

Many are mistaken about how much they personally stand to lose when trade is restricted



Both Theresa May and Donald Trump have adopted a narrative towards trade that departs from current arrangements. This narrative, promising unspecified economic gains at an unspecified time in the future, ignores the fact that trade restrictions will reduce policy options to protect jobs, resulting in greater domestic inequalities, writes [Sarah Goff](#).

President Trump's plan to impose tariffs on imported steel and aluminium highlights a broader shift away from regional and multilateral decision-making, and towards unilateral and bilateral decision-making on trade. Theresa May too has promised to forge a better trade deal for the UK after its exit from the EU. In neither country has public debate fully illuminated the idea of a 'better trade deal' or confronted the trade-off between the value of national income gains and the value of policy space.

The value of national income gains

Would it be a disaster if the UK's annual GDP were to decline between 3% and 6% as a result of Brexit? Instead of confronting this question, advocates of a 'hard Brexit' have [argued](#) that better bilateral and unilateral decision-making on trade can offset the loss that will result from the UK exiting the Single Market and Customs Union. But credible economic analysis [indicates](#) these losses cannot be offset by negotiating trade deals with non-EU countries, seeking a favourable trade agreement with the EU, and capturing efficiency gains from de-regulation. Similarly, the American public has not debated whether it matters for the US to suffer economic losses as a result of a trade war, with discussion largely focused on Trump's stated belief that [a trade war can be 'won'](#).

Many would say it obviously matters if a society loses a chance to become more prosperous, regardless of the country's initial levels of income. But *how much* does it matter for a relatively wealthy society to increase or preserve its existing level of income, in comparison to the other values at stake in trade agreements? Trade agreements involve multiple countries forgoing certain policy options—the options to impose tariffs and retain non-tariff barriers to trade—in order to produce mutual economic gains from increased trade. For a country participating in an agreement, there is the value of the prospective economic gains from increased trade on the one hand, and the value of the foregone policy options on the other. A 'good deal' could consist in significant economic gains from trade in comparison to the low value of the foregone policy options. Conversely, a 'good deal' could consist in economic losses from decreased trade that are small in magnitude or importance, in comparison to highly valuable policy space regained.

Valuable policy space for a society's competency

Some policy options have high value because they are essential for fulfilling a society's core functions or 'competencies.' Trump's stated justification for imposing tariffs on imported steel and aluminium is that the US must retain a certain level of domestic capacity in these industries for reasons of national security. Many commentators have argued that reasons of national security do not properly apply for imports from American allies, while noting the danger the precedent poses to the multilateral trading system. What makes the precedent dangerous is that national security is indeed an important competency. In principle, it is sensible to forgo some economic gains from trade in order to retain valuable policy space in the area of national security, even though this conflict in values is probably inactive in the case of US steel and aluminium imports.

One practical difficulty in assessing the economic losses from Brexit in comparison to the UK's prospective gains in policy space is that Brexit is not only about trade. Brexit also concerns the UK's participation in cooperative agreements on immigration, national security, and many other issues. The question of the Irish border shows how an agreement on trade (whether Northern Ireland will be part of the Customs Union) is practically enmeshed with other policy questions. However, the UK will regain discretion over its agricultural policy as a result of leaving the EU, and there is room for the UK to realize improvements in this area. It should be asked: how much do prospective improvements in agricultural policy matter, in comparison to the economic losses from trade with the EU?

The value of inclusiveness

The sentiment that things have not improved in recent years is shared by many of those who voted 'Leave' and many of those who voted for Trump. Sizable groups of American voters do not think they personally benefit from free trade, but they think they would benefit from protectionist measures to safeguard good jobs. They are probably mistaken about how much they personally stand to lose when trade is restricted. However, even with full knowledge, these groups might endorse the position that the US should assure their access to good jobs, at the cost of some economic gains from trade for the US as a whole.

It is valuable for a society to have policy options for maintaining the inclusion of groups that are disadvantaged or marginalized. An inclusive society ensures these groups are not harmed, or are compensated, when they experience the economic dislocations caused by trade. When political leaders support trade restrictions to protect 'good jobs' for the middle class, their argument presupposes several claims: trade agreements reduce policy options to protect good jobs, protecting good jobs for certain groups is necessary for inclusiveness, and inclusiveness is more valuable than some (unspecified) quantity of economic gains for society as a whole.

Note: the above draws on an LSE International Inequalities Institute [working paper](#). The podcast of a seminar on the same topic which Sarah Goff gave at the Institute is available [here](#).

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