

FREEDOM TO TRADE

HOW NOT TO SELL FREE TRADE

by Brink Lindsey

Brink Lindsey is an adjunct scholar at the Cato Institute and an international trade attorney in Washington, D.C.

The Clinton administration recently issued its official report on the impact of the North American Free Trade Agreement after the first three years. The report's bottom line: NAFTA has had a "modest positive effect" on American jobs, exports, and economic growth.

That is quite a comedown from the ballyhoo made in the fall of 1993, when the debate was raging over whether Congress should implement the pact. At that time, administration officials—and many other NAFTA supporters—promised that NAFTA would create hundreds of thousands of new jobs.

So what happened? Does the current rhetorical retreat signal that NAFTA has been a failure? Is NAFTA archenemy David Bonior justified in titling a *New York Times* op-ed reacting to the administration's report "I Told You So"?

Absolutely not. The legitimate reasons for supporting NAFTA back in 1993 remain valid today. As the administration report documents, trade and investment barriers are falling; consumers and companies are reaping the benefits of increased North American economic integration. And maybe more important than any progress, NAFTA inhibited Mexico from backsliding into protectionism during its recent economic troubles.

The fact is, though, that NAFTA proponents oversold the potential benefits of the agreement. Given the shameless demagoguery of NAFTA's adversaries, the temptation to fight fire with fire was understandable. Nevertheless, the inability of NAFTA

to live up to its hype has created the appearance of failure, and helped to undermine public support for continued liberalization.

Mexico's economic crash is not the reason for NAFTA's underwhelming record. There was never a chance that NAFTA could have a major impact on United States economy, for good or ill. First, Mexico's GDP is only 4 percent of ours; there simply isn't enough Mexican tail to wag the American dog one way or the other.

Besides, NAFTA represented merely an incremental advance in already well established trends. Average U.S. tariffs on Mexican goods were only 2 percent on the eve of NAFTA; Mexico's average tariffs on American goods had fallen from 40 percent to 10 percent before any agreement was negotiated.

The mistakes of NAFTA's supporters went beyond simple exaggeration. Faced with claims of enormous job losses by the agreement's opponents, they countered with estimates of enormous job gains. By framing the debate in terms of NAFTA's net job effects, proponents of the agreement completely missed the point of why free trade is a good idea.

In the first place, trade policy—free or protectionist—isn't likely to have much effect on aggregate U.S. employment under any circumstances. Given that the United States has more or less functional labor markets, the net impact of either reducing or increasing trade barriers on the total number of jobs is basically going to be a wash.

More fundamentally, creating new jobs isn't necessarily good, and eliminating existing jobs isn't necessarily bad. Conscripting people to dig ditches and refill them might boost employment figures, but it wouldn't make our country any better off. Likewise, when jobs are eliminated due to increased productivity (e.g., the loss of farm jobs over the course of this century), we are richer as a nation, not poorer.

Supporters of the agreement argued that jobs created by increased exports would outweigh jobs lost to increased imports and factory relocations. Opponents contended the opposite. In fact, both sides of the ledger should properly be viewed as benefits of the agreement. We increase productivity, and thus create wealth, both by adding value and cutting costs. Free trade allows us to do both. Increased export opportunities enable us to add value, while increased import opportunities help us to cut costs.

By slogging it out with NAFTA-blashers on job numbers, NAFTA proponents fell into the same kind of "exports good/imports bad" mercantilist thinking that drives the protectionist camp. Consequently, they legitimated their adversaries' basic and incorrect premises; by exaggerating the likely benefits of NAFTA from the mercantilist perspective, they all but ensured that the agreement would be viewed as a bust. All in all, the NAFTA hype-job should serve as a case study of how not to sell free trade.