

Free Trade v. Protectionism Debate

Position: Free trade

Argument 1: *There is a causal relationship between international trade and economic growth.* In the words of Frankel and Romer (1999), “trade raises income”. It accomplishes this “by spurring the accumulation of physical and human capital and by increasing output for given levels of capital” (Frankel and Romer 1999). By performing ordinary least squares regression analysis, it was ascertained that a one percent increase in trade, as defined by the ratio of imports and exports to total GDP, caused a half percent increase in income per capita (Frankel and Romer 1999). Income per capita is the primary measurement for standard of living, or economic prosperity. Because trade increases income per capita, it follows that free and unhampered trade increases economic prosperity.

Argument 2: *Barriers to trade hurt consumers, causing a decline in economic prosperity.* One study examining 21 protected industries showed “that U.S. consumers pay about \$70 billion per year in higher prices because of tariffs and other protective restrictions” (Cateora et al. 2009, p. 36). The result of these restrictions is higher prices and lower purchasing power. Furthermore, trade barriers hinder competition. Not only does this hurt international firms, it decreases the amount of choices available to consumers (Cateora et al. 2009, p. 37). Since consumption is vital to economic prosperity, a reduction in available choices and an increase in prices naturally affect a decline in the standard of living.

Argument 3: *Free trade increases the flow of financial capital* (Reisen 2001). Financial capital is a necessity for economic growth and can be increased by free trade (Feenstra & Taylor 2008, p. 30). Foreign investment “raises the recipient economy’s efficiency (e.g. through improving resource allocation, instilling competition, improving human capital, deepening domestic financial markets, and reducing local capital costs” (Reisen 2001). A more efficient economy is a more productive economy, and a higher level of production causes an increase in the standard of living. Additionally, foreign investment provides the investing country the opportunity for a higher return (Reisen 2001). Consequently, the increase in the flow of financial capital, which is a direct result of free trade, leads to greater economic prosperity.

Argument 4: *Free trade increases access to available resources.* Natural resources, labor resources, and technological resources vary from country to country. As such, if free trade exists, countries are able to have access to resources that would otherwise be unavailable (Feenstra & Taylor 2008, p. 29-30). This is the basic idea of comparative advantage. Some countries are able to produce goods relatively more efficiently than others. Thus, countries that have a comparative advantage in a specific good are able to specialize and trade to fulfill a diverse range of consumer demands (Feenstra & Taylor 2008, p. 31). Moreover, every nation benefits from comparative advantage, specialization, and free trade. The end result is increased consumer utility, or economic prosperity, for all nations involved.

Argument 5: *Barriers to trade often result in retaliation, which ends up being harmful to both countries.* For instance, “in a dispute with the European Union over pasta export subsidies, the United States ordered a 40 percent increase in tariffs on European spaghetti and fancy pasta. The EU retaliated against U.S. walnuts and lemons” (Cateora et al. 2009, p. 37). The battle raged on—leading to additional tariff increases on both sides (Cateora et al. 2009, p. 38). In another example, the U.S. tried to protect its agricultural sector during the Great Depression, resulting in a litany of tariffs, quotas, and other barriers (Feenstra & Taylor 2008, p. 12). As such, by attempting to protect domestic industries through trade barriers, a country can actually hurt its own export-oriented industries, as well as its own customers. Thus, trade barriers have a negative effect on economic prosperity for both countries.

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References

Cateora, Philip. Mary Gilly and John Graham. *International Marketing: 14th Edition*. McGraw-Hill: NY. 2009.

Feenstra, Robert. Taylor, Alan. *International Trade*. Worth Publishers: NY. 2008.

Frankel, Jeffrey. Romer, David. "Does Trade Cause Growth?" *The American Economic Review*, Vol. 89. 1999. (379-399).

Reisen, Helmut. "Durable Flows, Durable Benefits." *OECD Observer*. Issue 226/227. 2001.

For Strauss Evaluation

Grade _____

Content	Outstanding 25 points	Excellent 22 points	Good 20 points	Fair 18 points	Poor <16 points
a. Strong points to argue position					
b. Points backed by evidence					
c. Outside research used well					
d. Well written and professional (including references)					
Total earned (average is "good")					
Total possible	100	88	80	72	60 or less