



POLICY SPOTLIGHT

The Benefits of Free Trade and How to Get More of It

CHRISTINE MCDANIEL | SEPTEMBER 2022

Free trade allows for voluntary economic exchange between people across national borders. It takes place for the same reason people buy and sell in domestic free markets: because these transactions benefit both parties. Yet free trade continues to be viewed with skepticism by Americans for many reasons, such as concerns over supply chains and national security or the belief that that free trade hurts economic growth, lowers wages, and ships jobs overseas. Policymakers have often argued in favor of tariffs on imported goods and in favor of other barriers to trade as an appropriate response to these fears. There are—and always have been—legitimate national security concerns, but there is no evidence they are solved by tariffs. Whereas protectionist measures such as tariffs may benefit a small minority of US producers, they do so at the expense of everyone else in the economy.

MYTHS ABOUT FREE TRADE

When it prohibits individuals from importing freely, the government curtails the economic freedom that has generated the prosperity Americans enjoy. Opposition to free trade is grounded in three main myths:

Myth: Free trade causes manufacturing job losses.

Most of the decline in US manufacturing jobs comes from technological change (which increases worker productivity), not from trade. Whereas less developed countries tend to produce more labor-intensive goods in more traditional manufacturing plants, US firms are better when it comes to the conception, R&D, and manufacturing of higher-end components.

Myth: Protectionism is paid for by foreigners. Protectionism is a form of government favoritism that benefits a few powerful, politically well-connected producers. Apologists for protectionism claim that

foreigners pay its costs, but in fact the costs of protectionism are born by other, nonfavored American producers—and by American consumers.

Myth: Protectionism produces equitable results. Protectionist policies, especially tariffs, raise prices for US households on goods from abroad. And although tariffs affect all Americans, they hurt low-income individuals more than high-income individuals because low-income individuals spend a greater share of their budgets on imported goods.

BENEFITS OF FREE TRADE

As stated earlier, the main advantage of free exchange is that buyers and sellers experience direct mutual benefit, and this principle extends to international exchange as well. In addition, free trade exposes

businesses to more competition, and businesses that have to compete tend to become more efficient, which results in economic growth. Specifically, the freedom to buy and sell goods across borders brings many indirect benefits to Americans, including the following:

- Increased take-home pay and living standards for a large majority of the population
- Decreased production costs and greater productivity at US firms, making those with genuine comparative advantages more competitive in global markets
- Increased American capital stock and, in turn, increased worker productivity
- Increased exports as well as imports
- Decreased incentive for businesses to lobby the government for protectionist measures

THE CASE FOR UNILATERAL TRADE LIBERALIZATION

Most economists agree that tariffs on net damage an economy and that most of the damage falls on the citizens of the country imposing the tariffs. Although trade and global competition can bring about some discomfort for some sectors, businesses, and individuals, that discomfort is outweighed by the benefits of freedom of exchange. Indeed, so great are the benefits that the United States should engage in free trade regardless of what other countries do.

FURTHER READING

Christine McDaniel and Joe Brunk, “Commerce Should Improve the Objection Process for the Section 232 Tariff Exclusion Requests” (Public Interest Comment, Mercatus Center at George Mason University, Arlington, VA, July 10, 2020).

“Revitalising Multilateralism: Pragmatic Ideas for the New WTO Director-General,” Research Institute of Economy, Trade, and Industry, April 20, 2021, <https://www.rieti.go.jp/en/events/bbl/21042001.html>.

Pierre Lemieux, *What’s Wrong with Protectionism? Answering Common Objections to Free Trade* (Lanham, MD: Rowman & Littlefield, 2018).

ABOUT THE AUTHOR

Christine McDaniel is a senior research fellow at the Mercatus Center at George Mason University. Her research focuses on international trade, globalization, and intellectual property rights.

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