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Free Trade: Key to Peace and Prosperity

by William H. Peterson

At a time of international tension and a so-so economy, we are fortunate that the Federal Reserve Bank of Dallas has issued its essay (online or in hard copy) "The Fruits of Free Trade."

It comes from the Dallas Fed's 2002 annual report, and it carries a simple strategy for peace and prosperity in two words: free trade. The freer the trade the better.

The essay should be required reading for those Bush White House officials who not long ago engineered higher tariffs on foreign steel and Canadian lumber—auto and house buyers be damned. The essay, complete with 14 statistical exhibits in color, has a front cover unlike any district Federal Reserve Bank report I've seen in my professional career: There in living color is a photo of an enticing global fruit basket, its contents available from your supermarket (as explained in the text): apples from New Zealand, apricots from China, bananas from Ecuador, blackberries from Canada, blueberries from Chile, coconuts from the Philippines, and so on. (For the online version, see http://www.dallasfed.org/fed/annual/2002/ar02.pdf.)

Moreover, its two authors, W. Michael Cox, senior vice president and chief economist at the Dallas Fed, and Richard Alm of the *Dallas Morning News*, open up their secret to garnering wealth for both the individual and society. They do it as if they were ancient Greek visitors to the Oracle at Delphi, asking her how to get rich. Study hard? Work hard? "Probably not," they respond to their own rhetorical questions, adding: "Diligence and intelligence are strategies for improving one's lot in life, but plenty of smart, hard-working people remain poor."

So Cox and Alm put the Oracle's counsel for getting wealth into just two short sentences: Do what you do best. Trade for the rest.

In other words, in life they suggest that you play a pro-growth win-win positive-sum game as you trade your productivity for the productivity of others—wherever they may be located, here or abroad. So their formula works for both the individual and society, including nations and the global society. It has no truck for the common if simplistic bumper sticker (usually shown with an image of the Stars and Stripes): "Buy American. The Job You Save May Be Your Own." Such protectionism winds up as an anti-growth win-lose zero- or even negative-sum game.

Indeed, Exhibit 1 makes the point that over the last three decades, a period of U.S. economic growth, rising living standards, and creation of 50 million new jobs, trade in goods and services (exports plus imports) increased from 11 percent to roughly 30 percent of GDP, while U.S. capital flows more than tripled. So the authors reject the idea

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that exports are good because they support U.S. industry while imports are bad because they steal business from domestic producers. Actually, as Cox and Alm argue (as did Adam Smith in *The Wealth of Nations*), we don't produce to produce—but to consume.

Look, say the authors: Yes, exports are resources we don't consume at home, but they are how we pay for much of what we purchase overseas. In the end, cheaper and better imported goods and services are the pay-off to America and Americans. Consumers here and abroad are the win-win winners, as world competition presses producers everywhere to keep their prices competitive and their output at the highest quality feasible.

That competitive pressure, hold the authors, causes Ford to produce cars in 17 countries, with nearly three-fourths of its production occurring outside the United States. This pressure is reflected in the 2001 Honda Civic produced here in the United States with a get-it-where-you-can 75 percent domestic content, or in the 2001 Ford Escort produced here with a 60 percent domestic content. All that pressure is of course aimed at winning sales, at wooing the sovereign consumer with his make-or-break purchases.

Exhibit 7 shows how production in open-market societies far outpaces that in controlled or planned societies, pretty much proving that economic freedom and rising per capita consumption go together like the proverbial horse and carriage. The exhibit ranks two side-by-side, nation-by-nation rating graphs by the Heritage Foundation along with the *Wall Street Journal* and by the Fraser Institute of Vancouver, British Columbia, in terms of the degree of state intervention and the height of related output. The point of Exhibit 7: Country by country it follows that the less trade intervention, such as tariffs and import quotas, the higher the average individual consumption and standard of living.

North versus South Korea

Cox and Alm tell a tale of two nations. One is North Korea, with about the lowest economic freedom in the world. Its per capita income averages just $950 annually, with many North Koreans trying to escape across the border into China. South Koreans, on the other hand, enjoy the bounty of a rather free-enterprise economy, with its per capita income of $11,428—or 12 times that of North Korea.

My only "but" about this remarkable and most welcome essay is its inadvertent lack of the peace-inducing implications of free trade and investment. For the nice fact is that no seller goes around shooting, bombing, or terrorizing his customers. IBM caught this implication in its old motto, "World Peace Through World Trade." Or as the Old Testament caught it: "They shall beat their swords into plowshares, and their spears into pruninghooks."

Robert D. McTeer, Jr., president and CEO of the Dallas Fed, in a comment on the essay, relates the observation "attributed to economist Henry George that protectionists want to do to their own country during peacetime what the country's enemies would wish to do to it during wartime—that is, close its borders to imports."

Hear, hear. □