

New Commerce Department data show that the United States set a record in 2002, importing \$435 billion more than we exported. This trade "deficit" immediately generated howls of anguish. "A real downer," said the president of the National Association of Manufacturers. The head of the AFL-CIO claims it's "a catastrophe for working Americans who are losing their jobs, health care and stable communities due to our nation's failed economic policies."

This end-of-the-world rhetoric is completely misguided. A nation isn't harmed when it imports more than it exports, which is why the trade deficit is the most dangerous statistic collected by government. It leads some people to support protectionist policies because they're convinced America is losing a critical international battle.

may have a trade deficit with Maryland, and the United States may have a trade deficit with Germany. But these deficits are merely the result of millions of voluntary transactions between producers and consumers. And unless we're willing to assume that people are idiots, those transactions benefited both buyers and sellers. Would these people be better off if politicians and bureaucrats used quotas and trade taxes to hinder trade?

The evidence clearly says no. The 1930 Smoot-Hawley legislation was supposed to protect American jobs, but instead it helped cause record unemployment and the Great Depression. Countries today with high trade barriers—like Japan—suffer from anemic growth while free-trade jurisdictions prosper. Unfortunately, protectionists won't heed economic arguments. They seem convinced

# IS FREE TRADE A REVITALIZING FORCE?

by *Daniel J. Mitchell*

But America isn't in a battle. It is people who trade, not countries, and people trade because it makes them better off. This is true if someone in Virginia trades with someone in Maryland, and it is also true if someone in Kansas trades with someone in Singapore.

Protectionists usually will admit that free trade is a good idea, at least in theory, but then argue that the "trade deficit" shows there's an imbalance that must be corrected. Yet, they offer no evidence for this hypothesis. I have trade deficits with my local supermarket, movie theater, and gas station: I buy lots of things from them, and they never buy anything from me. Why is that bad? Should politicians and bureaucrats be allowed to limit my freedom to make these purchases in order to "protect" me from a trade deficit?

The same analysis applies to the overall economy. At any given point in time, Virginia

that a trade deficit is like cancer, something that's always bad news. In reality:

•**A trade deficit usually is a sign of economic vitality.** America's economy may not be booming, but we're doing much better than most other countries. And because we're growing faster and earning more, we can buy lots of goods and services, regardless of where they are produced. Japan has a trade surplus, but it also is mired in a 10-year economic slump. Would anybody be crazy enough to want to trade places? How about Europe? It has a trade surplus with America, but would anyone seriously suggest that we mimic the high-tax, high-unemployment economies of France and Germany?

•**A trade deficit means America is enjoying an investment surplus.** Foreigners earn lots of money by selling goods and services to Americans. Protectionists seem to think that

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foreigners should use that money only to buy an equivalent amount of goods and services from Americans, but many foreigners consider the United States a good place to invest. As a result, a substantial share of the money we send overseas to purchase TV sets, cars, oil, and bananas winds up getting invested in our economy. Foreigners think our economic future is bright, and they're helping to create jobs and prosperity in America by putting money in U.S. banks and buying stock in U.S. companies. This is a vote of confidence, a sign of America's strength.

Because protectionist sentiment often is an emotional reaction to the trade deficit, perhaps using a new term can mute this self-destructive impulse. Instead of publishing "trade deficit" statistics, the Commerce Department could publish "investment surplus" statistics. Journalists then could discuss a real story—how capital is fleeing uncompetitive slow-growth economies and coming to America.

Of course, our exports can be hampered by protectionist policies in other nations. (Japan, for instance, imposes a tax of nearly 500 percent on imported rice.) American policymakers should work to diminish those barriers.

We also should make sure we aren't hurting ourselves. America has one of the highest corporate tax rates in the developed world. This is hurting U.S. competitiveness, especially since we then tax that income a second time at the individual level.

There are many things lawmakers can do to make America more competitive, but protectionism isn't the answer. Trade barriers are the siren song of special interests and the refuge of those who doubt America.

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