



New Analysis Contests Trade Growth Claims

As new trade agreements are considered before fast track trade promotion authority expires at the end of the month, a range of claims are being made to Congress about the benefits of trade. But one claim touts trade benefits far higher than the rest, and deserves close inspection. Economic Policy Institute economist L. Josh Bivens researched the source of the claim that new trade agreements could add \$500 billion (or \$4,500 per household) to the American economy, and finds the numbers are far too weak to be a basis of discussions about trade policy. His findings are in the report, *Marketing the Gains from Trade*, published today by EPI.

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“This should be a flashing red light to anyone trying to make sense out of the clamor for more trade agreements,” said Bivens. “The U.S. Trade Representative is making claims about the benefits of new trade agreements, both to Congress and the American public, that are far outside the bounds of what most economists think. Those numbers ought to be retired from future discussions of trade policy.”

The original claim that “truly global free trade would enhance the U.S. standard of living by another half trillion dollars a year, another 500 billion [dollars] per year” comes from Scott Bradford, Paul Grieco, and Gary Hufbauer, in a 2005 book published the Peterson Institute for International Economics. Bivens takes a careful look at the calculations and economic theories that are the foundation of this number, and argues it does not survive serious scrutiny.

The main flaw in Bradford, Grieco, and Hufbauer’s claim, according to Bivens, is their assumption that trade barriers exist even when they cannot be identified. The authors assume that essentially all price differences between economies and industries are caused by trade barriers that can be removed, yet they never identify which trade barriers actually cause these price differences. These inferences should not be the basis for policy making, which should rely on more generally accepted conclusions.

Bivens cites studies from the United States International Trade Commission and the World Bank as providing a more informative analysis of what future trade agreements could bring the U.S. economy; somewhere in the range of \$5 billion to 30 billion in additional income.

Bivens ends with a caution that trade debates need to get the numbers right on both the issues of growth and distribution. “Freer trade does indeed help the economy grow, but these net gains come with large gross losses to lots of American workers,” said Bivens. “Compensating these workers has to become a fundamental plank of American economic policy.”

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