

The Southwest ECONOMY

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Candace, Ryan and Free Trade

*A Commentary from
Dallas Fed President
Robert D. McTeer, Jr.*

*"NAFTA is for my
grandson, Ryan, for
his sister, Candace....
In deciding about NAFTA,
we will be choosing the
kind of future we want
for our children and
grandchildren."*

We devote this issue of *The Southwest Economy* to the North American Free Trade Agreement—not only because NAFTA benefits the Southwest but because it benefits our entire country, as well as our friends in Mexico and Canada. International trade and investment are not like war or football. Both sides win, or, in the case of NAFTA, three sides win.

I am firmly convinced that, based on economic theory and history, free trade makes all participating countries economically stronger and healthier. At the Federal Reserve Bank of Dallas, we have devoted substantial research efforts to the issue of free trade precisely because of the positive impact it will have on our economy. The central bank's top priority is to protect the purchasing power of the nation's money. Through price stability, the Fed also endeavors to promote the maximum sustainable growth in the U.S. standard of living. By opening new markets to our goods and services and by making the United States more competitive, freer trade will be the catalyst for increased investment, saving and productivity, resulting in a healthier economy.

NAFTA is not a partisan political issue. The pact was negotiated by Republicans; its side agreements, by Democrats. It is endorsed by all

living past presidents and most state governors of both parties, as well as the current administration. NAFTA represents the best of postwar bipartisan economic policy. Along with other world events, continued liberalization of trade offers great hope for world prosperity.

NAFTA is important not only because it offers direct benefits to the economy but because it moves us forward, not backward. The collapse of the Soviet bloc demonstrates clearly the consequences of withdrawing from the global marketplace. And our own nation's history reveals the negative consequences of protectionism, as well as the benefits of open trade.

The future growth of our economy increasingly will depend on international trade in goods and services. Passage of NAFTA, followed by completion of the Uruguay Round of the GATT (General Agreement on Tariffs and Trade) negotiations and extension of freer trade into Latin America, holds a wealth of promise for the United States. Removing barriers to trade and investment will create new jobs, enhance global competitiveness, and provide a model for more open trade around the world.

Free trade benefits all consumers in all countries by making more goods available at lower prices.



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—Robert D. McTeer, Jr.
President and
Chief Executive Officer

Consumer advocacy groups should have free trade as a top priority, along with price stability. But the decision on NAFTA will turn on the question of jobs. Specifically, will NAFTA cause a loss of U.S. jobs to Mexico? The answer is that, even in the short run, more jobs will be gained than lost. Over the long run, the total number of jobs in each country will remain unchanged, but the composition of jobs will change as each country concentrates more on its strengths. The United States will see growth in the industries in which it is most competitive, those employing high technology and utilizing a skilled labor force.

If international trade is a bad idea, so is interstate trade. International trade simply extends the benefits of free enterprise beyond national borders. By allowing the market system to operate among countries, free trade enhances the division of labor between the United States and other countries, fostering more efficient use of our resources, the most valuable of which are our workers. Unimpeded by artificial restraints, the United States can do more of what it does best and take advantage of trade with Mexico, Canada and other nations to meet the rest of our needs.

The simple truth is that we cannot have the better jobs in export industries without giving up jobs in declining industries. Thus, the role of public policy should be to assist and enhance this movement of jobs to new industries—through a commitment to free trade and the implementation of programs such as worker retraining to provide new opportunities for those who have been displaced. The enhanced prosperity resulting from freer trade will provide jobs beyond those created in export industries.

The concern over whether highly paid U.S. workers can compete with low-paid Mexican workers is surprising to me because it is clear that they already do so very successfully. The reductions in Mexican tariffs in the past few years have

turned our trade deficit with Mexico into a surplus. Further reductions will generate even more U.S. exports and jobs. In fact, when the higher productivity of our workers is taken into account, the unit labor costs of our two countries are comparable. This means that other factors, such as financing costs, communications and transportation, will drive business decisions about where to locate production.

Two years ago, I vacationed in Cancún. Every day we watched the construction of a condominium project next door. On the job site were many workers using picks, shovels and wheelbarrows but no heavy equipment of the type that would dominate a comparable U.S. job site. Mexican fears of productive U.S. labor are probably as exaggerated as our fears of cheap Mexican labor. Let's benefit from both.

NAFTA is not so much about current jobs as it is about future jobs. If we embrace more open trade, we will emerge as a more productive, competitive society. If, on the other hand, we reject NAFTA and risk rising trade barriers, we will try—probably in vain—to hold onto existing jobs at the cost of forgoing better jobs in the future.

Two weeks ago, my second grandchild, Ryan Doyal McTeer, was born. NAFTA is for my grandson, for his sister, Candace, and for all their future friends in Mexico and Canada. In deciding about NAFTA, we will be choosing the kind of future we want for our children and grandchildren. They aren't afraid of the future. We shouldn't be either.