

Free Trade: A Policy Reformation

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Economists agree that free trade is the optimal path for nations across the globe—a country’s involvement in international trade will lead to growth in the economy and create technological advancements. Even if one country has an absolute advantage over other countries, all participating nations will still benefit from trade. Due to this, it is safe to say that free trade is the most profitable strategy that any country can adopt. However, it is not without fault. Although free trade increases the aggregate economic welfare of the world, it hurts certain domestic industries. The Ricardo-Viner theory suggests that factors of production are tied specifically to their industries. Due to the limited mobility of factors, workers’ interests are linked with the industry in which they work.

Workers who work in importing sectors will be hurt from free trade¹. The current unemployment benefits average at about \$474 per week for 24 weeks², not nearly enough to support an individual to develop a new skill. Import accounts for one-quarter drop in the manufacturing industry in the U.S. The automobile industry is one of the biggest import-heavy industries in the United States³. In order to protect their own economic interests, workers in the automobile industry will support protectionism, which decreases the efficiency of the economy. Free trade causes higher unemployment rates in the automobile industry in the United States. The government should provide more funds for Trade Adjustment Assistance by imposing taxes on corporations that benefit from international trade.

¹ Autor DH, Dorn D, Hanson GH 2013

² Unemployment Benefits by State, World Population Review

³ Daniel Workman 2021

The Solution to Our Problem

Instead of shifting our focus to the debate, we should find a solution that would be beneficial to both laborers and foreign corporations in the manufacturing industry. The government needs to first implement a progressive tax system with a higher tax rate for businesses that profit from free trade. By imposing higher taxes on domestic corporations that gain profits from free trade, the government can provide more funds to develop Trade Adjustment Assistance programs.

The TAA is a “federal program of the United States government to act as a way to reduce the damaging impact of imports felt by certain sectors of the U.S. economy”⁴. It provides opportunities and resources to trade-affected workers in order to acquire skills and credentials to be reemployed in other sectors. There are several advantages to expanding TAA programs. The most significant benefit is that TAA helps with reemployment significantly. These programs run longer than the typical duration of unemployment benefits in the United States, allowing participants to develop the skills necessary to work in other fields and effectively transition back into the workforce in other industries. From the statistics of the U.S. Department of Labor, nearly 79% of training exiters completed training, and roughly 72% of those who were trained obtained a certification, with the total program time being around 443 days.

Another benefit is that those who leave the program have a high wage replacement. According to the U.S. Department of Labor, even in 2021, the pandemic year, more than two-thirds of TAA participants were able to find work in the second quarter after finishing the program. The wage replacement rate⁵ in the second quarter following leaving has stayed at five-year highs at more than 80%, with those under 30 earning over 100% of the average wage.

⁴ Definition quoted from US Department of Labor

⁵ All statistics from US Department of Labor

Implementing such a program on a larger scale would not only decrease the number of unemployed citizens in the United States, but also increase wage replacement.

However, this proposal has some drawbacks as well. The progressive tax system imposes a greater tax rate on corporations and individuals with higher earnings; therefore, these groups may have lower support for this policy. There are fewer incentives for households to earn more money and move into the next bracket as the tax burden might become much higher as the income bracket increases. In addition, the progressive tax system is expensive to implement for the government. The advanced tax system of the United States is estimated to cost the government \$20 billion a year⁶, which could be utilized to aid the unemployed. TAA programs also require longer effort. To apply for TAA benefits, workers must file a petition simultaneously with the department and the governor of the firm's state. There is an investigation followed by the petition to determine if the workers are eligible for TAA services and benefits and a year of training if the workers are eligible for TAA, which could cost more to the government.

Although these problems remain to be solved, it is clear that the overall benefits of TAA will override the negatives. In a country of the free, it is only natural for the government to work for the benefit of the people. Rawl's theory of justice as fairness "describes a society of free citizens holding equal basic rights and cooperating within an egalitarian economic system"⁷. He proposes the idea that everyone would advocate for the rights of the least advantaged if hidden underneath a 'veil of ignorance'; this is what Rawls believes justice to be, and it is a guideline that we can follow today. In our society, the least advantaged would be the least wealthy. Acting in accordance with Rawl's theory, we need to offer support in order to bridge the gap between social classes.

⁶ Louise Gaille 2018

⁷ Leif Wenar 2021

Can It Be Done?

Politically feasible tax reform is defined as an adjustment to the tax system that makes a majority of the population better off⁸. Therefore, theoretically, tax reform is politically feasible if it benefits those with a median income. The tax reform aims to tax corporations that gain from free trade more heavily, which increases the marginal tax rate for above-median incomes and lowers the marginal tax rates for people with low and median incomes. Furthermore, because the government provides compensation to those who lose their jobs as a result of trade, trade barriers will be lowered, which will benefit consumers as well. Thus, a majority of the U.S. voters will be the beneficiary of the tax reform and will favor this policy. Additionally, since the tax revenue will be utilized in TAA programs, helping to improve welfare for unemployed workers, the political feasibility should be acceptable; it will help the government establish its credibility and reputation, as people will be able to understand the idea of equity behind the policy.

In terms of international politics, other countries and the WTO will also support the proposal. The United States has been pressuring nations to liberalize trade through international institutions while retaining its protectionist policy. While the U.S. has driven the trade rules in the global market, multilateral rules from international institutions constrain U.S. action in the past. The policy will enable the United States to reduce restrictions on import competition, which will lead to fewer disputes with other nations and international organizations.

⁸ Definition from Bierbrauer

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