

What's so great about free trade - Financial Times [30 Day Embargo] (London, England) - February 1, 2017  
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When our first child was born, I had an office job. My wife's exhausting and non-remunerated profession was stay-at-home mother. Later, she retrained as a portrait photographer. To let her return to the labour market, we needed to hire a nanny. There is more to such a decision than money but, on purely financial terms, this was a no-brainer: the nanny earned less than either of us, so by freeing us to earn money in other ways, the Harford household was richer as a result.

Yet what makes obvious sense for a household can become strange and threatening in a different context. Imagine: the proud independent nation of Harfordia had a thriving childcare sector (my wife), but it was undercut by cheap foreign competition (the nanny). There was a vast bilateral trade deficit with the nanny, and Harfordia's homegrown childcare sector was devastated. Bad!

Though Harfordia's photography sector boomed as a result, you can bet that's not what the populists would be pointing to.

**Free trade** suddenly seems to have few supporters. Some of Britain's more effervescent Brexiters are **free**-traders, it is true, but with friends like that, who needs enemies? So I thought it was worth reminding ourselves just what was supposed to be so great about **free trade** in the first place.

The first and most fundamental insight is that all human civilisation is built on some sort of **trade**. I'm not much of a farmer but, fortunately, I am able to **trade** the books I write for food and for the electricity that lets me cook. Even my books rely on others to make the paper, design the word-processing software, bind the pages, design the covers, handle the logistics . . . Some of this I could do myself, albeit slowly and incompetently. Other things I couldn't begin to attempt.

The second insight is that while international **trade** seems to involve competing with foreigners, it's often more illuminating to see it as a battle between domestic producers. My home town of Oxford makes Minis, which we can export in exchange for camembert. But what if a post-Brexit government decides to hammer the camembert **trade**? It's not impossible: cabinet minister Liz Truss did once describe the UK's reliance on foreign cheese as a "disgrace".

French cheese makers would lose out but so, too, would the Mini factory in Oxford. The French use their camembert to buy our cars; if we're buying less camembert, it means they're buying fewer cars.

This isn't because of any French retaliation. It's simply a reflection of the fact that there are two ways to make cheese in the UK: the obvious way, using cows, and the indirect way, by making cars and then trading the cars in exchange for cheese. The British cheese industry is, in a very real sense, directly competing with the British car industry. Protect one with a tariff, and you hurt the other.

Economists disagree about most things, but for a couple of centuries they've agreed about the

merits of **free trade**, basically for the reasons outlined above. But some readers may be faintly aware of cracks in that consensus — haven't economists realised that **free trade** is sometimes bad?

Broadly, the answer is "no" — economists remain thoroughly persuaded of the merits of international **trade**. But there are cautionary notes. First, modern **trade** agreements tend to be loaded with rules — food safety, financial regulation, intellectual property — that are not about tariffs.

Some of these rules are closely connected with **trade** itself: long arguments at customs can restrict **trade** just as surely as a border tariff. But others have little to do with **trade**, and sometimes the rules are simply bad. So you can favour **free trade** yet oppose some "free-trade" agreements, as many economists do.

An important paper, "The China Shock", published by economists David Autor, David Dorn and Gordon Hanson, showed convincingly that US manufacturing sectors that have been particularly exposed to competition from China have been hurt deeply and lastingly. Just like Harfordia's childcare sector, they've been wiped out. That's not a surprise to an economist. What is a surprise is that, many years after the initial shock, people hadn't managed to retrain or relocate and find good new jobs. The US economy, more flexible than most, is less flexible than we'd thought.

One can't help wondering how easy it will be for the UK economy to replace deeply established patterns of inter-EU **trade** with something more global. Such changes can be wrenching.

But deep down, **trade** is just another kind of productive technology — a technology that turns Minis into camembert. Like any productive technology, it makes us richer. But it creates winners and losers, and the winners may take their good fortune for granted while the losers are acutely aware of what they've lost. The losers have votes too. And if they're frustrated about China, let's see what happens if self-driving vehicles put several million truckers and taxi drivers out of work.

We need to find a better response to the strains of the modern world. "Build a wall" is clearly a message that sells, but it's not a policy that will help. Our international trading system has helped boost both prosperity and peace. It would be a shame if something were to happen to it.

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