VIEWPOINT
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Free Trade a Boon to Michigan's Ailing Economy

By Jack McHugh and James M. Hohman

Summary

High taxes, an unfriendly labor climate and burdensome regulations — rather than free-trade agreements — are what is wrong with Michigan's economy.

Main Text Word Count: 711

In a recent news article recalling the 2004 closing of the Electrolux plant in Greenville with the loss of 2,700 jobs, Gov. Jennifer Granholm scorned the landmark trade agreements of the past 15 years with a dismissive quip, "NAFTA and CAFTA have given us the shafta."

No doubt this was welcomed by the union bosses who comprise a core component of the governor's political base, and for whom reversing the growth in trade is near the top of their agenda. However, the remark suggests that Gov. Granholm doesn't know or doesn't care about the benefits that trade agreements like those with Canada and Mexico (NAFTA) and Central American countries (CAFTA) have brought to Michigan's economy.

Foreign trade is *very* important to Michigan, and is becoming more so. Indeed, the export market is one of the few areas where our economy is growing — this state's exports to NAFTA and CAFTA countries grew 38 percent between 2001 and 2007, or 2.7 percent a year in inflation-adjusted terms.

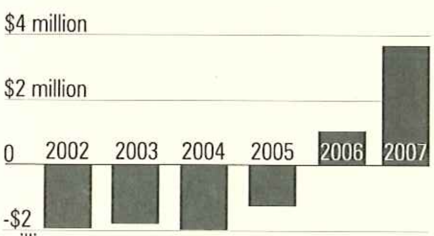
In 2007, Michigan produced $44.7 billion worth of goods for export, which accounted for more than 10 percent of the entire output of this state's economy. Our exports rose by fully 10 percent between 2006 and 2007. Most of that trade — 70 percent — is to countries that are parties to the specific trade agreements mentioned by Gov. Granholm.

Trade is growing with other markets, too: Michigan's exports to China grew 29 percent last year. That nation is now the third largest market for this state's goods, surpassing Japan and Germany just last year.

Of course trade is necessarily a two-way street — Michigan also imports things from our trading partners. Free trade does not necessarily mean an increased trade deficit. The United States as a whole had a $3 billion trade deficit with CAFTA signatories prior to its implementation; that has been reversed to a $2 billion surplus today. Excluding oil and gas, a modest deficit with NAFTA countries has barely increased. Meanwhile, growing trade has allowed for middle-class Americans to save on consumer goods, and for more American products to be sold abroad.

A related point is that while unions and their political allies have tried to make "outsourcing" a dirty word, they speak less of the other side of

United States trade balance with CAFTA countries



Source: Author's calculations based on information from the U.S. Department of Commerce

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the coin, which is *insourcing* of jobs to Michigan by foreign-owned companies. These firms now employ some 202,300 Michigan workers, according to the Organization for International Investment.

Indeed, it was the loss of 2,700 of those "insourced" workers that triggered Gov. Granholm's anti-trade outburst — the Electrolux plant was Swedish-owned. But one might question why the governor focused on just these 2,700 lost jobs, when another 541,992 Michigan jobs evaporated in the same year, or more than 10 percent of all the payroll jobs in the state.

That massive loss wasn't the cause of major depression in the state because another 553,960 jobs were *created* here that year. Such "job churning" happens every year and is a characteristic of the dynamic, wealth- and innovation-creating U.S. economy, and its magnitude demonstrates the folly of state "targeted incentive" and subsidy programs aimed at attracting particular firms or industries, as opposed to creating a friendly overall business climate.

The reality that Gov. Granholm's free trade hostility seeks to evade is that Michigan's decline is not due to CAFTA, NAFTA or any other such agreement — except perhaps one created in 1787: the U.S. Constitution and its commerce clause.

Specifically, the competitors who are eating Michigan's lunch aren't Mexico or Canada, but other states where investors and entrepreneurs enjoy lower tax rates, better labor climates and fewer excessive and unreasonable regulations. Foreign automakers have opened dozens of new plants in the United States in the past 25 years, and the fact that only one (and that a joint venture with Ford) is in Michigan has nothing to do with foreign trade agreements and everything to do with Michigan's unfriendly business climate.

Blaming the state's economic malaise on free trade may score political points with militant labor, but if anything it only worsens our problems. The governor should instead focus on reversing the high taxes, toxic labor climate and regulatory overreach that are really killing Michigan, and stop postponing the transformational government restructuring, downsizing and privatizing that are a prerequisite for those reforms.

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