Even many Democrats have attacked forms of welfare.

Progressives should stop blocking or scapegoating trade, and instead tackle the problems that contribute to voters' grievances head-on. Nafta resulted in increased employment, higher productivity, and greater purchasing power for American consumers. This did not come at the expense of less-skilled American workers. Attacking Nafta has done little to help progressives win elected office. Nor has it produced policies that would offer workers greater security. It is time to move on.

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