Op-Ed

The all-too-real costs of free trade to average Americans

The country is not better off when trade deal gains go only to the very rich.

·

By Clyde Prestowitz

January 30, 2014

In his State of the Union message, President Obama suggested apprenticeships, tax reductions on new investments, and building new infrastructure as ways to increase jobs and reduce inequality in America.

But he said virtually nothing about what is probably the single biggest cause of lost jobs and stagnating earnings for all but the richest of America's citizens: the U.S. current account deficit, which includes the trade deficit.

Although the Federal Reserve Bank says we're in the midst of a recovery, and the official unemployment rate has fallen below 7%, the economy is far from being out of the woods. That official rate — technically known as U-3 — doesn't begin to tell the real story. It is only one of six unemployment measures kept by the U.S. government and counts all those who say they are unemployed and looking for work. But it does not include those discouraged unemployed workers who have given up looking for a job or those who would like to work full time but are only able to find part-time work. The rate that includes all those people — U-6 — is about 13%. Granted, that is below the 17% of 2010, but it is still far above the 8% of 2007, as we navigate what is being called a recovery — albeit an abnormally slow one.

Perhaps even more disturbing is the dramatic increase in the gap between the incomes of the wealthiest 5% of Americans and the rest. Virtually all of the benefit of the present "recovery" is going to those in the top income brackets. As far as the rest are concerned, it's still the Great Recession.

Since 1973, the wealthiest 1% of Americans' share of GDP has risen from about 7.7% to more than 19%. Meanwhile, the inflation-adjusted earnings of the median American household have been essentially unchanged.

As this was happening, the U.S. trade deficit rose from virtually nothing in the early 1970s to about $540 billion in 2012. **Take advanced technology goods as an example. Here the trade deficit over the last decade has accumulated to more than $500 billion, and this is the area in which the United States is supposed to be the world leader.**

The Information Technology and Innovation Foundation has estimated that more than 60% of the 5.7 million U.S. manufacturing jobs lost over the last decade were because of rising imports of manufactured goods. The Peterson Institute of International Economics estimates that 39% of the increase in U.S. income inequality is because of this imbalanced trade.

Yet Washington keeps negotiating so-called free-trade agreements that seem to open the U.S. market while leaving others relatively closed. A major reason for this is the classic economists' argument that the generally lower consumer prices that may arise from imports will exceed the more limited wage losses that may occur in a few specific industries, and therefore, on balance, free trade will always and everywhere be a win-win arrangement. In other words, despite the millions of jobs lost as a result of the rising U.S. trade imbalance, the overall U.S. economy is supposed to be better off today than 10 years ago because of lower prices for consumers. The argument is that the wage losses occur only in a limited number of industries, while the lower prices are available to the entire population.

This simplistic analysis is incomplete and wrong. Its key assumption is that the economy is at full employment. In such a situation, workers who lost jobs in a few industries would lose wages only for a limited period until they found new jobs at the same wages as the old jobs. Thus there would be no overall downward pressure on wages and only limited and temporary wage losses for a relatively small part of the labor force, while the whole population would be benefiting from lower consumer prices.

Well, it is clear now, after a long and deep recession, that the economy is not always at full employment and that even if workers find new jobs, the pay is often lower than at their old jobs. Indeed, most of the jobs created in the last year have been in low-wage industries such as retailing and food service.

This means that there is overall downward pressure on wages from the loss of jobs to imports, and that the losses might well outweigh the gains for consumers. Indeed, the average American has not seen much in the way of real income gains over the last 40 years as the trade deficit has mounted.

Moreover, it's clear that those gains that have been achieved have gone overwhelmingly to the very tiny, richest percent of the population. Statistically, it may look as if the GDP has risen. But the country is not really better off if all the gains have gone only to the top half of 1% of the citizens.

As former IBM chief scientist and former Sloan Foundation President Ralph Gomory and former American Economics Assn. President William Baumol noted in their groundbreaking book, "Global Trade and Conflicting National Interests," free trade is not always a win-win proposition. It can be win-win under some circumstances, but it can also be a losing proposition under other circumstances. For the United States, the latter has too often been the case.

In the past, the president has called for the doubling of exports. He would have done better Tuesday night simply to call for balancing U.S. trade, which by creating 5 million jobs would bring America to full employment and greater equality.

Clyde Prestowitz is president of the Economic Strategy Institute and served as counselor to the secretary of Commerce in the Reagan administration.

http://www.latimes.com/opinion/commentary/la-oe-prestowitz-sotu-trade-deficit-20140130,0,1832709.story#ixzz2ruiv9nNt