

Free Trade Now!

Free trade exists when governments do not interfere with commercial transactions between individuals domestically and internationally. Free trade makes America and the world better off. The Institute for International Economics has calculated that completely liberalizing trade would add US \$500 billion, or \$5,000 per household, to U.S. annual income. And, the World Bank has estimated that reducing trade restrictions would add an additional US \$350 billion in income for developing countries and \$170 billion in income for developed countries by 2015.

Why we want free trade—now:

Free trade is fair trade. Free trade is fair because it is voluntary and mutually beneficial. People trade the things they value less for the things they value more. For instance, I trade my money with IBM for a laptop computer. In doing so, both IBM and I are better off. An involuntary or disadvantageous trade is not a trade but coercion. Free trade is also fair because it promotes competition and innovation. In a global market there are more producers and consumers. With more producers there is more competition; and with more consumers production can take place on a large scale. More competition and large scale production lead to more innovation and lower prices, and thus to higher standards of living.

Free trade is efficient. Individuals engage in trade due to differences in comparative advantage. No one place has all the resources, such as raw materials, knowledge and skill, to produce most efficiently all the goods and services it needs. There is a reason, for example, that bananas are grown in Honduras and not Iceland. So, countries specialize in what they produce best and trade with one another to acquire what they either cannot produce at all or only inefficiently. Hence, free trade lets countries make more efficient use of resources.

Free trade increases prosperity worldwide. Throughout history, most humans lived in utter poverty. However, since the Industrial Revolution, per capita income worldwide has increased dramatically. According to economist Johan Norberg, just since 1965 Western countries have increased their wealth by 40 percent. The increase was even higher on the poorer continents: Latin America raised its wealth by 60 percent, Africa by 80 percent, and the average income in Asia rose by 300 percent. According to World Bank studies, global poverty rates fell from 33 percent to 18 percent between 1981 and 2001; poverty in East Asia fell from 58 to 16 percent and in South Asia from 52 to 31 percent. This kind of economic growth seems best explained by: “A rising tide lifts all ships.” Economic growth is fueled by investments, in stocks, bonds, real estate or businesses, because investments pay for new technology and new jobs. Global free trade increases investments from developed countries into underdeveloped and developing countries, and vice versa. For instance, when Americans trade with the Chinese, profits on part of the producers and savings on part of the consumers are both invested back into the economy, domestic and foreign.

Free trade fosters peace. Humans naturally seek to want to improve their condition. In order to obtain what they need, they can either trade, enslave others to produce for them, or go to war and loot the defeated for land and resources. For much of human history the pursuit of the latter two options prevailed. But over the past half century, the incidence of war and civil conflicts has steadily declined and trade dominates today. To be sure, trade is not a sufficient condition for peace, but it is a necessary one. Trade contributes to a country’s internal stability by raising incomes significantly more and across all sectors of society than slavery or war and by reducing poverty. Trade also encourages democratization and democratic countries are less likely to engage in war. Finally, the more trade takes place among countries, the higher the economic cost becomes to go to war since war would destroy the trade relations and investments already made.

Free trade helps the world’s poorest. Free trade facilitates economic growth. In turn, economic growth leads to higher living standards, lower infant mortality rates, increased average life expectancy, improved health, decreased hunger, greater access to drinking water, and increased literacy. Global trade improves these indicators for the world’s poorest, as Norberg’s research shows. For instance, he writes that hunger in developing countries has been reduced from 37 to 17 percent over the last 30 years. Calorie consumption actually rose fastest in the developing countries, from 1,932 calories a day in 1961 to 2,684 calories a day in 1999. Whereas 25 years ago, 90 percent of the world’s rural population had no access to clean water, today it is only 20 percent. And, in 1950, the developing world’s illiteracy rate was 70 percent; today it is only 23 percent.

Protectionism hurts individuals in poor countries. When governments impose import tariffs, quotas and hand out subsidies to protect domestic industries from foreign competition, they keep prices high and stifle economic development. This is particularly detrimental to poor countries. For instance, American cotton farmers receive an average of US \$250,000 in subsidies, which keeps the price of cotton high for consumers and prevent producers in poorer countries like Burkina Faso from growing their economy by selling cotton in America. According the Fraser Institute’s 2007 report on economic freedom, the average per capita GDP of countries in the top quartile of economic freedom is \$26,013, whereas that of countries in the lowest quartile is only \$3,305. The report also states that the average income of the poorest 10% of the population is \$7,334 in the top quartile, but only \$905 for those in the bottom quartile. Free trade must occur in the absence of government intervention and so-called free trade agreements which are riddled with subsidies, quotas and other protectionist elements.

