Negative: Free Trade Agreement

By “Coach Vance” Trefethen

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Negative: Free Trade Agreement

NEGATIVE PHILOSOPHY / OPENING QUOTES

Free trade can break down. And when it does, it stops being a good idea

Ian Fletcher 2010 (adjunct fellow at the U.S. Business and Industry Council; formerly an economist in private practice serving mainly hedge funds and private equity firms) 10 myths about free trade <http://dailycaller.com/2010/04/14/10-myths-about-free-trade/>

The point is not to baffle the reader, but to pry open the mysterious “black box” of free trade economics a little, and let non-economists in on the big secret that economists regard as dangerous to talk about too loudly: free trade economics is a package of mechanisms that, like any piece of machinery, can and do break down all the time. And when they break down, free trade ceases to be a good idea

The Definition of Insanity is doing the same thing over and over again and expecting different results. FTAs kill jobs every time, so let’s stop passing them.

Sen. Bernie Sanders 2015. (Senator from Vermont; BA in political science from Univ of Chicago.) 29 April 2015 So Called ‘Free Trade’ Policies Hurt US Workers Every Time We Pass Them <http://www.theguardian.com/commentisfree/2015/apr/29/so-called-free-trade-policies-hurt-us-workers-every-time-we-pass-them>

Albert Einstein said that the definition of insanity is doing the same thing over and over again and expecting a different result. As the middle class continues to decline and the gap between the very rich and everyone else grows wider, we should keep that in mind as Congress debates the Trans-Pacific Partnership (TPP), the largest trade agreement in American history. Trade deals like the North American Free Trade Agreement (Nafta), the Central American Free Trade Agreement (Cafta) and the granting of Permanent Normal Trade Relations to China have been abysmal failures: they allowed corporations to shut down operations in the US and move work to low-wage countries where people are forced to work for pennies an hour; and they are one of the reasons that we have lost almost 60,000 factories in our country and millions of good-paying jobs since 2001.

INHERENCY

1. Status Quo already doing free trade

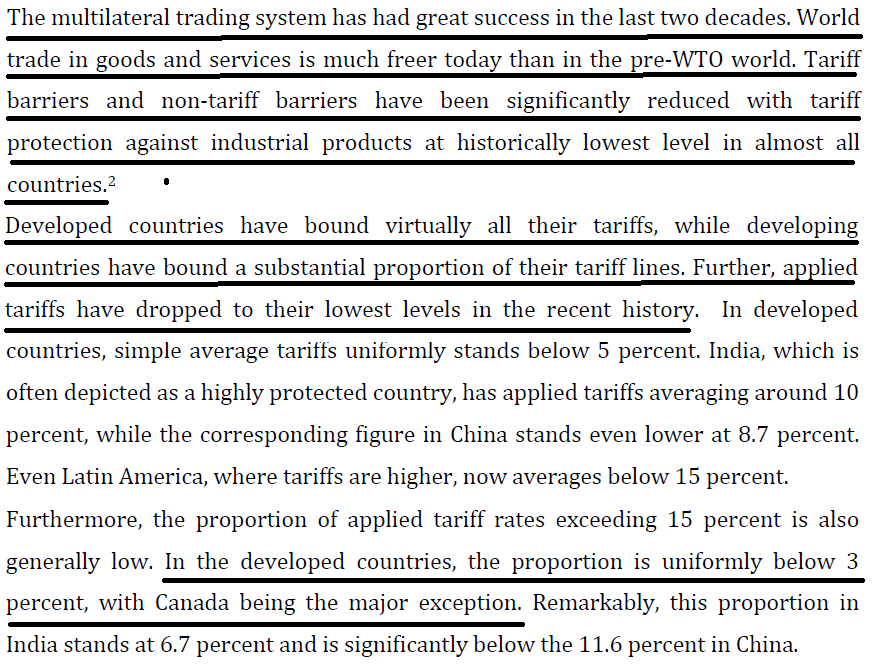
US trade is already mostly “free” anyway – very little remaining trade barriers

Dr. Paul Krugman 2014 (PhD economics; Professor of Economics at the [Graduate Center of the City University of New York](https://en.wikipedia.org/wiki/Graduate_Center,_CUNY); won the 2008 Nobel prize in economics for his work in the study of international trade) 27 Feb 2014 “No Big Deal” NEW YORK TIMES <http://www.nytimes.com/2014/02/28/opinion/krugman-no-big-deal.html?_r=0>

I am in general a free trader, but I’ll be undismayed and even a bit relieved if the T.P.P. just fades away. The first thing you need to know about trade deals in general is that they aren’t what they used to be. The glory days of trade negotiations — the days of deals [like the Kennedy Round of the 1960s](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm), which sharply reduced tariffs around the world — are long behind us. Why? Basically, old-fashioned trade deals are a victim of their own success: there just isn’t much more protectionism to eliminate. [Average U.S. tariff rates have fallen](http://dataweb.usitc.gov/scripts/AVE.PDF) by two-thirds since 1960. [The most recent report](http://www.usitc.gov/publications/332/pub4440.pdf) on American import restraints by the International Trade Commission puts their total cost at less than 0.01 percent of G.D.P.

Global trade is more free than ever. US tariffs are now less than 3%

Dr. Jagdish Bhagwati, Dr. Pravin Krishna and Dr. Arvind Panagariya 2014 (Bhagwati – PhD; prof. of economics at Columbia Univ. Krishna – PhD; Professor of International Economics and Business, Johns Hopkins Univ. Panagariya – PhD; prof. of economics at Columbia Univ.) 3 May 2014 “The World Trade System: Trends and Challenges” <https://www.sais-jhu.edu/sites/default/files/JB-PK-AP-SIPA-SAIS%20Draft.pdf>



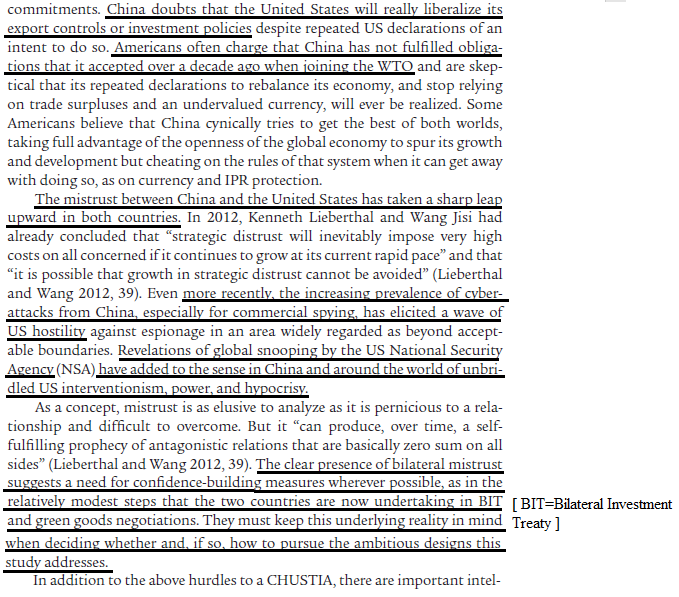
SOLVENCY

1. Mutual mistrust

We can’t expand negotiations into trade until the Bilateral Investment Treaty is done, because there’s too much mutual mistrust

**[Note: keep an eye on the news to verify that a US/China BIT has not already been completed at the time you run this argument.]**

(affirmative plan advocates) C. Fred Bergsten, Gary Clyde Hufbauer, and Sean Miner 2014 (Bergsten - PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept. Hufbauer – former deputy assistant secretary for international trade and investment policy of the US Treasury. Miner - program manager and research associate with the Peterson Institute; MBA from George Washington Univ where he focused on international business and finance) “Toward Free Trade and Investment between China and the United States” Peterson Institute for International Economics (brackets added) <http://www.piie.com/publications/chapters_preview/6918/01iie6918.pdf>

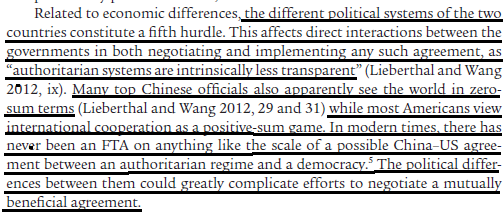


2. Political differences – democracy vs. totalitarianism

The differences in US democracy and China’s totalitarian government will be a big hurdle to doing a US/China agreement

**Writing in context about their proposed US/China TIA, plan advocates Bergsten, Hufbauer and Miner in 2014 admitted:**

(affirmative plan advocates) C. Fred Bergsten, Gary Clyde Hufbauer, and Sean Miner 2014 (Bergsten - PhD from Fletcher School of Law and Diplomacy; former assistant secretary for international affairs at the US Treasury Dept. Hufbauer – former deputy assistant secretary for international trade and investment policy of the US Treasury. Miner - program manager and research associate with the Peterson Institute; MBA from George Washington Univ where he focused on international business and finance) “Toward Free Trade and Investment between China and the United States” Peterson Institute for International Economics <http://www.piie.com/publications/chapters_preview/6918/01iie6918.pdf>



3. No additional benefit beyond BIT

China will not give anything more in a Trade & Investment Agreement than in a BIT

Axel Burger 2013 (researcher at the German Development Institute in Bonn and works in the department for World Economy and Development Financing;master’s degree from Munich’s Ludwig-Maximilians-Universität in political science, economics and modern history) July 2013, Investment Rules in Chinese Preferential Trade and Investment Agreements <https://www.die-gdi.de/uploads/media/DP_7.2013.pdf>

With regard to standards of treatment, Chinese PTIAs also follow Chinese BIT practice, which both includes restricted (subject to customary international law) and unrestricted fair and equitable treatment clauses. Innovative treaty provisions such as performance and transparency requirements and environment chapters are included on a case-by-case basis, indicating that China has no coherent and proactive policy in this respect. Market access has been the most important aspect for New Zealand, Peru and ASEAN in pursuing a PTIA with China. However, with regard to market access, too, China is not willing to grant anything additional compared to its BIT policy.

4. No US nor global economic benefit from increased trade with China

As long as China continues its mercantilist policies, the US & world economies get no benefit from trade with China

Dr Robert D Atkinson 2012. (president of the [Information Technology and Innovation Foundation](https://en.wikipedia.org/wiki/Information_Technology_and_Innovation_Foundation), a public policy [think tank](https://en.wikipedia.org/wiki/Think_tank) that promotes policies based on [innovation economics](https://en.wikipedia.org/wiki/Innovation_economics). He was vice president of the [Progressive Policy Institute](https://en.wikipedia.org/wiki/Progressive_Policy_Institute). He has a PhD in City and Regional Planning) February 2012 Enough is Enough: Confronting Chinese Innovation Mercantilism <http://www2.itif.org/2012-enough-enough-chinese-mercantilism.pdf>

Perhaps the most pernicious concept limiting tougher action against Chinese innovation mercantilism is the notion that as long as the United States is not mercantilist it still benefits from its trading relationship with China. William Buiter, Cambridge University economist and former head of the European Bank for Reconstruction and Development, summed up this view when he stated, “Remember: unilateral trade liberalization is not a ‘concession’ or a ‘sacrifice’ that one should be compensated for. It is an act of enlightened self-interest. Reciprocal trade liberalization enhances the gains, but is not necessary for the gains to be present.” In a similar vein, when asked at a recent salon dinner whether Chinese mercantilist policies hurt the U.S. economy, a Congressional Subcommittee Chairman responded, “Remember, Adam Smith proved that mercantilists only hurt themselves.” Some even go so far as to state that by running a large trade surplus, China helps America by shipping capital back that finances American financial deficits. For example, neoclassical economists Fehr, Jokisch and Kotlikoff argue that China, in saving so much (by running large trade surpluses), helps the United States by providing cheap capital. These views are irrelevant at best and wrong at worst. They are irrelevant in the sense that even the most neoclassical of neoclassical economists should admit that mercantilism harms economic efficiency. After all they are the first to decry such policies whenever they are proposed in the United States. Do they really think that China helps the global economy by not paying for intellectual property? By developing conflicting product standards so that global products must be made to two standards? By propping up less efficient companies that absent subsidies would have less global market share while more efficient global players reaped more? By forcing foreign companies to make investments where they do not want to (e.g., by forced JVs and tech-transfer requirements)? They are wrong in the sense that the right question is not whether U.S.–China trade has hurt the U.S. economy—reasonable people can have different views of this issue. Although recent work by MIT economist David Autor has found that the last 15 years roughly one million U.S. workers lost jobs due to competition from China—about a quarter of all U.S. job losses in manufacturing during the time period. Nor is it helpful to ask whether ending Chinese economic mercantilism would fix all or even most of America’s economic problems. Of course it wouldn’t. But the right question is whether reduced Chinese mercantilism would have non-trivial beneficial impacts on the U.S. economy. And on this question only the most zealous neoclassical ideologues or “Friends of China” would assert that it would not. Clearly Chinese mercantilist policies hurt U.S. companies, both here and in China. And while much of Chinese mercantilism lowers Chinese allocation efficiency, the fact that it hurts U.S. companies means that it hurts both China and America.

Negative net benefits: Free trade = more harm than good for the US economy until China abandons mercantilism

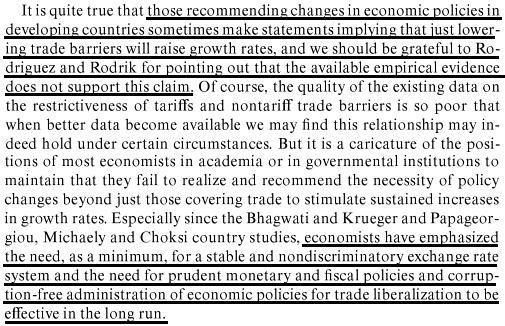
Dr Robert D Atkinson 2012. (president of the [Information Technology and Innovation Foundation](https://en.wikipedia.org/wiki/Information_Technology_and_Innovation_Foundation), a public policy [think tank](https://en.wikipedia.org/wiki/Think_tank); formerly vice president of the [Progressive Policy Institute](https://en.wikipedia.org/wiki/Progressive_Policy_Institute); PhD in City and Regional Planning) February 2012 Enough is Enough: Confronting Chinese Innovation Mercantilism <http://www2.itif.org/2012-enough-enough-chinese-mercantilism.pdf>

Free traders are right that it is in the economic interests of the United States for China to be an integral part of the global trading system. But they are wrong in thinking that these benefits can accrue if China’s policies undermine that trading system and China continues its strategy of absolute advantage implemented through mercantilist policies. Until China renounces its mercantilist strategy and the policies supporting it, the U.S. economy, particularly its industrial and technology base, will be hurt, more than helped, by trade with China.

5. Other policies and growth factors needed besides trade liberalization

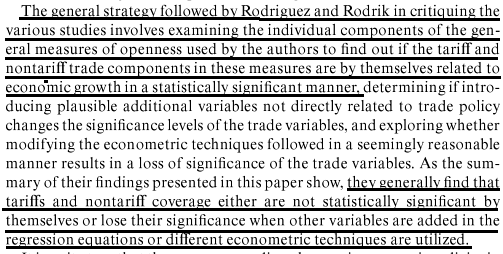
Trade liberalization alone doesn’t produce economic growth: Other economic policies are needed

Prof. Robert E. Baldwin 2004 (professor emeritus of economics at Univ. of Wisconsin and research associate of the National Bureau of Economic Research) Challenges to Globalization: Analyzing the Economics <https://books.google.fr/books?id=Bc35EC5BFZYC&pg=PA517&lpg=PA517&dq=other+policy+changes+aimed+at+eliminating+large+government+deficits,+curtailing+monetary+policy&source=bl&ots=AXaT80e-mx&sig=LfWdZSQabiTu6Wh8zI_pptxlZXU&hl=en&sa=X&ved=0CCIQ6AEwAGoVChMImqiRj_W3yAIVytsaCh3vVAuH#v=onepage&q&f=false>



Tariffs and non-tariff trade restrictions aren’t significant factors for economic growth – other factors are more important

Prof. Robert E. Baldwin 2004 (professor emeritus of economics at Univ. of Wisconsin and research associate of the National Bureau of Economic Research) Challenges to Globalization: Analyzing the Economics <https://books.google.fr/books?id=Bc35EC5BFZYC&pg=PA517&lpg=PA517&dq=other+policy+changes+aimed+at+eliminating+large+government+deficits,+curtailing+monetary+policy&source=bl&ots=AXaT80e-mx&sig=LfWdZSQabiTu6Wh8zI_pptxlZXU&hl=en&sa=X&ved=0CCIQ6AEwAGoVChMImqiRj_W3yAIVytsaCh3vVAuH#v=onepage&q&f=false>



Trade liberalization advocates are making a lot of assumptions about the economy that aren’t actually true in the real world

Dr. Frank Ackerman & Dr. Kevin P. Gallagher 2008 (Ackerman – PhD economics; Director of the Research and Policy Program at the Global Development and Environment Institute, Tufts Univ. Gallagher – PhD; Professor of Global Development Policy at Boston Univ.) The Shrinking Gains from Global Trade Liberalization in Computable General Equilibrium Models International Journal of Political Economy, vol. 37, no. 1, Spring 2008, pp. 50–77. (brackets added) <https://www.google.fr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CCIQFjAAahUKEwjwqoqThbjIAhWJuhoKHcpnABQ&url=http%3A%2F%2Fase.tufts.edu%2Fgdae%2FPubs%2Frp%2FIJPEShrinkingGains.pdf&usg=AFQjCNE7WyO7Qi3zE0yHJ2vysXQJtG2q-w&sig2=nPaVtUW7Qn0z59qS5zY92Q&bvm=bv.104819420,d.d2s>

This issue is highlighted in a literature review by Joseph Stiglitz and Ed Charlton, who write that the standard analysis of the benefits of trade liberalization “is predicated on a set of assumptions that is not satisfied in most developing countries: full employment, perfect competition, and perfect capital and risk markets” (2004: 7).They list a series of problems with CGE models, including the failure to account for the presence of persistent unemployment in developing countries and the failure to incorporate costs of transition, implementation, and adjustment to policy changes—costs that are likely to be larger in developing countries.

6. No proven link between trade liberalization and economic growth

No evidence that countries that trade freely grow faster

Dr. Nicole Hassoun 2011 (PhD philosopy; Assistant Professor, Department of Philosophy, Carnegie Mellon University) Free Trade, Poverty, and Inequality (brackets added) <http://repository.cmu.edu/cgi/viewcontent.cgi?article=1354&context=philosophy>

Next, consider the [World] Bank’s argument for the conclusion that free trade is reducing poverty because it has increased growth rates without increasing inequality in recent decades. Or, as they put it, “the combination of rapid growth with no systematic change in inequality has dramatically reduced absolute poverty in the globalizing countries”. The first problem with this argument is that it does little to show that countries that trade freely grow more than those that do not. Consider the Bank’s evidence for a link between free trade and growth. The Bank only establishes a correlation between population weighted trade to GDP ratios and real GDP per capita in developing countries but, even setting aside the distinction between liberalization and free trade, this is not enough to show that free trade increases growth**.**

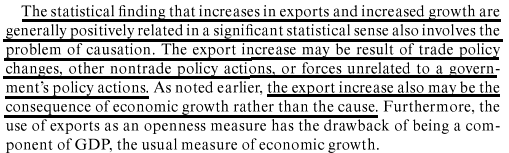
Trade liberalization follows growth, it isn’t the cause. Examples: China and India grew first, then opened their markets later

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Including countries like China and India, which have low trade/GDP ratios, in the group of globalized countries virtually “guarantees that the globalizers, weighted by population, show better performance than the nonglobalizers.” It is not clear why the IFIs [International Financial Institutions] would consider trade to GDP [Gross Domestic Product] ratios a good measure of free trade. They are probably just confusing free trade with liberalization although some have accused the Bank of trying to confuse others. This is worrisome because the kinds of policies pursued by countries like China in achieving growth were a-liberal. China and India began to open up their markets only after their growth rates increased. The World Bank may have the causality backwards.

Correlation doesn’t prove cause: Increased growth after trade liberalization doesn’t prove trade policy caused the growth

Prof. Robert E. Baldwin 2004 (professor emeritus of economics at Univ. of Wisconsin and research associate of the National Bureau of Economic Research) Challenges to Globalization: Analyzing the Economics <https://books.google.fr/books?id=Bc35EC5BFZYC&pg=PA517&lpg=PA517&dq=other+policy+changes+aimed+at+eliminating+large+government+deficits,+curtailing+monetary+policy&source=bl&ots=AXaT80e-mx&sig=LfWdZSQabiTu6Wh8zI_pptxlZXU&hl=en&sa=X&ved=0CCIQ6AEwAGoVChMImqiRj_W3yAIVytsaCh3vVAuH#v=onepage&q&f=false>



No specific correlation between trade openness and economic success

Prof. Richard B. Freeman 2003. (prof. of economics, Harvard Univ.;  Senior Research Fellow in Labour Markets at the London School of Economics' [Centre for Economic Performance](http://cep.lse.ac.uk/)) Trade Wars: The Exaggerated Impact of Trade in Economic Debate, World Economy Annual Lecture, 26 June 2003, revisions Sept 2003 <http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.198.1253>

In any case, my reading of country cases is that they do not line up on one side or the other of the trade wars. Granted that Hong Kong succeeded with openness policies; that Singapore did as well, although under much greater government control; that Korea grew through increased exports, though again with considerable government control and a national industrial policy, and that Taiwan benefited from openness. But South Africa did just about everything the World Bank wanted it to do as part of its GEAR (Growth, Employment, and Redistribution) program and failed to deliver either growth, employment or redistribution.

Estimated benefits of trade liberalization are surprisingly small

Dr. Frank Ackerman & Dr. Kevin P. Gallagher 2008 (Ackerman – PhD economics; Director of the Research and Policy Program at the Global Development and Environment Institute, Tufts Univ. Gallagher – PhD; Professor of Global Development Policy at Boston Univ.) The Shrinking Gains from Global Trade Liberalization in Computable General Equilibrium Models International Journal of Political Economy, vol. 37, no. 1, Spring 2008, pp. 50–77. (brackets added) <https://www.google.fr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CCIQFjAAahUKEwjwqoqThbjIAhWJuhoKHcpnABQ&url=http%3A%2F%2Fase.tufts.edu%2Fgdae%2FPubs%2Frp%2FIJPEShrinkingGains.pdf&usg=AFQjCNE7WyO7Qi3zE0yHJ2vysXQJtG2q-w&sig2=nPaVtUW7Qn0z59qS5zY92Q&bvm=bv.104819420,d.d2s>

First, although the results of global trade modeling are often touted as evidence of large gains available from further trade liberalization, the most widely discussed CGE [computable general equilibrium ] models now make surprisingly small estimates of the benefits of liberalization of merchandise trade. The estimates are especially small for developing countries, particularly under realistic assumptions about the likely extent of future trade liberalization. As a consequence, the estimated potential for free trade to reduce global poverty is also quite limited.

7. Not solving for VAT (Value Added Tax)

Link: USA has no VAT, but other countries do, and it affects export/import trade

Alan Tonelson 2015 (Research Fellow at the [U.S. Business and Industry Council](https://en.wikipedia.org/wiki/U.S._Business_and_Industry_Council) Educational Foundation) 31 Mar 2015 “Opinion: Pacific trade deal won’t close massive tax loophole that kills American jobs“ <http://www.marketwatch.com/story/pacific-trade-deal-wont-close-massive-tax-loophole-that-kills-american-jobs-2015-03-31>

But even if currency manipulation is truly banned, TPP signatories have been using another major protectionist device to disadvantage the United States that most critics so far have overlooked: value-added taxes (VATs). VATs function not only as hidden barriers to imports, but as hidden subsidies for exports. VATs represent taxes on all goods and services consumed in VAT countries, whether produced domestically or abroad. But producers in those VAT countries typically receive a rebate for all of their domestic production that they sell overseas. The United States is one of the few major economies with no such levy, and given the complexities of tax-reform politics, it’s likely to remain VAT-less for the foreseeable future. But 10 of the other current TPP countries do maintain VATs (the exception is tiny Brunei) and of these, seven subject imports to the equivalent of double-digit tariffs, and hand their exporters comparable subsidies.

Link: China has VAT

Alan Tonelson 2015 (Research Fellow at the [U.S. Business and Industry Council](https://en.wikipedia.org/wiki/U.S._Business_and_Industry_Council) Educational Foundation) 31 Mar 2015 “Opinion: Pacific trade deal won’t close massive tax loophole that kills American jobs“ <http://www.marketwatch.com/story/pacific-trade-deal-wont-close-massive-tax-loophole-that-kills-american-jobs-2015-03-31>

Japan, the biggest TPP economy after America’s by far, raised its version of a VAT (called a consumption tax) in November from 5% to 8%, and scheduled a rise to 10% in October. Peru, by contrast, has announced it will lower its VAT next year — but only to 14%. Moreover, most of the countries likely to join a new TPP later use VATs as well — like Korea, another American trade partner with a 10% VAT; Taiwan, with a 5% levy; and China, which operates an unusually complex VAT system but whose main rate is 17% — along with consumption taxes ranging from 5% to 10%.

Impact: VAT cancels out any benefits of trade deals – the effects are massive and harmful

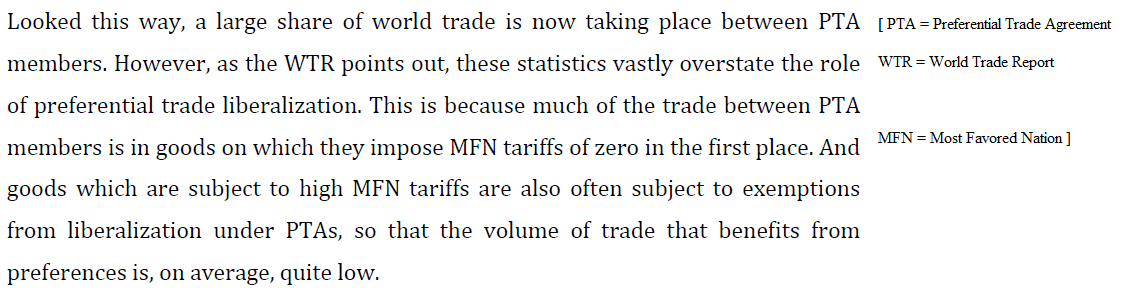
Alan Tonelson 2015 (Research Fellow at the [U.S. Business and Industry Council](https://en.wikipedia.org/wiki/U.S._Business_and_Industry_Council) Educational Foundation) 31 Mar 2015 “Opinion: Pacific trade deal won’t close massive tax loophole that kills American jobs“ <http://www.marketwatch.com/story/pacific-trade-deal-wont-close-massive-tax-loophole-that-kills-american-jobs-2015-03-31>

The VAT-less United States keeps signing trade deals with active VAT users and accepting the resulting inequities because world trade law defines these levies as domestic taxes that sovereign governments are fully entitled to impose. Moreover, the multinational companies that have dominated recent U.S. trade policy making are fine with VATs, since their foreign factories benefit too. Yet their effects on trade and the domestic American economy have been massive and harmful. The Washington, D.C. law firm of Stewart and Stewart, which specializes in trade law, estimates that the VAT gap globally inflicted $440 billion worth of damage on American producers exposed to foreign competition in 2013. The total equaled nearly two-thirds of that year’s U.S. merchandise trade deficit.

8. Trade agreements don’t change very much

Very little trade actually changes: Either the tariff was zero already, or the tariffs continue under an exemption to the agreement

Dr. Jagdish Bhagwati, Dr. Pravin Krishna and Dr. Arvind Panagariya 2014 (Bhagwati – PhD; prof. of economics at Columbia Univ. Krishna – PhD; Professor of International Economics and Business, Johns Hopkins Univ. Panagariya – PhD; prof. of economics at Columbia Univ.) 3 May 2014 “The World Trade System: Trends and Challenges” <https://www.sais-jhu.edu/sites/default/files/JB-PK-AP-SIPA-SAIS%20Draft.pdf> (brackets added)



9. Capital mobility

If investment capital could not move, then free trade would benefit our economy. But since it can move, the benefits can go elsewhere. The world economy benefits, but not us.

Ian Fletcher 2010 (adjunct fellow at the U.S. Business and Industry Council; formerly an economist in private practice serving mainly hedge funds and private equity firms) Six Reasons for U.S. to Abandon Free-Trade Myth 26 Oct 2010 <http://www.bloomberg.com/news/articles/2010-10-26/six-reasons-for-u-s-to-drop-free-trade-myth-commentary-by-ian-fletcher>

The fourth dubious assumption is that capital isn’t internationally mobile. If it can’t move between nations, then free trade will (if the other assumptions hold true) steer it to the most-productive use in our own economy. But if capital can move between nations, then free trade may reveal that it can be used better somewhere else. This will benefit the nation that the money migrates to, and the world economy as a whole, but it won’t always benefit us.

DISADVANTAGES

1. Unsustainability

Free trade leads to short-term behaviors that are not sustainable, and reduce long-term living standards

Ian Fletcher 2010 (adjunct fellow at the U.S. Business and Industry Council; formerly an economist in private practice serving mainly hedge funds and private equity firms)14 Apr 2010 10 myths about free trade <http://dailycaller.com/2010/04/14/10-myths-about-free-trade/>

Free trade has roughly ten very serious problems. The first problem is the assumption that trade is sustainable. But a nation exporting non-renewable resources may discover that its best move (in the short run) is to export until it runs out. The flip side of this problem is overconsumption, in which a nation (like the present-day U.S., maybe?) borrows from abroad in order to finance a short-term binge of imports that lowers its long-term living standard due to the accumulation of foreign debt and the sale of assets to foreigners.

2. Increased inequality

Link: Free trade increases inequality by raising the value of capital over labor

Ian Fletcher 2010 (adjunct fellow at the U.S. Business and Industry Council; formerly an economist in private practice serving mainly hedge funds and private equity firms) 14 Apr 2010 10 myths about free trade <http://dailycaller.com/2010/04/14/10-myths-about-free-trade/>

The second problem is that free trade increases inequality even if it makes the economy grow overall (which is itself questionable). Because free trade tends to raise returns to the abundant input to production (in America, capital) and lower returns to the scarce input (in America, labor), it tends to benefit capital at labor’s expense.

Impact: Inequality fuels credit bubbles that crash the economy

Frederick E. Allen 2012. (journalist) Oct 2012 FORBES magazine “How Income Inequality Is Damaging the U.S.“ <http://www.forbes.com/sites/frederickallen/2012/10/02/how-income-inequality-is-damaging-the-u-s/> (ellipses in original; brackets added)

The Congressional Budget Office recently reported that between 1979 and 2007 the top 1% of households doubled their share of pretax income while the share of the bottom 80% fell. Then came the great recession. Economists including David Moss of the Harvard Business School noticed that “the last time inequality rose to its current heights was in the late 1920s, just before a financial meltdown. . . . In 2010, Moss plotted inequality and bank failures since 1864 on the same graph; he found an eerily close fit.” But does that imply a cause-and-effect relationship? It looks that way, [journalist Jonathan] Rauch writes. Economists have been tracing the following chain of causality. Those who make the least consume the most of their income; those who make the most tend to save a great deal, and for that reason, according to the economist Christopher Brown, at Arkansas State, “income inequality can exert a significant drag on effective demand.” Rauch writes that  
*In a democracy, politicians and the public are unlikely to accept depressed spending power if they can help it. They can try to compensate by easing credit standards, effectively encouraging the non-rich to sustain purchasing power by borrowing. They might, for example, create policies allowing banks to write flimsy home mortgages and encouraging consumers to seek them. Call this the “let them eat credit” strategy.*Then “the economy, propped up on shaky credit, becomes more vulnerable to shocks. When a recession comes, the economy takes a double hit as banks fail and credit-fueled consumer spending collapses.”

3. Enables mercantilism

Link: What is mercantilism? Government intervention to help its domestic industries and damage foreign competitors

Stephen Ezell 2013. (Senior Analyst, Information Technology and Innovation Foundation) 24 July 2013 China’s Economic Mercantilism <http://www.industryweek.com/public-policy/chinas-economic-mercantilism> (brackets added)

But by 2006, that began to change, as China made the strategic decision to shift away from attracting the commodity-based production facilities of foreign MNCs [multi-national corporations] toward a “China Inc.” development model focused on helping Chinese firms, often at the expense of foreign firms. The path to prosperity and autonomy now became “indigenous innovation” (in Chinese, zizhu chuagnxin), with a focus on helping Chinese firms move up the value-chain to higher-value-added production activities. To get there, China has embraced economic mercantilism on an unprecedented scale, using a wide array of policies to assist Chinese firms while discriminating against foreign establishments attempting to compete in China.

Link: Free trade enables other countries to practice mercantilist policies against us

Ian Fletcher 2010 (adjunct fellow at the U.S. Business and Industry Council; formerly an economist in private practice serving mainly hedge funds and private equity firms) Six Reasons for U.S. to Abandon Free-Trade Myth 26 Oct 2010 <http://www.bloomberg.com/news/articles/2010-10-26/six-reasons-for-u-s-to-drop-free-trade-myth-commentary-by-ian-fletcher>

The fifth dubious assumption is that free trade won’t turn benign trading partners into dangerous trading rivals. But free trade often does do this, as we see today in China, whose growth is massively dependent upon exports. This is especially likely when trading partners practice mercantilism, the 400-year-old strategy of deliberately gaming the world trading system by methods like currency manipulation and hidden tariffs.

Impact 1: Democracy declines and Chinese totalitarianism takes over

Dr. Howard Richman, Prof. Raymond Richman & Prof. Jesse Richman 2010. (Howard Richman - PhD from Univ of Pittsburgh. Raymond Richman- professor emeritus of public and international affairs at Univ of Pittsburgh. Jesse Richman – PhD; associate professor of political science at Old Dominion Univ) 10 Dec 2010 Bernanke to China: Stop Hurting Us or You'll Hurt Us <http://www.americanthinker.com/articles/2010/12/bernanke_to_china_stop_hurting.html>

If we don't act against mercantilism, the future is predictable: America will decline as an economic and political power.  Eventually, China will replace the United States as the dominant power on the world stage, and totalitarianism will likely replace democracy as the world's dominant political philosophy.  All because our leaders wouldn't balance budgets and trade.

Impact 2: Mercantilism will kill US jobs and economic growth

Dr Robert D Atkinson 2012. (president of the [Information Technology and Innovation Foundation](https://en.wikipedia.org/wiki/Information_Technology_and_Innovation_Foundation), a public policy [think tank](https://en.wikipedia.org/wiki/Think_tank); formerly vice president of the [Progressive Policy Institute](https://en.wikipedia.org/wiki/Progressive_Policy_Institute); PhD in City and Regional Planning) February 2012 Enough is Enough: Confronting Chinese Innovation Mercantilism <http://www2.itif.org/2012-enough-enough-chinese-mercantilism.pdf>

Further integration of global supply chains that link the United States and China could be good for both nations but not if Chinese policies continue to be based on absolute advantage and mercantilism. In this case, the results will be more of the same: the loss of U.S. industrial and high-tech output, and the jobs and GDP growth that go with it.

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