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## **We Need Real Free Trade Now**

**by Sheldon Richman**

People in parts of the developing world are becoming more free, better educated, and increasingly dexterous with modern communications, such as the Internet. As a result, they are more vigorously participating in the world economy. They are in a position to make things and do things for us that they could not have done a short time ago. They are even making and doing things — for lower wages — that Americans do.

Will this be a boon or a threat to us? That is the question.

Some people see a threat. Economist Paul Craig Roberts and Sen. Charles Schumer of New York co-wrote an article recently arguing that the venerable economic theory that justified free trade in the past no longer applies. Conditions have changed, they argue. The easy mobility of software and data now makes it possible for low-wage workers in the developing world to compete with high-wage Americans. They offer the example of an American company “outsourcing” jobs to \$20,000-a-year computer programmers in Asia and costing \$150,000-a-year American programmers their jobs. Before such “factor mobility,” Roberts and Schumer say, every country could specialize in the work it was best at, and the laws of economics assured that everyone benefited. But that day is past because factor mobility will send many top-paying knowledge jobs abroad, leaving many Americans with nothing much to do. And the jobs that are left will be low-paying.

Now there’s a doomsday scenario. Is it accurate? No. Or at least, it doesn’t need to be.

The reports of the death of free-trade theory have been greatly exaggerated, as Mark Twain might say. The economic principle in question is the law of comparative advantage, which states that everyone will find it to his advantage to specialize in making the goods he’s best at and trade for rest. This is true for people who are highly efficient at many lines of work. Even they will be better off if they concentrate on what they are “most best” at and leave the rest to others. (That is why a dentist hires a hygienist to clean teeth.)

Roberts and Schumer insist this law operates only when capital cannot easily move to other countries. Otherwise the law is kaput. They say this, but they do not demonstrate it. It is

certainly true, for the reasons noted above, that Chinese and Indian workers can now compete against Americans in ways they could not do so before. But that does not mean that they will not benefit from specialization. The premium from the division of labor is universal. It is inherent in human action. That information can move at the speed of light from Manhattan to New Delhi and back does not change that.

As George Mason University economist Tyler Cowen wrote, “Basically Roberts is peddling snake oil. His argument boils down to old-style protectionism, dressed up in new rhetorical garb, not new substance.”

Nevertheless, Roberts has a point. Free trade often requires adjustment to new conditions. Perhaps this will be true of hitherto secure computer programmers and other knowledge workers, who may see their incomes fall. But keep in mind that, while nominal wages may fall, real wages may not. That’s because free trade and the resulting increased productivity of labor and resources will translate into more and lower-priced goods and services. Don't forget: The American firm in Roberts's example now has \$130,000 per laid-off worker to invest in new products and services.

We can all sympathize with people who suddenly need to find new jobs or learn new skills. In fact, because of this potential hardship, something should be done — something radical — and soon. Our new era requires immediate and full deregulation of the economy, repeal of taxes, cuts in government spending, and the institution of sound market-based money (that is, abolition of the Federal Reserve). The threat of frivolous lawsuits against business must also be ended. All government intervention impedes investment and the creation of new opportunities for good-paying work. It is more urgent than ever that the government get out of the way of the productive people of this country.

The worst thing would be even more interference in the form of new trade restrictions. What we need is full free trade — domestically and internationally.

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