

Why Britain should consider unilateral free trade



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The debate about our trading relationships after we have left the EU is now hotting up.

Most economists would agree about the optimum end result, namely free trade between the UK and both the EU and the rest of the world. But there are disagreements about the best route from here to there.

The case for free trade is essentially the same as the case for free markets in general, that is to say, left to its own devices the market allocates available resources to their best possible use, given consumer preferences and the production possibilities afforded by existing technology.

There is no point in trying to be self-sufficient for its own sake in any, let alone all, forms of economic production. If we so chose, the UK could be self-sufficient in bananas. But the cost of doing this would be prohibitively high. It makes much more

sense for us to produce the things in which we have a comparative advantage relative to other countries and to exchange whatever we produce for bananas (and any and everything else) that we wish to buy from other countries.

Of course, just as there are arguments to restrain, correct or encourage market forces in a purely domestic setting, so there are some arguments for sometimes restricting trade across borders. But they are limited. The word “protection” is misleading. It suggests the warm embrace of cuddly caring. Who would not want that? It might be better if it were replaced by “trade interference”. Unfortunately, the apparent attractions of trade interference mean that it is resorted to far too frequently.

Naturally, each producer group would like its output to be protected against foreign competition. Those who suffer from such measures are everybody else in the economy who would buy its output, or the output of its foreign competitors. They will now have to pay higher prices. This group overwhelmingly consists of consumers. So there is a tension in debates about trade between producers and consumers.

Producers are much more concentrated than consumers. This gives them a substantial advantage in the battle for hearts and minds. Indeed, in such discussions the consumer interest hardly gets a look in. At international trade negotiations, the discussion is about the competing interests of producers in different countries.

The prevailing ethos is that exports are good and imports are bad. Correspondingly, each side tends to start from the notion that it will be prepared to allow other countries to export into its market (bad), provided that other countries allow it to export into theirs (good). This is widely known as tit for tat. But the misunderstandings go beyond misperceived self-interest.



A resurgence of the “Buy British” idea as an act of patriotism is bunkum – but it is dangerous and costly bunkum CREDIT: JASON ALDEN/BLOOMBERG

There is a popular feeling that protection is the good and sensible policy for the country as a whole – as long as we can get away with it. Recently, there has even been a resurgence of the “Buy British” idea. The notion put about is that buying home-grown products is patriotic. This is bunkum – but it is dangerous and costly bunkum.

Don’t get me wrong. The UK is currently running a huge trade deficit which is doing us considerable harm and needs to be eliminated. That is why the pound has fallen. The lower pound is giving price signals across the economy for both companies and individuals to import less and export more. This is the efficient way of closing the trade gap.

By contrast, buying British when the British product is inferior to the one that could be bought from abroad is an act of self-harm. It is against the normal operation of free trade and is indeed a form of closet protection, of the sort practised extensively in France. And a fat lot of good it has done them!

If the end objective is clear, the route to that objective is anything but. In conditions where the other side does not readily embrace the attractions of free trade, the conventional view, that we must proceed on a tit-for-tat basis, has some attractions. But there are also some major downsides. What happens if the other side is not keen to reach an agreement? This could easily be the case with our EU negotiations. And we will be negotiating against a ticking clock. Moreover, the longer the period of haggling, the longer the period during which we endure the losses from trade protection and the costs of our EU contributions; and the longer the period of uncertainty for the UK’s businesses.



The great prize to secure is free trade with the rest of the world

The quickest and easiest solution is a unilateral declaration of free trade in which we drop all tariffs on imports without demanding a quid pro quo. Yet this is not necessarily the best approach in all circumstances. The Government has been right to keep its hand close to its chest. Perhaps we can reach a free trade agreement with the EU, if not applying to all sectors then at least to some particular ones, such as cars and aerospace.

Furthermore, contrary to pre-Brexit pessimism about such prospects, we should also be able to “pre-negotiate” free trade agreements with a range of non-EU countries that can be quickly signed after we have secured our exit from the EU. The US is the most important of these countries and, post-Obama, now seems pretty keen to get an agreement quickly. Other free trade agreements might soon follow.

Under the rules of the World Trade Organisation, except where we have a free trade agreement, we have to impose the same tariffs on all countries. Even so, we could soon set about reducing these tariffs. In order to secure maximum gain quickly, this could be done all in one go.

But to minimise adverse disruptive effects and to allow domestic producers to adjust, it could be done gradually in stages. The great prize to secure is free trade with the rest of the world. This would lead to lower prices for consumers, especially for food, which would disproportionately benefit the less well-off. There are many roads to Rome – and many leading away from the Treaty that was signed there.

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