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Five Big Truths About Trade

In 2000, the U.S. jobless rate was 4%, despite a trade imbalance larger than today's. How could that be?

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International trade is, once again, a hot-button political issue, making this an unpropitious time for rational discourse about the subject. Nonetheless, here are five issues on which the overwhelming majority of economists, liberal and conservative, agree.

1. Most job losses are not due to international trade. Every month roughly five million new jobs are created in the U.S. and almost that many are destroyed, leaving a small net increment. International trade accounts for only a minor share of that staggering job churn. Vastly more derives from the hurly-burly of competition and from technological change, which literally creates and destroys entire industries. Competition and technology are widely and correctly applauded—international trade is not so fortunate.

2. Trade is more about efficiency—and hence wages—than about the number of jobs. You probably don't sew your own clothes or grow your own food. Instead, you buy these things from others, using the wages you earn doing something you do better. Imagine how much lower your standard of living would be if you had to sew your own clothes, grow your own food . . . and a thousand other things.

The case for international trade is no different. It's not mainly about creating or destroying jobs. It's about using labor more efficiently, which is one key to higher wages.

But there is a catch: Whenever trade patterns change, some people will gain (either jobs or wages) but others will lose. The federal government could and should help them more, but it doesn't. So Americans who do lose their jobs due to international trade have a legitimate gripe.

3. Bilateral trade imbalances are inevitable and mostly uninteresting. Each month I run a trade deficit with Public Service Electric & Gas. They sell me gas and electricity; I sell them nothing. But I run a bilateral trade surplus with Princeton University, to which I sell teaching services but from which I buy little. Should I seek balanced trade with PSE&G or Princeton? Of course not. Neither should countries.

4. Running an overall trade deficit does not make us "losers." The U.S. multilateral trade balance—its balance with all of its trading partners—has been in deficit for decades. Does that mean that our country is in some sort of trouble? Probably not. For example, people who claim that our trade deficit kills jobs need to explain how the U.S. managed to achieve 4% unemployment in 2000, when our trade deficit was larger, as a share of GDP, than it is today.

A trade deficit means that foreigners send us more goods and services than we send them. To balance the books, they get our IOUs, which means they wind up holding paper—U.S. Treasury bills, corporate bonds or other private debt instruments. That doesn't sound so terrible for us, does it?

One exceptional country—the U.S.—is the source of the world's major international reserve currency, the U.S. dollar. Since ever-expanding world commerce requires ever more dollars, the U.S. must run trade deficits regularly. That's sometimes called our "exorbitant privilege," since we get to import more than we export.

5. Trade agreements barely affect a nation's trade balance. Much of the political angst is directed not at trade in general, but at specific international trade agreements. The North American Free Trade Agreement allegedly shipped U.S. jobs to Mexico; the Trans-Pacific Partnership will allegedly ship U.S. jobs abroad as well.

There is a grain of truth here. Some U.S. jobs were indeed destroyed when Nafta liberalized trade with Mexico—and those people deserved better treatment from the government than they got. But Nafta also created a number of new jobs in the U.S. (See No. 2.)