

Trade, Jobs and Politics

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By Jeremy Haft

Before globalization, if a label on a product said “Made in the USA” or “Made in China,” it usually was. Today, most products consumers around the world use are not just produced by one country. They’re now “Made in the World”; many countries contribute to the production. David Ricardo (1772-1823), the father of free trade, once said, if one country is better at making wine and another at making cloth, then both countries become wealthier by focusing on what they’re good at and trading with one another. This is what he called “comparative advantage.” In modern manufacturing, the wine and cloth produced by separate countries are now produced in partner with other countries.

We still consider products that were shipped to us from China to be entirely made in China. Other countries are contributing to production, but only one country is getting the trade value, so the world is not getting an accurate picture of some nations’ true economic size and competitiveness. For example, America appears to be on the decline while countries like China seem to be on the rise. These numbers can also rationalize policies that do more harm than good. The wrong numbers could cause voters and policymakers to make the wrong decisions by cutting jobs or supporting policies that go against their economic interests.

The core of the economic problem is that gross domestic product (GDP) and the balance of trade are not up to date with modern globalization. These numbers distort today’s economy and give a false picture of the relationship between trade and jobs. During the 2016 presidential contest, Donald Trump and Bernie Sanders had a platform of anti-trade. We must look at the core numbers themselves instead of economic analysis. GDP tries to capture one year’s economic output by measuring expenditures, but these numbers do not accurately portray the economic size of countries like the United States and China. A more accurate number would be to measure a country’s “national wealth,” or how much a country’s government, households, and firms or businesses own minus what they owe as its balance sheet of assets and liabilities.

Jobs being lost to overseas competition became an important issue in the 2016 presidential race. This was partly because of inaccurate numbers. Economic numbers do not accurately represent insurance claims, part-time or seasonal labor, or facilities that open overseas without laying off American workers. Economists must use additional data such as levels of U.S. direct investment abroad and imported goods.

The rising tide of trade does lift many boats. Dislocations caused by trade are real, but are not as serious as portrayed. Attention should be paid to making programs to help workers who have lost their jobs to foreign competition. The Trade Adjustment Assistance, which helps workers who have lost jobs to foreign competition, needs to be expanded and updated. Finally, we need to invest in modernizing our economic statistics.