

# Revoking trade deals will not help American middle classes

The advent of global supply chains has changed production patterns in the US

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Trade agreements have been central to American politics for some years. The idea that renegotiating trade agreements will "make America great again" by substantially increasing job creation and economic growth swept Donald Trump into office.

More broadly, the idea that past trade agreements have damaged the American middle class and that the prospective Trans-Pacific Partnership would do further damage is now widely accepted in both major US political parties.

As Senator Daniel Patrick Moynihan once observed, participants in political debate are entitled to their own opinions but not their own facts. The reality is that the impact of trade and globalisation on wages is debatable and could be substantial. But the idea that the US trade agreements of the past generation have impoverished to any significant extent is absurd.

There is a debate to be had about the impact of globalisation on middle class wages and inequality. Increased imports have displaced jobs. Companies have been able to drive harder bargains with workers, particularly in unionised sectors, because of the threat they can outsource. The advent of global supply chains has changed production patterns in the US.

My judgment is that these effects are considerably smaller than the impacts of technological progress. This is based on a variety of economic studies, experience in hypercompetitive Germany and the observation that the proportion of American workers in manufacturing has been steadily declining for 75 years. That said I acknowledge that global trends and new studies show that the impact of trade on wages is much more pronounced than a decade ago.

But an assessment of the impact of trade on wages is very different than an assessment of trade agreements. It is inconceivable that multilateral trade agreements, such as the North American Free Trade Agreement, have had a meaningful impact on US wages and jobs for the simple reason that the US market was almost completely open 40 years ago before entering into any of the controversial agreements.

American tariffs on Mexican goods, for example, averaged about 4 per cent before Nafta came into force. China had what was then called "most favoured nation" trading status with the US before its accession to the World Trade Organization and received the same access as other countries. Before the Korea Free Trade Agreement, US tariffs on Korea averaged a paltry 2.8 per cent.

The irrelevance of trade agreements to import competition becomes obvious when one listens to the main arguments against trade agreements. They rarely, if ever, take the form of saying we are inappropriately taking down US trade barriers.

Rather the naysayers argue that different demands should be made on other countries during negotiations on issues including intellectual property, labour standards, dispute resolution or exchange rate manipulation. I am sympathetic to the criticisms of TPP, but even if they were all correct they do not justify the conclusion that signing the deal would increase the challenges facing the American middle class.

The reason for the rise in US imports is not reduced trade barriers. Rather it is that emerging markets are indeed emerging. They are growing in their economic potential because of successful economic reforms and greater global integration.

These developments would have occurred with or without US trade pacts, though the agreements have usually been an impetus to reform. Indeed, since the US does very little to reduce trade barriers in our agreements, the impetus to reform is most of what foreign policymakers value in them along with political connection to the US.

The truth too often denied by both sides in this debate is that incremental agreements like TPP have been largely irrelevant to the fate of middle class workers. The real strategic choice Americans face is whether the objective of their policies is to see the economies of the rest of the world grow and prosper. Or, does the US want to keep the rest of the world from threatening it by slowing global growth and walling off products and people?

Framed this way the solution appears obvious. A strategy of returning to the protectionism of the past and seeking to thwart the growth of other nations is untenable and would likely lead to a downward spiral in the global economy. The right approach is to maintain openness while finding ways to help workers at home who are displaced by technical progress, trade or other challenges.

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