Arguments Against International Trade (explanation by Tyler Cowen)

https://mru.org/courses/principles-economics-microeconomics/arguments-against-trade

Read the paragraphs below, and match the reasons for limiting trade in column A with the explanations in Column B. <u>Then watch the video.</u> (The words in bold are explained at the bottom of the table.)

Col. A-reasons	Column B - Explanations
1. Trade reduces the number of jobs in the US	a) Some industries should probably be protected, to protect national security. But this leads to abuse, with almost any industry **claiming** it needs to be protected. Protecting vaccines may be a good idea, but not angora **goats** to make uniforms.
2. It's wrong to trade with countries that use child labour	b) Tariffs and quotas may be used to get a larger share of the gains from trade. Taxing exports, for example, allows domestic firms to act as a **cartel** and so get higher profits from limited supply abroad. This could work where there are few substitutes for US-produced goods. But if international competitors produce substitutes this may in the long run reduce the US foreign market. Also, foreign countries may **retaliate**. If all countries do this, then world trade as a whole will **shrink** and no country will be better-off.
3. We need to keep certain jobs at home for national security	c) The key industries argument is very popular among the hi-tech crowd. "Biology" is going to be the future… It is argued that such industries create **spillovers**. They create hi-tech workers that spread out across the economy. But, computer chips for example are now mass-produced and do not provide many jobs. They have low profit margins. It is better instead to design products, like Apple does. In 1990, Walmart (a very large supermarket **chain store**) contributed more productivity to the US economy than Silicon Valley.
4. We need to keep certain "key" industries at home because of beneficial spillovers on other sectors of the economy	d) Tariffs reduce trade which causes job numbers to fall in certain industries (like shoes). But people exporting to the US want to buy goods (and services) in return. They want goods in return. Thus, imports are paid for with exports. Trade does not destroy jobs, but moves them, and wages increase on average. There may be problems for **low-skill workers** in the US. But everything is fine if the education system is working well. That may be difficult. But, in the context of a growing economy, jobs are disappearing and appearing all the time. The American economy succeeds because of this. Edison's lightbulb destroyed the **whaling industry**… In the **churn**, there is a trend to higher-paying jobs.
5. We can increase US well-being with strategic trade protectionism	e) Child labour is something no one wants. But it happens when people are poor, and existed in the Britain and the US in the 19th century… As countries become richer, child labour falls. Can the decline be accelerated by **banning** child labour or refusing to trade with countries that use child labour? That means refusing to trade with the poorest countries. Do we want to do that? There are many examples of **unintended** consequences: laws that try to do a good thing, but **back-fire**. Banning child labour in India, led to lower, illegal wages paid to children. In my opinion, it is not a good idea to use international trade as a **weapon** or as a tool against child labour. A better idea would be to help poor countries, by offering free schooling, etc.

To claim= to demand, to ask for; **goat**=a mammal that produces wool, milk and meat; **cartel**=an agreement between companies (governments) to regulate production and prices; **to retaliate**=to respond, to take retribution; **to shrink**=reduce in size; **spillover**(s)= to overflow, to spread from one area to another; **chain store**= a series of shops belonging to the same company, with the same name; **low-skill workers**= workers with little education or training who do simple jobs; **whaling industry**=the industry which killed whales to make oil for lamps; **churn**= to stir, to turnover, to buy and sell, to agitate; **to ban**=to prohibit, to make illegal or unlawful; unintended= something which was not expected or wanted to happen; **back-fire**= to have the opposite result to that planned (in a motor, a premature explosion); **weapon**=an armament, a piece of equipment used to fight and kill.

Which of these sentences best describes Tyler Cowen's conclusions about trade?

1/ There are some good arguments for preventing trade, and governments should use protectionism generally to help domestic producers and consumers.

2/ Restrictions on trade waste resources, and prevent consumers from benefiting from trade. Free-trade is a robust policy: i.e., it is a policy which works well in most circumstances.

Answers: 1d; 2e; 3a; 4c; 5b. No 2