

## Free Trade Advantage

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The tragic losers in the midterm elections were not the Republicans, but free trade agreements and potential job growth in the American economy. New senators such as Ohio's Sherrod Brown rode to victory on a platform of raising trade barriers, euphemistically called "fair trade."

Seductively, "fair trade" promises workers that they can have it all — cheap goods from China and India and strawberries from Chile in wintertime as well as protection from global competition. But real life just doesn't work that way. "Fair trade" is shorthand for fewer jobs.

Earlier this month, even before the gavel passes from Dennis Hastert to Nancy Pelosi, the House of Representatives did not succeed in giving Vietnam normal trading status. Vietnam will soon join the World Trade Organization, and without the legislation, American exports to Vietnam will be limited and our companies will be at a disadvantage.

Many markets no longer have national boundaries but global reaches. New York, uniquely among the cities of the world, sits at the center of global markets for finance, banking, fashion, and advertising — to name but a few. When international markets expand, New York City grows. If barriers were erected to trade, jobs — and also bonuses — would shrink.

A direct beneficiary of foreign trade, New York is second only to California in the number of jobs directly created by foreign companies. American subsidiaries of multinationals employ 377,000 New Yorkers. Almost 54,000 of these jobs are in manufacturing, representing 10% of manufacturing jobs. Workers then create other jobs by shopping for goods and services, buying homes, and taking out loans.

Foreign investment is as significant as jobs. Barilla, the pasta manufacturer, is investing \$88 million in a 100,000-square-foot manufacturing plant and a 200,000-square-foot distribution center in Avon, N.Y., due to be completed in June 2007. Foreign companies in New York span the alphabet from ACE Group to Zurich International and span food groups from Nestlé to Pernod.

Trade creates jobs not just through investments of foreign companies at home, but also by increasing employment at exporting firms. This effect, though less obvious, is far more significant. That's why the Congress's failure to give Vietnam normal trading status hurts employment.

Andrew Bernard, a professor at Dartmouth College, together with economists Bradford Jensen and Peter Schott, find that firms that trade goods employ over 40% of the American workforce. They conclude that approximately 57 million American workers are employed by firms that engage in international trade.

The research team analyzes American imports and exports using customs documents that accompany shipments of goods crossing the border, along with reports of firms' employment. The resulting information provides the most precise picture available of the employment effects of American trade.

Imposing barriers to international trade in the name of "fair trade" would not increase jobs in America; just the opposite. Other countries would retaliate against us. As a result, our export markets would shrink and more Americans would lose jobs.

Trade also benefits millions of families who cut their shopping bills by buying low-cost imports. To take just one example, the amount that Americans spend on clothing has declined by 21% in real terms over the past 20 years, yet our closets are fuller than ever.

The benefits of free trade, such as increased employment, higher economic growth, and lower prices, are often taken for granted. But even though our unemployment rate is at a low 4.4%, the disadvantages of free trade — such as the occasional instances of shuttered plants and lost jobs where American firms are not as efficient as international competitors — are all too visible, and provide ammunition for the Jerry Naders in Congress.

In order to share the benefits from trade and cushion the pain, America has developed an extensive network of programs. These programs provide financial support and retraining for workers who have lost their jobs as a result of trade. These workers are rightly entitled to extra benefits. If we're concerned about adverse effects of free trade, we should even expand these programs rather than erecting barriers.

In all, there are 12 major federal programs to help workers who have lost their jobs. Nothing can make up for the pain of losing a job, but Uncle Sam tries. Nine programs are funded by the U.S. Department of Labor, two by the Department of Education, and one by the Department of Health and Human Services.

The multitude of programs arises because politicians like to start new programs, but do not want to become unpopular by cutting any. In his last budget, President Bush proposed reorganizing the programs to eliminate duplication, but Congress has preferred to leave them as they are.

One major program for workers affected by trade is Trade Adjustment Assistance. TAA services include higher levels of benefits for a longer period, career counseling, job search help, résumé preparation assistance, and interview skills preparation. Plus, the program provides information on the local job market, training and educational opportunities, and health benefits, all designed to help laid-off workers get on their feet quickly.

The government assisted 100,000 individuals through this program in 2005. In FY 2005, the government spent about \$1 billion on the program or approximately \$10,000 dollars per displaced worker. Benefits are available for up to two years, and a Health Coverage Tax Credit, worth up to 65% of health insurance premiums, is also available to workers undergoing retraining.

In addition, the Department of Labor is addressing the decline of Eastman Kodak, Xerox, and Bausch & Lomb in upstate New York by investing \$15 million in the Finger Lakes Partnership. Working with Monroe Community College, Finger Lakes Community College, and Genesee Community College, the project attempts to create an entrepreneurial culture focusing on optics, agriculture and food processing, advanced manufacturing, and biotechnology.

Trillions of international dollars pass through New York City each year not because we are an isolated fortress, but because we are the hub of the world. Terrorists twice attacked the World Trade Center because the building symbolized New York and because its name epitomizes the city. They destroyed a building and murdered thousands of innocent Americans, but they failed to vanquish world trade or New York as its center. Sadly, politicians who attack trade are inadvertently hostile not only to trade but to our country, to our jobs, and to New York among all of its cities.

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