# Eakinomics: Does Anyone Believe in Trade Anymore??

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The driving force of international trade is the simple notion of comparative advantage – the idea that even if one nation is more productive than another in *everything*, they can engage in trade and *both* can come out ahead. A simple example is to suppose that, in the United States, workers can produce four high-tech goods (TECH) each hour and eight low-tech goods each hour (LOW). So, shifting an hour from LOW to TECH costs eight LOWs and gains four TECHs – each TECH costs 2 LOWs; conversely, each LOW costs 1/2 of a TECH. Meanwhile, out there in EverywhereElse (EE), workers can produce one TECH each hour and three LOWs – each TECH costs three LOWs and each LOW costs 1/3 of a TECH.

There are two things to notice. First, the United States is better at producing both TECH and LOW. But, in the United States, TECHs are relatively cheap (only 2 LOWs instead of 3), and in EE, LOWs are relatively cheap to produce (only 1/3 of a TECH instead of 1/2). In this simple world, the United States should specialize in producing TECH and buy LOWs from EE at a price below 1/2 TECH each. It gets the TECH and LOW it wants at a lower overall cost. Similarly, EE should specialize in making LOWs and get the TECH it wants from the United States at a price cheaper than three LOWs. EE can also be better off.

These are the gains from trade that have, in turn, produced enormous gains in global prosperity. They are also the gains that seem to be frittered away on a daily basis.

There are a few policy errors being made. The first, and most obvious, are tariffs. Clearly, if you are a U.S. producer of LOWs, getting some shortsighted policymaker to impose a tariff will raise the U.S. price of EE LOWs, stop the trade, keep you in the LOW business, and *make the entire country worse off*. One can think of this as a tax on everyone – especially TECH workers – to subsidize LOW producers.

This can also be done to “protect” blue-collar workers. Notice that a key aspect of the mechanism that produces gains is that the United States shifts its workers from LOW to TECH. This assumes that those workers are identical to those in TECH and can immediately do the job. In reality, it might require time and be costly to shift, and workers might need to acquire new skills. The temptation to short-circuit the impact of trade has been overwhelming.

The other popular concept at the moment is “re-shoring” or “on-shoring” production. In the context of this simple example, it is bringing back to the United States the production of LOW. Politicians will tell you this makes sense because U.S. workers can make more LOWs in an hour than EE, but in reality, it is *reversing and giving up the gains from trade.*

When trade is between individuals, nobody thinks twice about interfering with comparative advantage. But somehow when the trade crosses international boundaries, policymakers lose their bearings.