What Clinton and Gore Don't Say

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Economists, regardless of political affiliation, agree that free trade helps the world's economies. But you'd never know all the benefits of trade from listening to the Clinton Administration's rhetoric. Are Clinton and Gore anti-trade? Is their language driven by political motives? Are they scared of alienating producers, who fear the new lower-priced imports that freer trade allows?

The answers are no, yes, and definitely. The Administration, to its credit, has steadfastly supported big free-trade initiatives. But when Al Gore debated Ross Perot on NAFTA in 1993, the Vice President didn't once mention the benefits that U.S. consumers would reap from free trade with Mexico. More recently, when Clinton supported China's entry into the World Trade Organization, he promoted the provisions that prevented China from flooding the U.S. with cheap goods--limiting gains to U.S. consumers.

Yet the press has not seemed to notice that Gore and Clinton are hiding the consumer benefits of freer trade. The reason is that few people--especially those in the media--understand the economic case for trade. It's pretty simple: Without trade, most of us would die. We wouldn't be able to see a doctor, buy pasteurized milk, or grow our own food. On a national level the stakes are also serious. Close a country to trade and it withers, as many Latin American nations did in the mid-20th century. Open it to trade and you get immediate benefits. One reason the U.S. became prosperous in the late-18th and early-19th centuries is that it was a large common market--trade between states was unrestricted and workers specialized. U.S. trade with the world also allowed more extensive division of labor, with benefits to everyone.

When tariffs on an imported good are cut, domestic producers of the good do lose, but less than what the buyers gain. Here's why. Imagine that a pack of gum sells in the U.S. for $1 before tariffs are cut. Say that it costs U.S. manufacturers 90 cents to make the gum--they make 10 cents on every pack. If gum made by foreign producers costs 85 cents, eliminating the tariff has this effect: Domestic

producers can't compete at 85 cents and go out of business. But their loss is 10 cents--the profits they would have made--while consumers gain 15 cents.

Economists have shown that because consumers gain from exchange, a country is actually better off dropping its trade barriers even if other governments keep theirs. But unilateral free trade, though an economic winner, is often a political loser. The consumers' gain doesn't come across more clearly in reports of trade negotiations because it is spread across millions of people. The losses from opening trade, however, are often shared by a small number of companies with a few thousand shareholders and workers. They hire lobbyists and make hefty campaign contributions based solely on a candidate's views on trade barriers.

Therefore, to pass free-trade legislation, politicians have to woo powerful organized groups that favor it. How do they do it? They find low-cost domestic producers that, because of other countries' trade barriers, miss out on the chance to compete in big, lucrative markets. Then they hold meetings at which, say, U.S. farmers lobby for other countries to cut their barriers to U.S. farm exports. In return, the U.S. negotiators cut U.S. barriers to, say, imports of shoes and clothing. (Those are two of the imports against which the U.S. has the biggest barriers.) So the domestic exporters are left to voice consumer concerns. Unfortunately, they don't.

In the negotiation process, the U.S. treats cuts in its trade restrictions as concessions rather than as the benefits they are. That's why the consumers' gains get lost in the shuffle. Economists like U.S. Treasury Secretary Lawrence Summers understand that. But U.S. Trade Negotiator Charlene Barshefsky and Vice President Gore? I'm not so sure.