

If Free Trade Is So Good, Why Don't We Have More of It?



“While the economics of trade restrictions seem clear, the politics of the matter are much more complicated.”

Do you know the old saying, “lay a hundred economists end-to-end and they still wouldn’t reach a conclusion”? It suggests that members of my profession can have a hard time reaching a consensus, and there certainly are significant disagreements among economists on some important issues, such as the effects of government deficits or the optimal degree of progressivity in income taxes. There are some matters, however, on which there is broad agreement among economists, and a prime example is the benefits of free trade. Unhindered access to markets in developed countries offers the best hope for growth in the world’s poorest countries. In the developed world, trade generates significant benefits to consumers. In general, trade allows all countries to enjoy the substantial gains from specialization in production. Most economists acknowledge that the opportunities for growth in all the world’s wealth would be greatest if there were few barriers to the trade that allows countries to produce according to their comparative advantage.

If the benefits of free trade are so widely recognized by economists, then why are the liberalization of trade and the removal of barriers so elusive? Setting aside the flip answer that nobody listens to economists, I think that while the economics of trade restrictions seem clear, the politics of the matter are

much more complicated. This is true for a number of reasons. For one thing, the costs of barriers are spread widely among all consumers in an economy, while the benefits accrue to a much narrower set of people involved in the production of the goods subject to the restriction. So those who stand to benefit from barriers to trade are better able to mobilize as an interest group to exert influence on the political process. The geographic concentration of some manufacturing industries, such as the textile and apparel industries in the Fifth District, only serves to enhance the political attractiveness of import restrictions. Our cover story makes clear how intensely import competition can be felt in affected communities.

Another factor that can complicate the actual making and implementation of trade policy is the possible interdependence of one country’s policy with that of its trading partners. While it might be easy to convince people of the widespread benefits of eliminating all the world’s trade barriers in one fell swoop, it would be challenging—to put it mildly—to actually do so in practice. In an imperfect world, where trading partners maintain an array of quotas and tariffs, it might be beneficial in some cases for an individual country to maintain barriers of its own.

And even if a country could generate significant net economic benefits for its citizens from a unilateral reduction of trade barriers, such a move can be a tough sell on the domestic political front. Consequently, movements toward reduced barriers to trade take place mostly through multilateral, regional agreements, such as NAFTA, or Mercosur in Latin America, or globally through the World Trade Organization.

The textbook case for free trade is based on the simple and powerful economics of comparative advantage, which I’ve talked about before on these pages. The complications of the real world do not render that case invalid. They do, however, make consensus on movement toward more liberalized trade policies difficult to achieve. I believe that making a persuasive, nontechnical case for free trade should be a top priority for the economics profession. This would help the public appreciate that, overall, it stands to gain much more from free trade than it stands to lose.

AL BROADDUS
PRESIDENT
FEDERAL RESERVE BANK OF RICHMOND