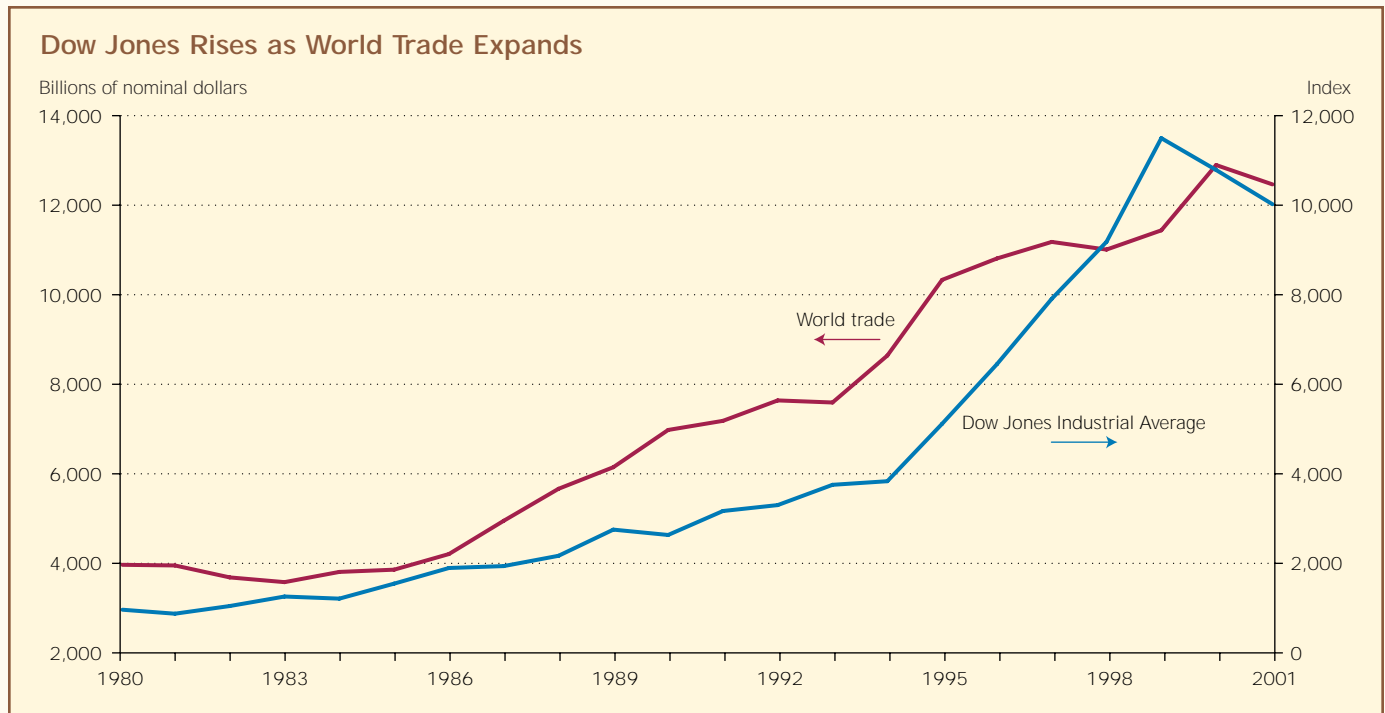


EXHIBIT 14. **Compete and Prosper: The Lesson of NAFTA and GATT**

The passage of the General Agreement on Tariffs and Trade, the North American Free Trade Agreement and GATT's successor, the World Trade Organization, ushered in an era of freer trade that's been applauded by stock markets worldwide. Smoot-Hawley taught us trade's lesson the hard way—protect and destroy. Today, we're relearning it the right way—compete and prosper.



Prosperity or Poison?

The 1930s taught a painful lesson—one that for the most part has been heeded. Despite lapses into protectionism, freer trade has been a theme of both Democratic and Republican administrations since Truman. Under American leadership, a half-dozen rounds of global negotiations stripped away trade barriers and, in 1995, created the World Trade Organization, a 144-nation forum for opening markets.

We've enlarged our market by entering into an economic alliance with Canada and Mexico under the nine-year-old North American Free Trade Agreement. Policymakers are opening free trade talks with five Central American nations in an effort to forge a hemispheric free trade zone stretching from Alaska to Tierra del Fuego.

Consumers aren't getting the benefits of trade at the expense of the overall economy. Between 1980 and 2001, world trade more than tripled, to \$12.5 trillion. At the same time, the U.S. economy doubled and the Dow Jones Industrial Average rose ninefold, even after taking into account the past three years' declines. (See Exhibit 14.)

Was our expanding trade bad for workers? Hardly. The United States has added 35 million jobs in the past two decades. Despite a sluggish economy, unemployment is still lower than it was in 1980. Our wages buy more. The past two decades disprove the idea that trade saps America's economy.



Acknowledgments

"The Fruits of Free Trade" was written by W. Michael Cox and Richard Alm. The essay is based on research conducted by Cox, senior vice president and chief economist, Federal Reserve Bank of Dallas. Julia Kedrova and Steve Brown provided important research assistance. Also helping with research was Charlene Howell.

Exhibit Notes and Data Sources

All dollar amounts in text and exhibits are in 2002 U.S. dollars except where noted.

■ Exhibit 1. A Trading Nation

Bureau of Economic Analysis (BEA): *Historical Statistics of the United States, Colonial Times to 1970*, Census Bureau, 1975; *Statistical Abstract of the United States*, 1980, 1990.

■ Exhibit 2. The Alchemy of Exchange

Authors' calculations.

■ Exhibit 3. Independently Poor

BEA's Local Area Personal Income tables (2000); Census Bureau population tables (2000). The regression line is obtained by eliminating all counties that have no more than one person per square mile and all counties on Alaska's North Slope—78 counties total out of 3,085.

■ Exhibit 4. Oil Independence—at \$7.50 per Gallon

Energy Information Administration, Department of Energy; Department of Commerce: U.S. Bureau of Mines: *Twentieth Century Petroleum Statistics* (Dallas: DeGolyer and MacNaughton, 1990, 1998, 2001).

■ Exhibit 5. Made in China

U.S. International Trade Commission's Trade DataWeb, using 4- and 5-digit SITC codes. Transmission equipment includes transmission apparatus for radiotelephony, radiotelegraphy, radio broadcasting or television, incorporating reception apparatus.

■ Exhibit 6. Wanted: More Cheap Imports

Bureau of Labor Statistics.

■ Exhibit 7. Free to Consume

Index of Economic Freedom, The Heritage Foundation, 1999 scores, www.heritage.org/research/features/index; *Economic Freedom of the World*, 1999 scores (Vancouver, B.C.: The Fraser Institute); *World Development Indicators 2002*, 1999 data (Washington, D.C.: World Bank).

■ Exhibit 8. The Tax on Trade

Historical Statistics: Statistical Abstract, 1998; Census Bureau.

■ Exhibit 9. The Politics of Protectionism: A Negative-Sum Game

Authors' calculations.

■ Exhibit 10. Dumping: Trash or Treasure?

"Antidumping and Countervailing Duty Orders in Place as of March 3, 2003," U.S. International Trade Commission.

■ Exhibit 11. The High Cost of Protectionism

G. C. Hufbauer and K. A. Elliott, *Measuring the Costs of Protection in the United States*, (Washington, D.C.: Institute for International Economics, 1994), pp. 11–13.

■ Exhibit 12. Any Which Way It Can

Various issues of Ward's *Motor Vehicle Facts and Figures*, Ward's *Automotive Reports* and Ward's *Automotive Yearbooks*.

■ Exhibit 13. Protect and Destroy: The Lesson of Smoot–Hawley

World trade: League of Nations, *Monthly Bulletin of Statistics*, vol. 15, Geneva, January 1934, p. 3. Dow Jones Industrial Average: Federal Reserve Board. For a detailed review of this period, see Jude Wanniski, *The Way the World Works*, Chapter 7 (New York: Simon & Schuster, 1978).

■ Exhibit 14. Compete and Prosper: The Lesson of NAFTA and GATT

World trade: International Monetary Fund, International Financial Statistics database. Dow Jones Industrial Average: Bloomberg LP (year-end).

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■ AI Crespo, p. 4 upper.

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■ World Food Program/Tom Haskell, p. 13 left.

■ Fullwood Ltd., England, p. 19 third from top right.

■ The Port of Los Angeles, p. 20 upper.

■ Library of Congress, Prints and Photographs Division: Farm Security Administration, Office of War Information Collection, LC-USF33-002673-M1, p. 22.

The lesson of the marketplace hasn't been lost on Europe. By fits and starts, the continent has moved over the past five decades to create a single market, reducing barriers to the movement of goods, money and people. At the start of 2002, a dozen European nations embraced a single currency.

Last December, the European Union invited 10 additional countries to join by 2004, laying the foundation for what could become a 25-nation market of 475 million consumers. Existing EU nations are well-off. The countries joining the enlarged market realize they'll face new competition, but they're eager to open their economies so they can heed the Oracle's wisdom:

Do what you do best.

Trade for the rest.

Like Estonians, Czechs and other potential EU members, Americans have a large stake in a free trade future—internationally, of course, but at home as well. If we open markets, specialization and trade will work their magic for American consumers, just as they have for most of our history.

American consumers will get better goods and services and lower prices. American companies will thrive in the crucible of global competition. Our economy will flourish and innovate.

Trade leads to prosperity. Just look at the past six decades of relatively open trade. Protectionism leads to stagnation and decline. It's a lesson learned decades ago from the Great Depression and more recently from the economic development gap between open West Germany and closed East Germany.

Despite the World Trade Organization, NAFTA and other advances, trade policy continues to be a contest between free trade advocates and protectionist forces, between consumers' broad interest in abundance and producers' narrow interest in scarcity. The producers will win if Main Street Americans don't comprehend their stake in open trade and aren't vigilant against protectionist poison.

Do we harvest the fruits of free trade or suffer the spoils of special interests? It's our choice.

—W. Michael Cox and Richard Alm

