

ECONOMIC COMMENTARY

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Free Trade Will Bring Better Jobs

Congress did the country a great service by approving fast-track authority for trade negotiations with Mexico. Rarely do we have an opportunity to do so much good for so many people on both sides of the border. But if the discussions on fast-track are any indication, a successful outcome is not assured. If the negotiations fail, the failure will be the result of an unfortunate tendency to count jobs. Job counting is an insidious practice that permeates public debate on many issues and is responsible for much public policy mischief.

Applied to international trade, job counting works like this: new exports create domestic jobs; new imports or plants moved abroad destroy jobs. If we expect freer trade to destroy more jobs than it creates, or if we value the lost jobs more highly than those created, then we are against freer trade. Individual countries, in effect, favor freer trade only if they expect a job surplus. This result, of course, is a mathematical impossibility. But I have an even more compelling argument against job counting.

Even at the national level, job counting is a terrible way of setting policy. Does anyone seriously doubt that five, 10 or 25 years from now the number of jobs in the U.S. economy will be approximately equal to the number of people able and willing to work? Certainly, in our dynamic economy some frictional unemployment will occur as workers shift from declining to expanding firms or industries. And an occasional recession will come along and temporarily bloat the unemployment numbers. But recessions do not last forever, and policymakers have learned how to counter them rather than allowing them to spiral downward.

The short-term impact of job losses, while traumatic for those individuals involved, hardly should be a major consideration in trade liberalizations. The same number of jobs will be there in the future. The question is, What kinds of jobs will they be? Will they be jobs based on our comparative advantage or jobs retained behind a protective



shield? Given the constraints of labor force growth, the road to a higher standard of living is found by making all jobs count, by extending the advantages of the division and specialization of labor as far as possible.

The fallacy of job counting extends to many areas. Military base closings are a current example. If we really do not need many of our bases for defense purposes, should we keep them open because they provide jobs in their local communities? In May, Nissan announced a new technology for catalytic converters that utilizes palladium rather than the more expensive platinum and rhodium. Should we forgo the savings because of jobs lost in communities dependent on the platinum and rhodium industries? Of course

not. Lost jobs represent the opportunity to expand other production or services for a net gain for society. Basing decisions on the need to retain jobs involves a conscious decision to make our economy less efficient in producing the goods and services we want.

I realize that all this talk is of little comfort to the workers displaced and that their replacement jobs may well be less attractive to them than the jobs they lost. But society should deal directly with the plight of these workers through education and retraining programs, not through protectionism. Indeed, from society's viewpoint, the gains from freer trade would be more than sufficient to finance the short-term cost of retraining.

One of the unfortunate legacies of the Great Depression and the Keynesian response to it is the view that a job lost is a job lost forever and that a job saved is a net addition to the ranks of the employed. While that view may have approximated reality for a few years in the 1930s, now it simply distorts public policy decisions. The jobs will be there. Let us concentrate on making sure they are jobs society needs and not jobs wasted through the inefficient use of scarce resources.