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PROMOTING THE CASE FOR FREE TRADE

by Murray Weidenbaum

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Washington, D.C.
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The attention given to the recent report of the Trade Deficit Review Commission (which I chaired) has focused on the numerous disagreements between the Republican appointed members of the Commission and the Democratic members. Without underestimating those disagreements, it is useful to note that the entire Commission agreed on the need to focus international trade policy on opening markets rather than closing them.

Perhaps of even greater importance, the chapters of the Commission's report written by the Republican members present a strong free trade message that deserves to be heard on its own. Here are the highlights:

1. To avoid the mercantilist approach, it is important to emphasize the benefits of imports: consumers have access to a wider array of goods and services; domestic companies get lower-cost components, and producers are prodded to improve productivity and advance technology. Moreover, the data show that nations open to trade tend to grow faster than those that are closed.

2. The United States is not an island of free trade in a world of protectionism. This nation imposes numerous obstacles to imports—Buy American statutes, the Jones Act, quotas on imports, selective high tariffs, and numerous regulatory barriers.

3. We see a soft, not a hard landing, as the most likely end result of the large trade deficits. The experience of the 1980s is extremely instructive. Under far less favorable economic circumstances than today, the dollar declined substantially and the trade deficit came down without adversely affecting the U.S. economy. We see no significant likelihood that the foreign capital needed to finance our current account will not be available.

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4. The large trade and current account deficits are fundamentally macroeconomic phenomena. They are the consequence of the much stronger economic performance in the United States than in our trading partners. The current account deficit is also as high as it is because so many foreign investors find the United States the most attractive place to put their money to work.

5. The concern over large trade deficits with China and Japan is overdrawn. There is no reason for any two countries to have balanced trade between them. Bilateral trade imbalances may exist for many benign reasons—differences in per capita incomes and in the relative size of the two economies. For example, Japan’s per capita imports from the United States are larger than per capita U.S. imports from Japan—but we have more “capita.”

6. Adding labor, environmental, and human rights standards to trade agreements is misguided. We know disguised protectionism when we see it. Trying to impose costly social regulation on developing countries, as was demonstrated in Seattle, will force them to oppose another round of multilateral trade negotiations. The most effective way to help developing countries improve their working conditions and environmental protection is to trade with and invest in them. Moreover, available research demonstrates that environmental factors are not important influences in business location decisions. Most U.S. overseas direct investment goes to developed nations with high labor costs and also high environmental standards. The primary motive is to gain access to markets and to get around trade barriers.

7. Sanctions and export controls can also be trade barriers. There is little evidence that unilateral sanctions are an effective tool to induce nations to change their policies or actions. U.S. business, labor, and agriculture are harmed for what is merely a symbolic gesture. As for export controls, the Cold War is long over. Where U.S. producers don’t have a monopoly on a particular technology, producers in other nations can deliver the same technology or product without the handicap imposed on U.S. companies.

8. The alleged erosion of the U.S. manufacturing base is not supported by the facts. In recent years, manufacturing output has reached new all-time highs almost every month. Rising productivity does mean fewer blue-collar jobs—and makes available expansions in high-tech and service employment. If not for the long-term rise in productivity, we would all still be farmers.

9. The recent legislation giving selected U.S. firms the proceeds of antidumping and countervailing duty charges should be promptly repealed. This bald subsidy is the bounty hunter approach to trade policy.

10. The trade deficit should not be a target of economic policy. Econometric simulations developed for the Commission clearly demonstrate that the United States would not be enjoying the current prosperity if policymakers had tried to curb the trade deficit during the past decade. The American people would be suffering from such misguided action.