

Tear down the trade Walls

Free trade benefits everyone

By Sheldon Richman

Please tear down this wall," the president said. No, it wasn't President Reagan challenging Soviet President Gorbachev about the Berlin Wall in the 1980s. It was Ukrainian President Viktor Yushchenko addressing a joint session of the U.S. Congress. Yushchenko was asking the senators and representatives to remove the wall that keeps nearly 49 million Ukrainians from freely selling their metals, minerals, electronics, chemicals, and vegetables to Americans. Of course, his request should be honored. And maybe it will be unless powerful lobbies representing Americans who make competitive products object. That's how Washington works.

Here's the irony in the story: Most people think Yushchenko was asking a favor in behalf of his people. In truth, whether he knows it or not, he wasn't asking a favor all. He was proposing a mutually beneficial relationship between Americans and Ukrainians.

How could anyone say no?

Simple trade issues are grossly misunderstood. Most people think that when a country opens its market to foreign producers, this is a favor to them, a concession given in return for the opening of the foreign market.

Sellers certainly like to see markets open, but the conventional analysis misses the point. We should open our market to benefit ourselves. This should be done unilaterally and unconditionally with this demand: Sell to us!

Admittedly, I have turned the conventional wisdom on trade on its head. As noted, trade issues are simple. We produce so we can consume. Everyone knows that. Likewise, we sell so we can buy. National boundaries do not change that truth. Thus we export so we can import. And that means an open American market is, first, a benefit to American consumers. Of course, foreign sellers also benefit. But that is the nature of trade. Two parties to an exchange expect to benefit or they do not trade.

How did the truth get flipped? There are a couple of explanations. Influential producer lobbies work hard to persuade the people and politicians that foreign competition does nothing but hurt their members. No mass consumer lobby exists to explain that free competition, product variety, and lower prices are good things. Second, the short-term adjustments necessitated by foreign competition are visible, but the long-term benefits are less so. It's easy for television news to interview a laid-off American worker or to show a closed factory that used to compete with foreign products. It is harder to point to the new products and job opportunities that have emerged because consumers had more money left in their pockets after buying cheaper foreign goods. This disparity in the visibility of the effects of free trade gives the advantage to self-serving protectionists.

Consumers are not the only beneficiaries of free trade, however. When cheap steel comes in from foreign countries, it may cost American steel makers business, but it helps American steel users, such as the auto makers, to be more competitive. Conversely, a trade barrier that reduces foreign sales reduces the number of dollars foreigners have with which to buy American products.

This illustrates a general principle: no trade barrier can ever be in the interest of all Americans. It's always a case of helping one well-connected group at the expense of everyone else.

But what about the trade deficit? Pay it no mind. The deficit in goods and services is precisely mirrored by a surplus in the capital (foreign-investment) account. When everything is counted, the trade books balance.

By all means, let's grant President Yushchenko his wish. Let him believe it's a favor to his people. We know it's really a favor to ourselves, too.

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