The Homework That the United States Does Not Do

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Opposition to the Trans-Pacific Partnership (TPP) has been empowered by frustration with expanded economic inequality in the United States. For example, TPP opponents in the U.S. Congress argue that the TPP will deprive U.S. workers of jobs and hence further expand income inequality.

Indeed, economic inequality has expanded and reached an alarming level in the United States. However, the expansion of inequality is not because of free trade or globalization per se, but because policymakers have failed to adapt America's safety net of social security, and its education system.

What policies are needed for the United States to enjoy the benefits of globalization while minimizing the negative effects, such as the expansion of income inequality? I call such policies the "homework" of the United States.

The economics textbook shows the theorem that free trade creates winners and losers, but as an aggregate the gains from free trade exceed the losses, and hence the losers' losses can be compensated with the winners' gains. For the political economy of international trade, this theorem is even more important than David Ricardo's comparative advantage model that proves that free trade benefits every state.

In other words, to enjoy the benefit of free trade brought by globalization, the United States needs to do the "homework" of building the institution to compensate losers' losses with winners' gains. The point here is that the severe income inequality in the United States will not be solved by not participating in the TPP. That would be just like saying you can handle difficult homework by not going to school.

Have free trade agreements like the TPP contributed to economic inequality? No, the current unprecedented inequality has been brought out by ineffective economic and social welfare policies, including tax reduction for the affluent, the absence of a national health care system, and poor public education policy, which are rooted in the increasingly divisive tendency of American domestic politics, especially in the U.S. Congress.

During the second debate between the presidential candidates in the 2012 election, President Obama argued for the importance of education reforms, stating that the United States would need skilled labor to compete with developing countries in the global economy. If the productivity of better-paid U.S. workers is the same as that of less-paid developing countries' workers, U.S. workers will face downward pressure on their wages. Obama argued that the only sweeping solution to this problem is education reform to make U.S. workers more competitive.

The current average wage of U.S. workers is lower than forty years ago, as U.S. workers have faced competition with workers in developing countries. Losing competition with foreign labor is inevitable if wage increases do not accompany productivity increases. The absence of the TPP will not make U.S. workers more competitive. Rather, turning back on free trade will make American producers less competitive, lower the quality of American products, and raise prices of the products distributed in the United States, which will result in harming the unskilled workers who already suffer from low wages.

Economic theory assumes that labor can move between different jobs with no cost. What this theory implies is that policies that lower the cost for labor to move from a declining industry to a growing industry would be important to promote free trade. In fact, a growing body of empirical research shows that severe barriers to mobility have created long-term losses to workers hit by imports.

Thus, for example, social welfare policies such as improving unemployment insurance and maintaining a job training system would promote free trade. The cost to move from one sector to another would be high if a worker loses basic health insurance coverage when unemployed while changing jobs. Therefore, a national health care system would also help to promote free trade.

In sum, the absence of the TPP would not build the needed safety net system, nor make U.S. workers more competitive, let alone solve the problem of income equality. Rather, U.S. producers would lose the growing market of the Asia-Pacific region that would have opened with the TPP, U.S. manufacturers would further lose

competitiveness, U.S. economic growth would be constrained, and most importantly it would be more difficult to establish the safety net because of governmental revenue shortage. Hence, economic inequality might be even further expanded.

It is wrong to mix up opposition to the TPP and the problem of economic inequality. This mix-up will not solve the problem of inequality. In his speech in the U.S. Congress, Japanese Prime Minister Shinzo Abe said: "Let us bring the TPP to a successful conclusion through our joint leadership." Although he drew applause from the audience, he has to worry not only about opposition in Japan but also about the United States' possible failure to do its homework. ■

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