Free Trade Leads to American Job Loss

Free Trade, 2013

> "The majority of the jobs displaced would be in manufacturing, but many jobs would also be lost in industries that sell other goods and services to manufacturing."

Robert E. Scott is an international economist for the Economic Policy Institute, with an expertise in international economics and trade agreements. In the following viewpoint, Scott examines proposed US trade agreements with Colombia and South Korea, and he projects that they are likely to increase the US trade deficit by $16.8 billion and eliminate or displace 214,000 American jobs. Scott notes that recent forecasts of the impacts of trade agreements on US trade deficits and employment have been highly flawed, and he reviews the factors that have contributed to these errors. Further, Scott concludes that contrary to the erroneous estimates from economists who say that the "Buy American" provisions in the American Recovery and Reinvestment Act of 2009 resulted in a net job loss, these provisions have actually saved US jobs while supporting the world's recovery from the global economic crisis.

As you read, consider the following questions:

1. According to the viewpoint, what was the increase in the average annual rate of growth of US imports from Mexico under NAFTA?
2. According to the author, in 2008, how many jobs could US imports from Colombia have supported if produced domestically?
3. How many jobs does Scott say have been saved or created by the American Recovery and Reinvestment Act of 2009?

The U.S. manufacturing sector lost 5.3 million jobs (nearly one-third of total employment) between January 2001 and September 2009. The United States accumulated a large, structural trade deficit over the past three decades, and in 2007, the non-oil share of this deficit was responsible for the loss or displacement of more than 5 million jobs. Although the U.S. trade deficit has fallen dramatically since July 2008, as a result of the worst recession in 70 years, many analysts project that the deficit will expand again once the recession ends.

This study examines proposed U.S. trade agreements with Colombia and South Korea and projects that they are likely to increase the U.S. trade deficit by $16.8 billion, and eliminate or displace 214,000 U.S. jobs. Other projections, which claim that these deals will create jobs in the United States, including those from the U.S. International Trade Commission and one published by the U.S. Chamber of Commerce, ignore factors such as the impact of trade deals on foreign direct investment (FDI) and the role played by exchange rate manipulation and most nontariff trade barriers, thereby underestimating the impact of these deals on U.S. imports and job losses.

The [2009] Chamber report also claims that "Buy American" provisions likely cost the United States nearly 200,000 jobs. This estimate ignores millions of jobs created by stimulus spending by the United States and other countries, and vastly overstates trade-related job displacement, by a factor of 30 or more.

This study examines the failed history of recent forecasts of the impacts of U.S. trade agreements, reviews the factors which have contributed to errors in the projections of the U.S. International Trade Commission and uses the lessons learned to analyze the Chamber report.

Economists Have a History of Failed Forecasts

Economists have been projecting that trade agreements between the United States and developing countries would generate an improving trade balance and support job creation in the United States for many years. These projections have usually been wrong. For example, [in 1993 Gary Clyde Hufbauer and Jeffrey J. Schott] projected U.S. exports to Mexico would rise more rapidly than imports following implementation of the North American Free Trade Agreement (NAFTA). In fact, the United States, which had a $1.7 billion trade surplus with Mexico in 1993, experienced a rapidly growing trade deficit that reached $74.8 billion in 2007, before declining to a $64.7 deficit in recession-influenced trade in 2008. Numerous other economists also predicted that NAFTA would generate rising trade surpluses that would support domestic job creation. Growing trade deficits with Mexico between 1993 and 2004 alone eliminated or displaced a net total of 560,000 U.S. jobs.

A particular source of concern is that the U.S. International Trade Commission (ITC), which generates official estimates of the likely impacts of proposed trade agreements, has generated many erroneous forecasts of the impacts of those agreements on U.S. trade, employment, and GDP [gross domestic product]....

Free Trade Agreements Have Hurt American Trade and Jobs

Past projections by the ITC and many other economists regarding the outcomes of U.S. trade agreements have been erroneous, such as NAFTA and the agreement to provide China with permanent most favored nation (MFN) status (allowing it into the WTO [World Trade Organization]). There have also been flaws in the tariff-based economic models used by the ITC and the Chamber study, including the failure to include investment effects and the impacts of factors such as currency manipulation and nontariff barriers to trade. Given these problems, an alternative approach is clearly needed to assess the likely impacts of the proposed trade agreements with Colombia and South Korea on the U.S. economy....

Under the NAFTA agreement, the average annual rate of growth of U.S. imports from Mexico accelerated from 12.7% per year to 19.1% per year, while the growth rate of U.S. exports to Mexico actually declined. This result is striking, because it stands at odds with projections by Hufbauer and Schott and many other economists that exports to Mexico would increase after NAFTA. Three factors explain this decline. First, there was a sharp rise in capital goods exports to Mexico in the pre-NAFTA period. [In 1997, Robert A.] Blecker noted that these exports supplied new export factories being built in Mexico to take advantage of the improved investment climate there, and the level of exports was unsustainable, given the buildup of Mexico's overall balance-of-payments deficit in this period. The 1994 peso crisis also resulted in a sharp fall in real incomes in Mexico (reducing demand for consumer goods from the United States) as well as a fall in the peso, which created an adverse shift in terms of trade for U.S.-made goods. There are striking similarities to Mexico in recent U.S. trade with Colombia....

U.S. exports to and imports from China accelerated sharply following China's entry into the WTO.... Import growth increased 3.8 percentage points to 18.6% per year. Export growth nearly doubled, but from a tiny base. U.S. imports from China exceeded exports in 2001 by more than five to one, the United States' most imbalanced trade relationship. Despite the very high (20.2%) average annual rate of growth in exports to China in the 2001-08 period, this imbalance was largely unchanged (falling to 4.85:1 in 2008).

On average (of growth rates in U.S. trade with Mexico and Canada), ... U.S. import growth accelerated nearly twice as much as exports (import growth accelerated 5.1 percentage points while export growth accelerated only 2.8 percentage points). Furthermore, export growth accelerated in only one of two cases (China), and only from a very small base. Given China's reliance on the United States for feedstocks such as plastics, iron ore, and scrap, and for imported intermediates (such as electronic components), two outcomes were largely inevitable: that U.S. exports of these components would rise rapidly, and that the value of U.S. imports would rise even more rapidly since China was transforming imported inputs into valued manufactured final goods that were re-exported to the United States....

The Projected Effects of Trade Agreements on U.S. Employment Reveal Significant Job Loss

Exports tend to support domestic employment, and imports displace production that could support domestic jobs. Most studies of the effects of proposed trade agreements begin by estimating the effects of those agreements on trade flows and then estimating the effects of changes in trade flows on domestic employment. [In 2008 Robert E.] Scott uses a 201 sector model of the economy and detailed data on trade flows in those industries to estimate the effects of changing trade patterns on employment.

In 2008, U.S. imports from Colombia could have supported 127,000 jobs if produced domestically, and exports supported 99,000 jobs, so net trade with Colombia resulted in a net displacement of 27,000 U.S. jobs. Given projected changes, the growth of the U.S. trade deficit with Colombia will displace 83,000 U.S. jobs in 2015, for a net loss of an additional 55,000 jobs. Likewise, the projected growth of U.S. trade deficits with Korea between 2008 and 2015 will displace an additional 159,000 U.S. jobs. Overall, if adopted, the U.S.-Colombia and U.S.-Korea trade agreements will displace a total of 214,000 additional U.S. jobs. The majority of the jobs displaced would be in manufacturing, but many jobs would also be lost in industries that sell other goods and services to manufacturing.

The Chamber study assumes that these trade agreements would lead to net increases in U.S. exports of $40 billion, and the creation of 383,400 jobs. This study has shown that the U.S. trade deficits with Colombia and Korea are instead likely to increase U.S. trade deficits with both countries by roughly $17 billion, resulting in the net loss of approximately 214,000 jobs.

The "Buy American" Provisions in the Recovery Act Save Jobs

The Chamber report also claims that inclusion of "Buy American" provisions in the American Recovery and Reinvestment Act of 2009 [referred to herein as the Recovery Act] could cause a net loss of 176,800 jobs if other countries retaliate with their own "Buy National" policies. This estimate is based on the observation that at least 90 countries or regions have announced stimulus plans totaling over $1.7 trillion. [In their 2009 report for the U.S. Chamber of Commerce, Laura M. Baughman and Joseph F. Francois] assume that 1% of this total is reserved for "Buy National" programs that reduce potential U.S. exports by approximately $17 billion, resulting in the job loss projections noted above.

This scenario is ludicrous for several reasons. First, as Paul Krugman pointed out in a recent [February 1, 2009] blog posting,

> We are in the midst of a global slump, with governments everywhere having trouble coming up with an effective response.... If macro policy isn't coordinated internationally—and it isn't—we'll tend to end up with too little fiscal stimulus everywhere.
>
> Now ask, how would this change if each country adopted protectionist measures that "contained" the effects of fiscal expansion with its domestic economy? Then everyone would adopt a more expansionary policy—and the world would get closer to full employment than it would otherwise. Yes, trade would be distorted, which is a cost; but the distortion caused by a severely underemployed world economy would be reduced. And, as the late [American economist] James Tobin liked to say, it takes a lot of Harberger triangles to fill an Okun gap.

In December 2009, the recession cost the United States some 10.6 million jobs. It is estimated that the Recovery Act has saved or created between 1 and 1.5 million jobs. Stimulus spending in other countries has accelerated the recovery of those economies, which will also be good for the U.S. economy.

The risks and potential costs of trade diversion cited by Baughman and Francois are vastly overstated, for at least two reasons. First, the Recovery Act contained explicit language that permits governments to waive the "Buy American" rules when they conflict with our international commitments under trade agreements such as NAFTA and the WTO. Second, the amount of U.S. trade potentially affected by "Buy National" rules is vastly overstated because other nations also have similar, reciprocal obligations to the United States. Most "Buy National" rules, including those in the United States, apply primarily to imports from countries like China and India that have not signed on to WTO or other government procurement codes.

Baughman and Francois estimate that only $3.2 billion of the $787 billion in Recovery Act spending (0.41%) will be affected by "Buy American" rules. If a similar proportion of the $1.7 trillion in stimulus spending by other countries (identified by Baughman and Francois) is affected by "Buy National" rules, then total *world* exports would decline by only $6.9 billion. However, the U.S. share of total world exports was only 8.1% in 2008. Thus, the U.S. share of "lost" exports would be on the order of one-half billion dollars. Baughman and Francois' estimate of the potential impact of "Buy National" rules is too large by a factor of 30.

But the more important point remains that the cost of "Buy National" policies pales in comparison with the benefits to be gained from more than $2.5 trillion in global stimulus spending, which will save or create millions of jobs worldwide. As Krugman notes, if building the political support needed to implement this spending diverts a few billion, or even tens of billions of dollars from world trade, the costs (in terms of jobs lost) are vastly outweighed by the benefits (in jobs saved or created) of increased stimulus spending needed to offset the worst global recession in 70 years.

Further Readings

Books

- Tom Barry*Zapata's Revenge: Free Trade and the Farm Crisis in Mexico*. Boston, MA: South End Press, 1999.
- Jagdish Bhagwati*In Defense of Globalization*. New York: Oxford University Press, 2007.
- Sherrod Brown*Myths of Free Trade: Why American Trade Policy Has Failed*. New York: New Press, 2004.
- Ha-Joon Chang*Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism*. New York: Bloomsbury Press, 2008.
- Paul Collier*The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It*. New York: Oxford University Press, 2007.
- Tyler Cowen*Creative Destruction: How Globalization Is Changing the World's Cultures*. Princeton, NJ: Princeton University Press, 2002.
- Daniel W. Drezner*US Trade Strategy: Free Versus Fair*. New York: Council on Foreign Relations, 2006.
- William Easterly*The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. New York: Oxford University Press, 2007.
- Ian Fletcher*Free Trade Doesn't Work: What Should Replace It and Why?* Washington, DC: US Business & Industry Council, 2011.
- Jeffrey A. Frieden*Global Capitalism: Its Fall and Rise in the Twentieth Century*. New York: W.W. Norton & Company, 2007.
- Douglas A. Irwin*Free Trade Under Fire*. Princeton, NJ: Princeton University Press, 2009.
- Remy Jurenas*Agriculture in the US Free Trade Agreements: Trade with Current and Prospective Partners, Impact and Issues*. Hauppauge, NY: Nova Science Pub. Inc., 2008.
- Jane Kelsey*No Ordinary Deal: Unmasking the Trans-Pacific Partnership Free Trade Agreement*. Crows Nest, New South Wales: Allen & Unwin, 2011.
- Peter W. Navarro and Greg Autry*Death by China: Confronting the Dragon—A Global Call to Action*. Upper Saddle River, NJ: Prentice Hall, 2011.
- Eul-Soo Pang*The US-Singapore Free Trade Agreement: An American Perspective on Power, Trade, and Security in the Asia Pacific*. Singapore: Institute of Southeast Asian Studies, 2011.
- Pietra Rivoli*The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade*. Hoboken, NJ: John Wiley, 2009.
- Andrew Ross*Fast Boat to China: Corporate Flight and the Consequences of Free Trade—Lessons from Shanghai* . New York: Pantheon Books, 2006.
- William Shearer*The Conservative Case Against Free Trade*. Vienna, VA: The Conservative Caucus Foundation, 2012.
- Robert Sirico*Defending the Free Market: The Moral Case for a Free Economy*. Washington, DC: Regnery Publishing, 2012.

- Joseph E. Stiglitz*Freefall: America, Free Markets, and the Sinking of the World Economy*. New York: W.W. Norton & Co., 2010.
- Joseph E. Stiglitz*Making Globalization Work*. New York: W.W. Norton & Co., 2007.
- Linda Weiss, Elizabeth Thurbon, and John Mathews*How to Kill a Country: Australia's Devastating Trade Deal with the United States*. Crows Nest, New South Wales: Allen & Unwin, 2004.

Periodicals

- Donald J. Boudreaux "What Free Trade Really Does," *Pittsburgh Tribune-Review*, October 20, 2011.
- Eric Martin and William McQuillen "Congress Approves Biggest U.S. Trade Agreement Since 1994," Bloomberg, October 13, 2011. www.bloomberg.com.
- John Nichols "Obama Is Wrong, Wrong, Wrong About Free Trade," *Nation*, October 12, 2011.
- William Poole "Free Trade: Why Are Economists and Noneconomists So Far Apart?," *Federal Reserve Bank of St. Louis Review*, September/October 2004.
- Uwe E. Reinhardt "The Debate on Free Trade Continues," *Economix*, March 4, 2011. http://economix.blogs.nytimes.com.
- Uwe E. Reinhardt "How Convincing Is the Case for Free Trade?," *Economix*, February 18, 2011. http://economix.blogs.nytimes.com.
- Jeffrey Snider "The Financial Age of Free Trade," RealClearMarkets, April 13, 2012. www.realclearmarkets.com.
- John Stossel "Everyone Prospers with Free Trade," *Reason*, April 29, 2010.
- David Zeiler "Corporations Are the Real Winners When It Comes to Free Trade Agreements," MoneyMorning, October 14, 2011. http://moneymorning.com.

Source Citation

Scott, Robert E. "Free Trade Leads to American Job Loss." *Free Trade*. Ed. Ann Aubrey Hanson and Lynn M. Zott. Detroit: Greenhaven Press, 2013. Opposing Viewpoints. Rpt. from "Trade Policy and Job Loss: US Trade Deals with Colombia and Korea Will Be Costly." *http://www.lawg.org/storage/documents/EPI_Cost_of_Colombia_and_Korea_FTAs.pdf*. 2010. *Opposing Viewpoints in Context*. Web. 5 Jan. 2015.

Document URL

http://ic.galegroup.com/ic/ovic/ViewpointsDetailsPage/ViewpointsDetailsWindow?failOverType=&query=&prodId=OVIC&windowstate=normal&contentModules=&display-query=&mode=view&displayGroupName=Viewpoints&dviSelectedPage=&limiter=&currPage=&disableHighlighting=&displayGroups=&sortBy=&zid=&search_within_results=&p=OVIC&action=e&catId=&activityType=&scanId=&documentId=GALE%7CEJ3010542236&source=Bookmark&u=usfca_gleeson&jsid=2c688a77a387650a8ae7b5d662e1bb7b

Gale Document Number: GALE|EJ3010542236