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Why Economists Consistently Support Free Trade Policies

by

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I. Introduction and Summary

Amidst all the current controversies regarding trade among nations generated by President Donald Trump, and with a high-level U.S. trade delegation visiting China this week, it is important to understand that economists across the political spectrum overwhelmingly favor free trade policies. The general consensus among economists is that imposing tariffs and import quotas reduces overall economic activity. Certain industries may benefit, at least in the short run, from import restrictions, but the harm elsewhere in the economy greatly outweighs the benefits concentrated in the industry being protected. With the intense current focus on trade negotiations and the United States' position in these negotiations, this *Perspectives* describes the many reasons why economists support free trade policies as superior to protectionism in promoting economic growth, higher real wages, and increased innovation in the economy.

Nonetheless, free trade policies are not nearly so popular among non-economists, on both the left and the right ends of the political spectrum. Opponents typically claim that free trade leads to fewer jobs, lower wages, and harm to domestic industries. Those who oppose free trade are often economic nationalists, labor unions, environmentalists, and protectionists from industries that are the most directly affected.

Opposition to free trade policies creates unusual political alliances, which can easily be seen in current debates on trade policy. For example, President Trump campaigned against certain U.S. trade agreements, and in one of his first acts as President, he withdrew the United States from the Trans-Pacific Partnership. Fareed Zakaria, usually a harsh critic of the President from the left, recently expressed support for the current administration's approach, stating: "Previous administrations exerted pressure privately, worked within the system and tried to get allies on board, with limited results. Getting tough on China is a case where I am willing to give Trump's unconventional methods a try. Nothing else has worked."

It should be noted that President Trump typically claims he is actually a supporter of free trade. In his 2017 State of the Union Address, President Trump said: "I believe strongly in free trade, but it also has to be fair trade." If so, President Trump's actions could be seen as seeking better deals from trading partners. Indeed, just this month, President Trump has indicated that he may be willing to reconsider the United States rejoining the TPP, which is a positive development.

Economists also contend that the usual objections to free trade policies are not supported by economic analysis. Even if other countries engage in protectionism to help their domestic industries, retaliation by their trading partners almost always does more harm than good to the economies of the non-protectionist countries. While it is possible that threats of retaliation can lead countries to back off from protectionist policies, such threats are risky because the country threatening retaliation will harm itself, probably more than its trading partners, if the threat does not work.

None of this is to say that existing trade agreements, such as NAFTA or TPP, cannot be improved in certain respects. This is certainly true, for example, with respect to provisions regarding measures relating to the protection of intellectual property. Piracy and theft of intellectual property remain rampant in too many places and strengthening measures to prevent such theft is certainly a proper objective in negotiating multilateral or bilateral trade agreements.

But these opportunities to improve trade agreements do not undermine the many benefits of policies favoring free trade. Free trade allows all countries to gain from comparative advantage, though exchange and specialization. Free trade can also lead to increasing returns to scale from larger markets, the exchange of ideas through communications and travel, and the spread of technology by exposure to new goods and production methods. Economists also find that any economic benefits in industries that gain from protectionist policies tend to be short-lived, and in any event are greatly outweighed by the tremendous benefits spread throughout the rest of the economy.

II. Economists vs. Those Who Are Skeptical About Free Trade

Overwhelmingly economists across the political spectrum favor free trade policies.[1] The general consensus among economists is that imposing tariffs and import quotas reduces overall economic welfare. Certain industries may benefit, at least in the short run, from import restrictions, but the harm throughout the economy far outweighs the benefits concentrated in the industry being protected. Free trade policies are often associated with conservative/libertarian views, but there is no shortage of prominent supporters of free trade policies on the left. For example, Nobel laureate Paul Krugman, an economist well known to be on the left end of the political spectrum, is a strong advocate for free trade policies. Krugman points out in his textbook that even though there is a temptation to deviate from free trade policies, the costs of deviating from free trade are large and eventually the political process will subvert attempts to make such deviations.[2]

Nonetheless, free trade policies are not nearly so popular among non-economists, on both the left and the right ends of the political spectrum. Non-economists in general are much more receptive to the idea that trade leads to fewer jobs, lower wages, and harm to domestic industries.[3] Those who oppose free trade are often economic nationalists, labor unions, environmentalists, and protectionists from industries that are the most directly affected.[4]

In contrast, the benefits of free trade tend to be widely distributed, which may explain why the benefits are not always recognized. Those who generally benefit from free trade include consumers of products that would be subject to protectionist policies and those who work for companies that buy from companies protected from foreign competition by trade barriers.

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[1] *See, e.g.*, N. Gregory Mankiw, “Economists Actually Agree on This: The Wisdom of Free Trade,” *The New York Times*, April 24, 2015, available at: https://www.nytimes.com/2015/04/26/upshot/economists-actually-agree-on-this-point-the-wisdom-of-free-trade.html; Megan McArdle, “4 Politically Controversial Issues Where All Economists Agree, *The Atlantic*, April 9, 2012, available at: https://www.theatlantic.com/business/archive/2012/04/4-politically-controversial-issues-where-all-economists-agree/255600/.

[2] Paul R. Krugman, Maurice Obstfeld, and Marc Melitz, *International Trade: Theory and Policy*, 10th ed. (Boston: Addison-Wesley, 2015), as quoted in Pierre Lemieux, “A Primer on Free Trade: Answering the Common Objections,” Mercatus Policy Primer (June 17, 2017), p. 4, available at: https://www.mercatus.org/system/files/mercatus_lemieux_free_trade_primer_v3.pdf.

[3] *See, e.g.*, Cletus C. Coughlin, “The Controversy Over Free Trade: The Gap Between Economists and the General Public,” *Federal Reserve Bank of St. Louis Review*, (January/February 2002), vol. 84, no 1, pp. 1-22, available at: https://files.stlouisfed.org/files/htdocs/publications/review/02/01/1-22Coughlin.pdf; Alan S. Blinder, “Why, After 200 Years, Can’t Economists Sell Free Trade?” Peterson Institute for International Economics (May 25, 2017), available at: https://piie.com/newsroom/short-videos/why-after-200-years-cant-economists-sell-free-trade.

[4] Others may oppose free trade policies for reasons not closely related to economic growth and efficiency, including the possibility that free trade leads to exploitation of workers or environmental harm in low income countries. Those objections are not addressed in this paper.

How the opposition to free trade policies creates unusual political alliances can easily be seen in current debates on trade policy. For example, President Donald Trump campaigned against many U.S. trade agreements. In one of his first acts as President in January of 2017, President Trump withdrew the United States from the Trans-Pacific Partnership (TPP).[5] Recently Fareed Zakaria, a usually harsh critic of the President from the left, expressed support for the current administration's approach:

> The Trump administration may not have chosen the wisest course forward — focusing on steel, slapping tariffs, alienating key allies, working outside the WTO — but its frustration is understandable. Previous administrations exerted pressure privately, worked within the system and tried to get allies on board, with limited results. Getting tough on China is a case where I am willing to give Trump's unconventional methods a try. Nothing else has worked.[6]

It should be noted that President Trump typically claims he is actually a supporter of free trade. In his 2017 State of the Union Address, President Trump said: "I believe strongly in free trade but it also has to be fair trade."[7] It could be that President Trump is not so much opposing free trade as seeking better deals from trading partners.[8] Indeed, President Trump has indicated that he may be willing to reconsider the United States rejoining the TPP. According to a tweet by President Trump on April 12, 2018, he has asked United States Trade Representative Robert Lighthizer and White House economic advisor Larry Kudlow to re-open negotiations for the United States to re-join the TPP.[9] This is encouraging if the re-opening is undertaken in a serious way.

So why are economists so quick to embrace free trade, even though free trade policies are often politically unpopular among non-economists on both the left and the right?

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[5] The 11 current members of the TTP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

[6] Fareed Zakaria, "Trump is Right: China's a Trade Cheat," Washington Post, April 5, 2018, available at: https://www.washingtonpost.com/opinions/global-opinions/trump-is-right-chinas-a-trade-cheat/2018/04/05/6cd69054-390f-11e8-8fd2-49fe3c675a89_story.html?utm_term=.c50eee0f2dc2.

[7] President Donald Trump, 2017 State of the Union Address (February 28, 2017), available at: http://www.ontheissues.org/Archive/SOTU_2017_Donald_Trump.htm.

[8] See, e.g., Sam Meredith, "Trump's 'Disruptive' Tariffs Could Actually Be Good for Free Trade Defenders, Strategist Says," CNBC.com (March 9, 2018), available at: https://www.cnbc.com/2018/03/09/trade-war-trumps-disruptive-tariffs-could-be-positive-for-free-trade-defenders.html.

[9] Fathin Ungku and Charlotte Greenfield, "Trump Says U.S. Could Rejoin TPP if Deal Improved. How Hard Would It Be?" Reuters, April 16, 2018, available at: https://www.reuters.com/article/us-usa-trade-china-tpp-explainer/trump-says-u-s-could-rejoin-tpp-if-deal-improved-how-hard-would-it-be-idUSKBN1HN0TW; President Trump has made other statements indicating he prefers bilateral trade deals. *See, e.g.,* Patti Domm, "Trans-Pacific Trade Deal Could Solve a Big Problem for Trump, but It May Be Difficult to Rejoin,,'" CNBC.com ((April 18, 2018), available at: https://www.cnbc.com/2018/04/17/trans-pacific-trade-deal-could-solve-a-big-problem-for-trump.html.

III. The Traditional Frameworks Economists Use to Assess Trade

The favorable view of economists toward free trade can be traced back to Adam Smith's 1776 treatise, *The Wealth of Nations*, which is often considered to be the first modern treatise on economics. According to Smith:

> To give the monopoly of the home-market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be bought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. . .
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> If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better to buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage . . .
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> It is certainly not employed to the greatest advantage when it is directed towards an object which it can buy cheaper than it can make it . . . The Industry of a country, therefore, is thus turned away from a more, to a less advantageous employment, and the exchangeable value of its annual produce, instead of being increased, according to the intention of the lawgiver, must necessarily be diminished by every such regulation.[10]

The benefits economists today see from trade fall into several broad categories. Perhaps the most important is that trade leads to economic gains from specialization and exchange based on comparative advantage.

Comparative Advantage and Trade

Probably the best-known argument for the benefits of free trade was by economist David Ricardo in 1817, which builds on Adam Smith's discussion of the benefits of trade.[11] In Ricardo's two-goods example, one country had an absolute advantage over another in terms of producing both goods because it could produce the same amount of both goods with less labor than the other country. Intuitively, it can be tempting to conclude that this absolute advantage held by one country eliminates the possibility of mutual gains from trade. If so, a high productivity country would not benefit from trade with a low productivity country, and therefore should try to protect its highly-productive (and highly-paid) workers by keeping the goods from the country with low productivity out of its markets.

Nonetheless, Ricardo shows that both countries can gain from trade because absolute advantage is irrelevant to whether countries can gain from trade. What matters is that the ratio of the production costs for the two goods is different. In one country, one good will cost less, in terms

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[10] Adam Smith, *The Wealth of Nations* (1776), as quoted in Richard M. Ebeling, "Economic Ideas: Adam Smith on Free Trade, Crony Capitalism, and the Benefits from Commercial Society," The Future of Freedom Foundation (December 19, 2016), available at: https://www.fff.org/explore-freedom/article/economic-ideas-adam-smith-free-trade-crony-capitalism-benefits-commercial-society/.

[11] David Ricardo, *On the Principles of Political Economy and Taxation* (1817).

of the amount of the other good that must be given up to produce the first good, which is a comparative advantage. But if one country has the comparative advantage in producing one good, the reverse will be true for the other good. Thus, Ricardo showed that no country can ever be at a comparative disadvantage in all goods, even in his simplified two-good model.

Consider a workplace with an experienced worker and a new employee. The experienced worker may be able to perform every task better than the new employee, but that is hardly an argument for the experienced worker doing all of the tasks at one level of productivity and the inexperienced worker doing identical tasks and producing less in the same amount of time. The two together can produce more if their manager can find tasks where the experienced worker has less of an advantage over the new employee and have the new employee assigned to do those tasks, which are where the new employee has the comparative advantage. In this way, the manager can achieve the greatest combined output from the two employees, based on their comparative advantage relative to each other. This is a gain from specialization, so that more is produced using the same amount of labor in the same amount of time. Note that this gain from specialization can be achieved even though the experienced worker has an absolute advantage in every task, because it is the comparative advantage that matters.

The manager of the two employees may be able to increase output even more from the two workers by finding gains from exchange. Another division of the company may have other employees performing some of the same tasks. Then the manager may find tasks where each division has different comparative advantages. By having the first division’s employees complete the tasks where they have comparative advantages for both divisions, while the second division takes over some of their tasks where they have a comparative disadvantage, both divisions can increase their amount of output from the same workers over the same amount of time.

Models Similar to Ricardo’s Showing Gains from Trade

Economists have developed other models of trade theory since Ricardo, which add important refinements while consistently showing the benefits of trade. The most prominent alternative is the Heckscher-Ohlin model, which has an implication for domestic jobs that was addressed by the Stolper-Samuelson theorem. The Heckscher-Ohlin model generalizes the results from Ricardo’s analysis by incorporating variations in countries in terms of their productive resources and how different goods are produced using different proportions of those resources.

Eli Heckscher and Bertil Ohlin were Swedish economists writing about trade nearly a century ago. The Heckscher-Ohlin model describes how trade can benefit countries when resources are unevenly distributed. These resources can be labor, raw materials, land for agriculture, or any other resources used for production. The costs of these inputs of production will vary from country to country, so countries in most cases should focus on producing the goods that require the greatest amount of the resource that they have in abundance. Thus, a capital-abundant country will have the comparative advantage in producing capital-intensive goods and thus export capital-intensive goods, while a country with relatively more unskilled labor should focus producing goods that are labor intensive. As with Ricardo’s model, the different relative prices allow both countries to gain from international trade by means of exchange.[12] The Heckscher-Ohlin model shows that each country benefits when it relies on exports for the goods that require the greatest amount of the input it has in relative abundance, while relying on imports for the products that require the inputs it lacks.

This result from the Heckscher-Ohlin model has an important implication for input prices in the two countries. As trade occurs, the relative prices of goods in the two countries should tend to equalize, and so should the prices of inputs. Thus, wages in poorer countries with relatively cheap labor will tend to go up relative to wages in a wealthier country with more capital and natural resources. The political implication is obvious – less skilled workers in wealthier countries will recognize this implication for their wages, and they have voting rights that allow them to oppose such trade policies.

However, the Heckscher-Ohlin model can address this concern. It shows show that even as this evening out of wages occurs, workers in both countries will still be better off with trade. They point out that the workers in the high-wage country will now be able to buy more goods and services because of the trade with the other country, so their real wages have increased, not decreased. Thus, the Heckscher and Ohlin model shows that even as relative wages in the different counties even out due to trade, the real wages in both countries will increase, as workers in both countries will be able to afford more goods and services than before trade.[13] Both countries gain, and workers in both countries gain as well.

There is one theoretical exception to the Heckscher and Ohlin conclusion that is often cited as showing that workers can be made worse off by trade. Wolfgang Stolper and Nobel laureate Paul Samuelson presented their theorem in 1941 as a further explanation of the analysis of Heckscher and Ohlin.[14] Stolper and Samuelson showed that in a world with two factors of production, capital and labor, wages will fall in absolute terms when labor is the relatively scarce factor of production. But as Pierre Lemieux, an economist affiliated with the University of Quebec explains, the Stolper-Samuelson theorem's prediction of possible lowering of wages due to trade does not hold up in the complicated world of multiple goods and services:

> As Stolper and Samuelson themselves point out, however, the theorem is valid only in limited circumstances. One crucial limitation is that it does not generalize to the case of more than two factors of production. For example, if there are many types of labor (say, specialized and unspecialized), the theorem cannot be proven. Because of these limitations, the Stolper-Samuelson theorem remains more a theoretical curiosity than a justification for protectionism.[15]

While the Stolper-Samuelson theorem follows from the Heckscher-Ohlin model, it nonetheless provides a very weak basis for economic arguments against free trade. Yet intuitively, it is tempting to focus on the aspect that wages will even out between the high-wage and low-wage

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[12] *See, e.g.,* Coughlin, "The Controversy Over Free Trade: The Gap Between Economists and the General Public," pp.3-4.
[13] Lemieux, "A Primer on Free Trade: Answering the Common Objections," p. 29.
[14] Wolfgang F. Stolper and Paul A. Samuelson, "Protection and Real Wages," *The Review of Economic Studies* (November 1941), Vol. 9, No. 1, pp. 58–73.
[15] Lemieux, "A Primer on Free Trade: Answering the Common Objections," p. 29.

countries, and not focus on how workers in both countries will be made better off with free trade rather than protectionism.

Other Benefits from Trade in a Dynamic Economy

Even after taking gains from specialization and gains from exchange into account, further gains are possible. Many industries may experience increasing returns to scale, which means that as output increases, new technologies and methods become cost effective, so that average costs decline as output expands. These productivity improvements from increasing returns to scale in the production process are another important source of gains from trade.

Another feature in the Heckscher-Ohlin model can help explain why industrialized countries tend to trade the most with each other. Ricardo's analysis suggests that the greatest gains will tend to be from poorer countries with absolute disadvantage in most goods trading with wealthier countries based on their comparative advantage. But in practice, much more trade is observed between more industrialized countries, and these countries will tend to be fairly similar in terms of available capital, labor, and other inputs. In other words, more industrially advanced countries will find relatively small comparative advantages when trading, relative to the comparative advantages that can be found between a poorer and a richer country, or between two economies that have large differences in the available inputs in other ways.

Cletus Coughlin, an economist and Senior Vice President at the Federal Reserve Bank of St. Louis, points out that industrialized countries often import and export from each other different models of automobiles. Very little of this trading is likely to be explained by comparative advantage. But such trading may allow automakers in both countries to achieve greater returns to scale, or greater productivity (or lower costs) at higher production volumes of the specific models they each make. If increasing production volumes allow automakers to use more technology than would be justified at lower production volumes, then they will be able to produce higher volumes at lower per-unit costs than is possible at lower production volumes. Thus, even among very similar industrial countries where comparative advantages may be minimal, the Heckscher-Ohlin model allows for further gains in productivity due to specialization.[16]

More dynamic analyses of the benefits of free trade identify further sources of gains. For example, as gains from specialization and economies of scale attract investment capital for technological innovation, that leads to both more investment and the development of innovative

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[16] Coughlin, "The Controversy Over Free Trade: The Gap Between Economists and the General Public," pp. 3-4. Coughlin points out that allowing for increasing returns to scale somewhat complicates the analysis because greater returns to scale also may lead to more market concentration, and higher prices as firms pursue monopoly profits. Coughlin explains, however, that any losses in economic efficiency due to increased market concentration are offset by at least three sources of gains. "First, as highlighted in the preceding paragraph, as the market potentially served by firms expands, there are gains associated with declining per-unit production costs. A second source of gains results from the reduction in the monopoly power of domestic firms, who face increased pressures from foreign competitors to produce output demanded by consumers at the lowest possible cost. The third gain is that consumers enjoy increased product variety and lower prices." Coughlin, "The Controversy Over Free Trade: The Gap Between Economists and the General Public," p. 4.

new technologies that further increase technological innovation, which leads to even more productivity. By raising incomes, trade allows for more saving, which translates into more funds available for investment spending. Free markets for goods also tend to promote free markets for savings and investments, which allows for countries to borrow from the savings of other countries as capital is routed to the most productive uses.

International trade may also lead to more innovation and investment in other ways. Competition from other countries can force domestic firms to become more efficient. This and economies of scale may encourage more research and development activity. Increased business contacts between companies and employees in different countries allows them to learn from each other and transfer information about new products and production processes. These contacts facilitate the transfer of technology, and licensing of technology may provide an additional income source for innovative companies while further supporting investment and economic growth.[17]

The concerns about how lack of free trade can harm an economy are not just theoretical. This can be seen in the recent strong negative reactions in the stock market to concerns about a trade war escalating.[18] As Coughlin summarizes:

> The economic case for free trade is compelling for nearly all economists. Free trade policies enable free market forces to allocate resources to their most productive activities. This allows a nation to maximize the value of the goods and services produced within its borders. Free trade also allows consumers to allocate their incomes to maximize the value of the goods and services that they purchase and consume. Numerous models also suggest that the growth prospects of a nation are improved by using free trade policies. Moreover, the findings of empirical studies reinforce economic theory.[19]

IV. What About Unfair Trade?

Often the objections to free trade are based on it not being fair. As noted earlier, President Trump's objections to U.S. trade agreements are often of this nature. Some of the objections about unfairness in trade are that other countries subsidize their own industries that compete on international markets, that other countries impose tariffs or import quota that restrict access to their markets, and that large trade deficits are an indication that a country is doing poorly in international trade.

Countries may impose tariffs or import quotas to limit the inflow of foreign goods, or governments may subsidize their own goods. Both the United States and other countries try to protect their domestic industries in ways that could be considered "unfair" by their trading partners. The most notable example in the United States is probably the controversial sugar tariffs, which was estimated to cost Americans $1.4 billion extra for sugar, or the equivalent of

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[17] Coughlin, "The Controversy Over Free Trade: The Gap Between Economists and the General Public," pp. 6-7.

[18] *See., e.g.,* Nathaniel Meyersohn, "Dow Tumbles 572 Points as Trade War Fears Pummel Stocks," CNN Money (April 6, 2018), available at: http://money.cnn.com/2018/04/06/investing/stock-market-dow-jones-trade-war-china/index.html.

[19] Coughlin, "The Controversy Over Free Trade: The Gap Between Economists and the General Public," p. 18.

more than $310,000 per sugar farm in the United States.[20] Similarly, other counties may try to give their domestic industries an advantage by providing subsidies to make their products less expensive in international markets.

Paul Krugman points out that tariffs, import quotas, and subsidies for goods being traded are basically government-made or artificial comparative advantages that facilitate trade and not a basis for opposing free trade. Once the decision is made to engage in protectionism, the markets for the products that are supposed to benefit from protectionism become more efficient, not less, when free trade is allowed by trading partners.[21]

As British economist Joan Robinson famously remarked, the justifications for protectionist retaliation is equivalent to arguments that a country should "drop rocks into our harbors because other nations have rocky coasts."[22] As Pierre Lemeiux puts it: "In most cases, retaliatory protectionism is like saying to the foreign protectionist government, 'You hurt your subjects? I will hurt mine, too. Take that!'"[23]

As Krugman points out, "The economic case for free trade is essentially a unilateral case: a country serves its own interests by pursuing free trade regardless of what other countries may do."[24] Before a country can import any goods, even subsidized foreign goods, it must first have access to foreign currency in order to import. To get the foreign currency, it must either export its own goods or attract foreign investment into its own economy. Protectionist policies, regardless of their motivation, cut off access to foreign currency, and therefore inevitably harm the home country in the long run. A protectionist country cannot just export without importing (or investing in foreign countries). Therefore, unilateral free trade promotes a country's exports as much as imports, at least in the long run.[25]

The size of the U.S. trade deficit may also be cited as an indication of unfair trade. However, the trade deficit is an incomplete measure of economic interactions between countries because it is limited to goods and services. What is missing is the size of a country's balance of payments, which show the flow of investment capital between the countries.

If a country has a large trade deficit, it must also have a large surplus in its balance of payments, which means that the country is attracting more foreign investment than the investment that is leaving the country. The two must go together, or else the currency of the country will be devalued until the point where the trade deficit is fully offset by the balance of payments surplus.

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[20] Bryan Riley, "U.S. Trade Policy Gouges American Sugar Consumers, The Heritage Foundation (June 5, 2014), available at: https://www.heritage.org/trade/report/us-trade-policy-gouges-american-sugar-consumers.

[21] Paul Krugman, as quoted in Lemieux, "A Primer on Free Trade: Answering the Common Objections," p. 33.

[22] Joan Robinson, *Essays in the Theory of Employment* (1947), p. 158.

[23] Lemieux, "A Primer on Free Trade: Answering the Common Objections," p. 19.

[24] Paul Krugman, "What Should Trade Negotiators Negotiate About?" *Journal of Economic Literature,* Vol. 35,
No. 1 (March 1997), p. 113.

[25] Lemieux, "A Primer on Free Trade: Answering the Common Objections," pp. 18-19.

Thus, a country might be able to artificially reduce its trade deficit with protectionism. But if it does, it likely will be accomplished less by increasing domestically produced exports and more by reducing foreign investment coming into the country.

Moreover, the foreign investment coming into a country increases the wealth of the country, which means its people can afford more domestic goods as well as more imports. Thus, protectionism that drives off foreign investment may hurt foreign suppliers of importers, but also hurts domestic firms and their employees when their customers have lower incomes to spend on their products.

Of course, there is a possibility that if the U.S. takes a tougher stand on trade agreements, other countries will lower their trade barriers, and economic gains will result from freer trade between the countries. This is certainly a possible benefit from seeking fair trade, but it is one that can be achieved, if at all, only at great risk. These possible gains can only occur if both countries back down on their trade barriers or threats to raise trade barriers. If that doesn't happen, both countries will likely be left worse off. The trading partners will also know that the country threatening to retaliate over allegedly unfair trade can only gain by reaching an agreement to lower trade barriers. This may make them more likely to hold out for more favorable terms, so that threats of protectionism may often be perceived as toothless.

None of this is to say that existing trade agreements, such as NAFTA or TPP, cannot be improved in certain respects. This is certainly true, for example, with regard to provisions regarding measures relating to the protection of intellectual property, which are rampant in too many places. A 2017 Organization for Economic Cooperation and Development report found that the global value of international and domestic trade in counterfeit and pirated goods in 2013 was between $710 billion and $917 billion, and the global loss in value of digital piracy in movies, music and software in 2015 was $213 billion.[26] Thus, strengthening measures to prevent such theft is certainly a proper objective in negotiating multilateral or bilateral trade agreements. But, in general, there is a strong case to be made for policies favoring free trade.

Conclusion

Despite the near universal support of economists for free trade, protectionist trade policies remain popular with many non-economists across the political spectrum. Non-economists tend to focus on short-run gains in certain industries that want protection. Others may oppose free trade policies for reasons not closely related to economic growth and efficiency, including the possibility that free trade leads to exploitation of workers or environmental harm in low income countries.

Economists respond that any economic benefits in industries that gain from protectionist policies tend to be short-lived, and in any event are greatly outweighed by the tremendous benefits spread throughout the rest of the economy and the dynamic innovation that follows. Thus, the vast

[26] Randolph J. May and Seth L. Cooper, "Copyrights and Patents, Piracy and Theft," Perspectives from FSF Scholars Vol. 13, No. 15 (April 25, 2018), available at: http://www.freestatefoundation.org/images/Copyrights_and_Patents,_Piracy_and_Theft_042518.pdf.

majority of those who believe they are harmed by free trade will be better off in the long run, and probably the short run, if protectionist policies are avoided.

This *Perspectives* provides many reasons why economists support free trade policies. Free trade allows all countries to benefit from comparative advantage, thought exchange, and specialization. Trade can also lead to increasing returns to scale from larger markets, the exchange of ideas through communication and travel, and the spread of technology by exposure to new goods and production methods.

Economists also contend that the various fairness objections to free trade policies are not supported by economic analysis. Even if other countries engage in protectionism to help their domestic industries, retaliation by their trading partners almost always does more harm than good to the economies of the non-protectionist countries. While it is possible that threats of retaliation can lead countries to back off from protectionist policies, such threats are risky because the country threatening retaliation will harm itself, probably more than its trading partners, if the threat does not work.

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