

Free trade's benefits and shocks

An interview with John Van Reenen of MIT

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What is free trade?

- Free trade means allowing goods and services to move as freely as possible across different countries.

Good for economic growth

Four big benefits

- Comparative advantage: It allows countries to specialise in producing what they do best.
- Intermediate goods: Even for a complex thing like a car, nations can specialise in what they are good at.

The second benefit

- The second benefit of trade is that it makes markets bigger.
- That means that things like spending large amounts of money on research—self-driving vehicles or whatever—looks a lot more viable.

The third benefit

- When you have trade, you have much stronger competition.
- The less-efficient ones face more competition, so they shrink and they exit the market.

The final benefit

- With free trade, you come into more contact with foreign companies, new ideas, new people and so on. That's mutually beneficial.

Downsides of free trade

- Workers in richer countries who were producing manufactured goods now faced much tougher competition.
- I think economists underestimated **the China shock** (WTO, 2001/12/11).

Wheels of mobility

- What can countries do to compensate those people who do lose out?
- You want to **grease the wheels of mobility**—to make it easier to move from one firm to another, or one industry to another, or one place to another.
- You also want to help citizens get the skills to move.

- Scandinavian countries like Denmark: generous unemployment-benefit systems combined with a lot of help for people who have become unemployed.
- Retraining is well resourced.

A longer-term view

- Education system needs to make people resilient to shocks.
- You want people to be well educated, and you want that education not to be too tightly linked to a particular skill.
- Having general skills—literacy, numeracy, social skills—is the right idea.

To be realistic

- Older people are not going to be able to retrain if they were made unemployed by structural economic changes.
- For these people, there is nothing wrong with a reasonably generous welfare state.
- Thanks to free trade, you can afford that, because the overall size of the pie is bigger.