

The Economy in Perspective

Think globally, obstruct locally... Protests against the latest round of negotiations sponsored by the World Trade Organization have thrust international trade into the headlines. Trade, perhaps the most fundamental economic activity, enables people to improve their well-being merely by exchanging some of what they already have. One might think that trade must be more complicated when it occurs between domestic and foreign partners, but geography really doesn't matter at all. The economic value of a transaction is the same whether the border that separates trading partners is national, state, or city.

Regardless of geographic location, voluntary exchange enables each trading partner to become better off. Despite this simple fact, new trade relationships are not always welcomed into a community or country, because they have the potential to displace existing suppliers. Trade's costs are palpable when friends and neighbors are adversely affected, but trade's benefits often go unrecognized because they are widely distributed as small gains to each of many people.

From this perspective, trade's role in improving welfare doesn't seem much different from that of plain, old-fashioned competition, and it really isn't. Consumers always benefit from competition among goods and services producers. Even when a market has few active competitors, consumers are less likely to be victimized if the market is easily entered by potential competitors. Trade—any exchange across a border—should be seen as protecting consumers by enlarging the set of competing suppliers for goods and services. And ordinarily, consumers instinctively accept competition's benefits as well worth the costs.

Although trade upholds consumers' interests, it can be made to seem suspect. One reason is that open markets may undermine the strength of incumbent producers and those associated with them. Incumbents have powerful incentives to label other producers as unfair competitors, appealing to consumers' sense of justice or patriotism to compensate for the lower prices or higher quality they would otherwise receive. For their part, consumers may choose not to patronize merchants or producers whose business practices they find unacceptable. Sometimes, however, incumbents reach beyond consumers and pressure legislators to ban or tax commerce from "outsiders."

Trade protection is nothing new. In fact, nations have constructed entire economic strategies around it. Adam Smith, the originator of market economics, wrote *The Wealth of Nations* to explain why such trade barriers are actually counterproductive to society's welfare. Mercantilism, which relies on maximal exports and minimal imports, enriches incumbent producers by forcing all consumers to purchase from them, no matter how expensive or shoddy their products may be. Our founding fathers regarded trade barriers as so antidemocratic and divisive that the U.S. Constitution prohibits states from restricting trade among themselves.

There can be no denying that producer and merchant practices vary considerably, both within a country and across nations. Producers legitimately complain when they are denied access to markets on equal terms with their competitors, and they seek remedies through trade talks. Moral and ethical differences can also be addressed through this channel, but doing so gives foreign governments a voice in others' domestic social policies. As the recent World Trade Organization impasse illustrates, not all governments agree on the extent to which this expanded set of issues should even be part of international trade discussions in the future.

While the world's nations continue to debate the scope and content of trade agreements, the cost of existing trade barriers remains high. Every time a nation imposes trade penalties on its foreign competitors, it is really taxing its own citizens by forcing them to purchase from established incumbents at home. Simultaneously, foreign competitors are denied the opportunity to expand their own employment and sales through access to cross-border markets.

If economic history unfolds as it has in the past, nations will improve their standards of living most rapidly wherever economic and political freedoms thrive. The more a nation is exposed to trade and other forms of competition, the less protected its entrenched interests tend to be and the more empowered its consumers. Nations enhance economic freedom most durably through the political actions of their own citizens. And even though many foreign-trade reformers may indeed mean well, others may merely be looking out for their own self-interest.