Why Free Trade Is Failing America

By: *Peter Morici*
www.industryweek.com

No economic policy could better serve Americans than genuine free trade but open trade policies are failing Americans.

Free trade is a compelling idea. Let each nation do more of what it does best, and specialization will raise productivity and incomes.

Americans are not sharing in those benefits because President Obama, like President Bush, permits China and others to cheat on the rules, unchallenged, to the detriment of the U.S. interests he was elected to champion.

The World Trade Organization has greatly reduced tariffs, prohibits virtually all export subsidies, and regulates other national policies that could subvert trade, such as health and product safety standards arbitrarily slanted to favor domestic suppliers.

For these rules to optimize trade, raise productivity and boost incomes, exchange rates must adjust to reasonably reflect production costs. To buy Chinese televisions, Americans must be able to purchase yuan with dollars; however, an artificially strong dollar that overprices U.S.tractors and software in China will unravel the benefits of trade by denying Americans opportunities to export to pay for those televisions

Exchange rates are established in currency markets, created by businesses trading through major financial institutions. Unfortunately, China and several other Asian governments blatantly manipulate those markets without a credible U.S. response and with ruinous consequences for American workers.

The United States annually exports $1.6 trillion in goods and services, and these finance a like amount of imports. This raises U.S. gross domestic product by about $170 billion, because workers are about 10 percent more productive in export industries, such as software, than in import-competing industries, such as apparel.

Unfortunately, U.S. imports exceed exports by another $400 billion, and workers released from making those products go into non-trade-competing industries, such as retailing, where productivity is at least 50 percent lower. This slashes GDP by about $200 billion, overwhelming the gains from trade, and requires workers displaced by imports to accept lower wages.

The trade deficit creates an excess supply of dollars in international currency markets, as Americans offer more dollars to purchase foreign products than foreigners demand to purchase U.S. products.

Continued.....

Why Free Trade Is Failing America

Conclusion

Simple supply and demand should drive down the value of the dollar against the yuan and other currencies, make U.S. imports more expensive and exports cheaper, and reduce or eliminate the trade deficit. But the Chinese government subverts this process by habitually printing and selling yuan for dollars in currency markets, keeping its currency and exports artificially cheap.

Currency manipulation creates a 25 percent subsidy on China's exports, and other Asian countries are impelled to follow similar policies, lest their exports lose competitiveness to Chinese products.

Also, huge trade imbalances between Asia and the West, perpetuated by currency mercantilism, create an imbalance in demand-a shortage of demand for the goods and services produced in the United States and Europe, and artificially robust demand for products made in China and elsewhere in Asia.

Consequently, to keep the U.S. economy going, Americans must both borrow from foreigners and spend too much, as they did through 2008, or their government must amass huge budget deficits by borrowing from abroad, as it is now does thanks to stimulus spending and the TARP.

In the bargain, the United States sends manufacturing jobs to Asia in industries that would be competitive, but for rigged exchange rates. The trade deficit slices $400 to $600 billion off GDP, and Americans suffer unemployment above 10 percent.

China grows at nearly 10 percent a year and makes American diplomats look like fools for advocating free markets as a growth policy.

Campaigning for the Presidency, Barack Obama promised to do something about Chinese currency manipulation. Instead, like a good supplicant, he now thanks Chinese officials for buying U.S. Treasury securities.

China's development policies make its leaders look smart but nothing makes them look like geniuses better than an American president who appeases their beggar-thy-neighbor policies.

It will be impossible for the United States to create the 9 million jobs needed to bring unemployment down to pre-recession levels without taking on China's currency manipulation and other unfair trade practices.

For that Americans may need to wait for a better president-one with the courage to stand up to China.

Peter Morici is a professor at the Smith School of Business, University of Maryland School, and former Chief Economist at the U.S. International Trade Commission.

American Buildings Company
1150 State Docks Road
Eufaula, AL 36027
Phone 888.307.4338
www.americanbuildings.com