

Friedrich Naumann Foundation for Freedom, European Dialogue Programme | Online hackathon, 19 June 2020
Enable Economy Europe21 ! Re-imagine Social Market Economy

How to steer trade policy so that it mutually benefits economies and societies globally?

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The burden of proof

Voluntary exchange is a positive sum game.

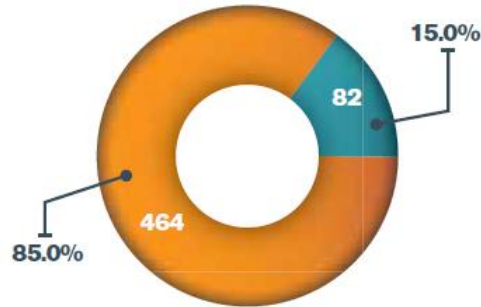


Barriers to trade call for reasons, free trade doesn't.

Barriers to trade: (Much) More than just tariffs

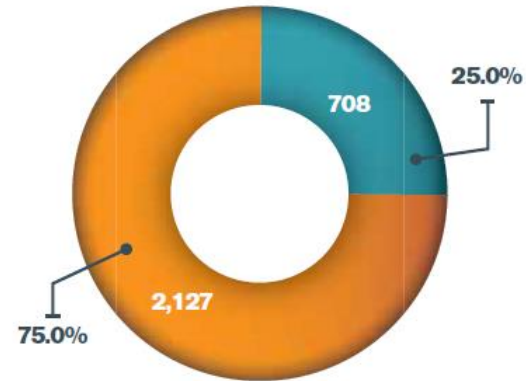
Stockpile of trade-restrictive measures initiated since October 2008

By mid-October 2010



546 measures

By mid-May 2016



2,835 measures

● Effectively eliminated measures ● Stockpile of restrictive measures

Note: The stockpile of trade-restrictive measures also includes trade remedy actions.

Quelle: WTO, World Trade Statistical Review 2016.

Protectionism: Not just a matter of trade

Capital controls.

Power politics vs. smart politics

Block building: U.S. / China / EU
thinking from the 20th century

Europe's true source of power: Diversity
thinking for the 21st century

Double pack of interventionism

Neomercantilism:
Protectionism + strategic industrial policy

Beware of new narratives

Protectionism



“Economic sovereignty”

Social coordination systems

Organization (Taxis)

- » Atavistic instincts
 - Solidarity, altruism, commons
 - Hierarchy, aggression against outsiders
- ⇒ **Social warmth**
(stabilizing small groups)
- » Constructivist rationalism
- » Methodological collectivism



Radical simplification

Socialist community
(Historical determinism, design)

Spontaneous Order (Cosmos)

- » Abstract rules
 - Private property, contracts, reputation
 - Competition, exchange with foreigners
- ⇒ **Social division of knowledge**
(coordinating anonymous societies)
- » Critical rationalism
- » Methodological individualism



Accepting complexity

Open society
(Evolution, self-organization)

Mercantilist atavism: “Buy German”



Growth via net exports: A Keynesian myth

$$\text{GDP} = \text{C} + \text{I} + \boxed{\text{Ex} - \text{Im}} \quad \text{Trade surplus}$$

$$\text{GDP} + \text{Im} = \text{C} + \text{I} + \text{Ex}$$

The fundamental mercantilist flaw

Wrong: A country is just like a company, only bigger.

Right: A country is a system of interwoven markets.

The fallacy of national competitiveness

Ricardo still applies.

Countries cannot become uncompetitive.

Peaceful sourcing of goods

Make (= domestic production)

or

buy (= exchange with the RoW)

Waiting for the most sluggish camel in the caravan
(WTO Doha round: launched in 2001)

Most-favored nation treatment \neq free trade

Stubborn reciprocity/retorsion

Market access as a concession

Blind spot:
Relevant knowledge and rent-seeking

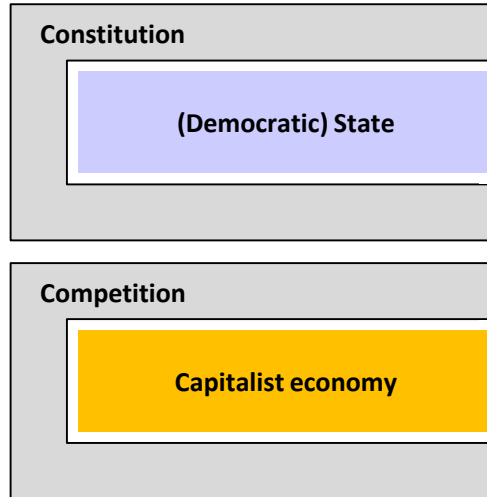
European champions, technological sovereignty, ...



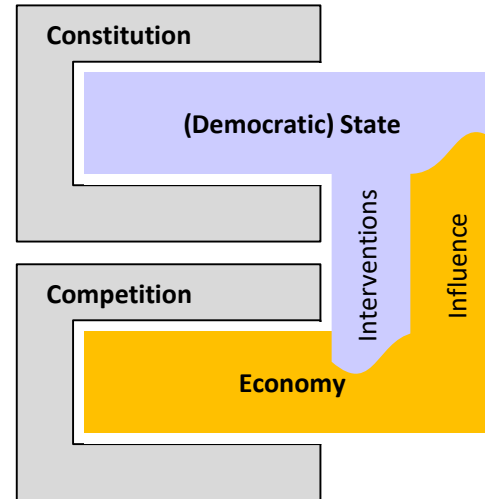
High risk of system deformation

System deformation by interventionism

Free market system



Interventionism



Radical alternative

Unilateral free trade

Open markets via unilateral free trade

- Level playing field for domestic and foreign firms
 - Abolishing tariffs (independently from rest of the world)
 - Widely accepting foreign standards
 - Exploiting foreign subsidies
 - Market-driven innovations/technologies
 - Global collective goods: Border adjustment tax
- ⇒ **Maximum competition for domestic companies**
- ⇒ **Protection of the inner competitive order**

Self-sufficiency (autarchy)

If goods don't cross borders, soldiers will.

Otto M. Mallery
Economic Union and durable peace (1943)

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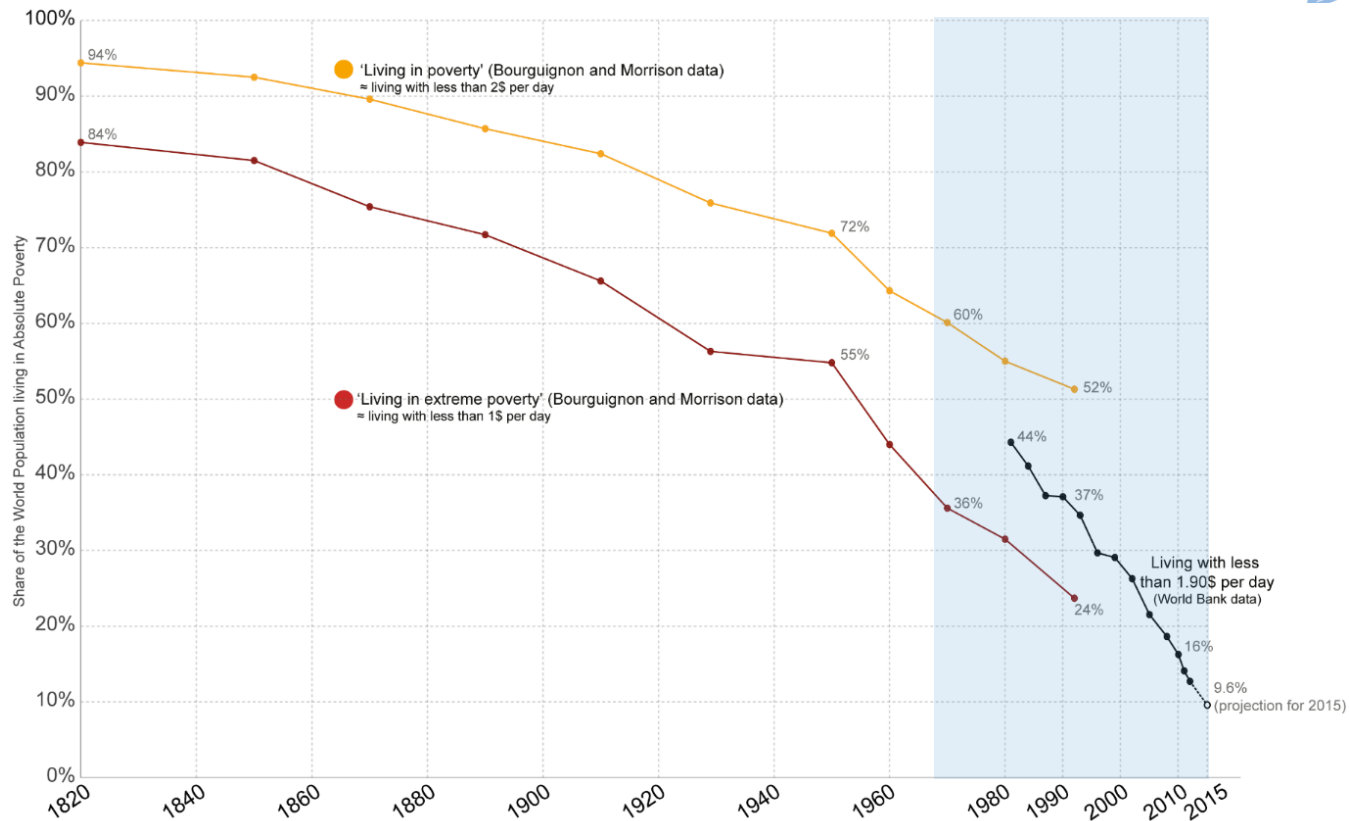


Identifying the losers of globalization

Not trivial.

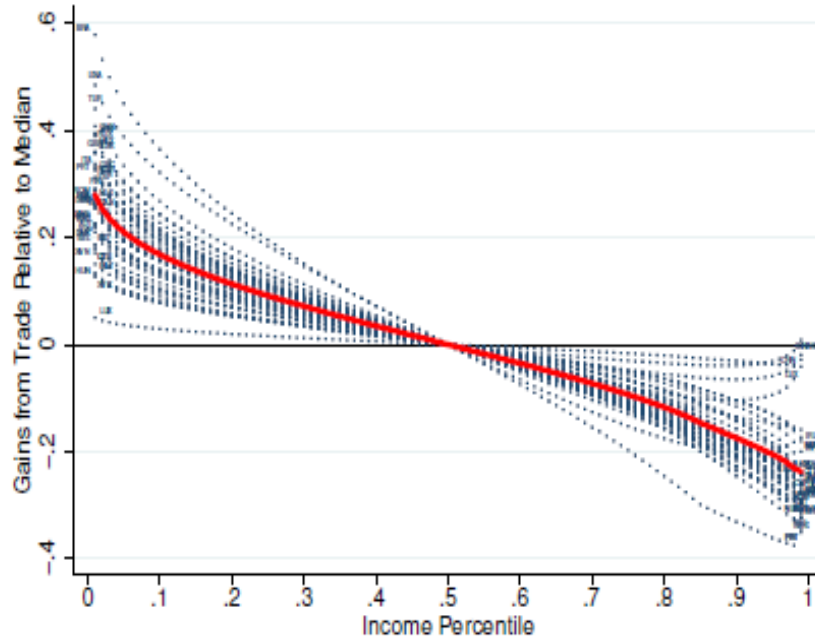
Absolute poverty almost wiped out

Source: Our World in Data



Consumer perspective: Gains from global free trade

Figure 5: Distribution of Unequal Gains: Baseline Case



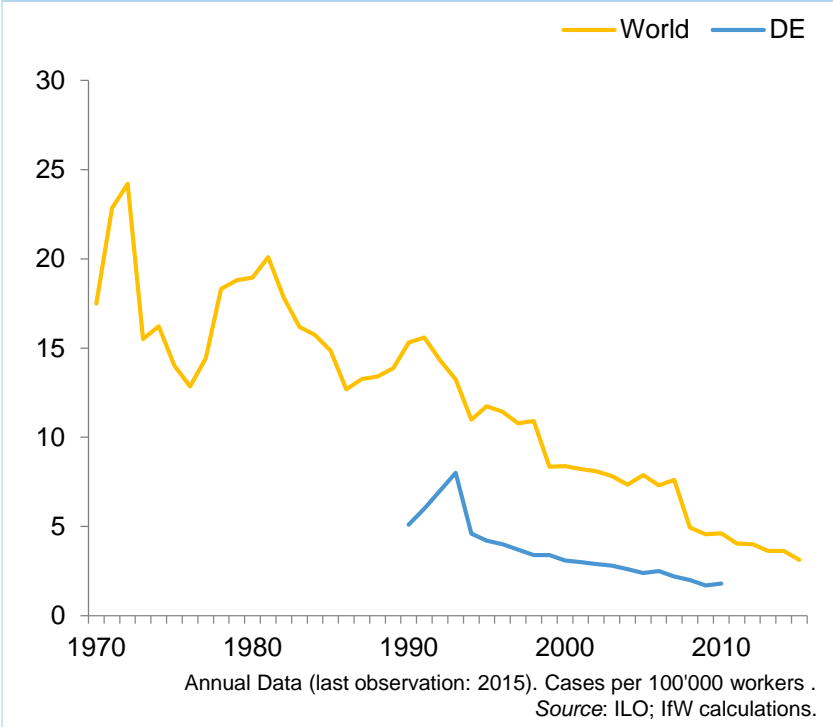
The deviations are relative to the median individual. The red line is the average across countries.

Source: Fajgelbaum, P. D., & Khandelwal, A. K. (2014). Measuring the unequal gains from trade. NBER WP 20331

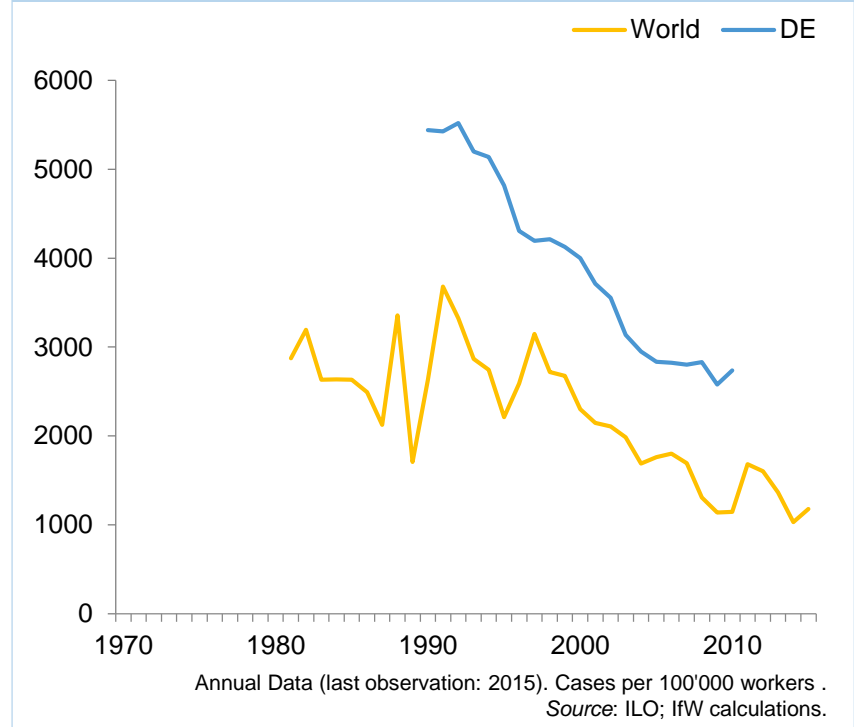
- Low income households: Higher expenditure share for tradable goods
- Global competition and division of labor make tradable goods more affordable
- World trade is mainly trade in mass production

Working conditions are improving

Fatal Occupational Injuries

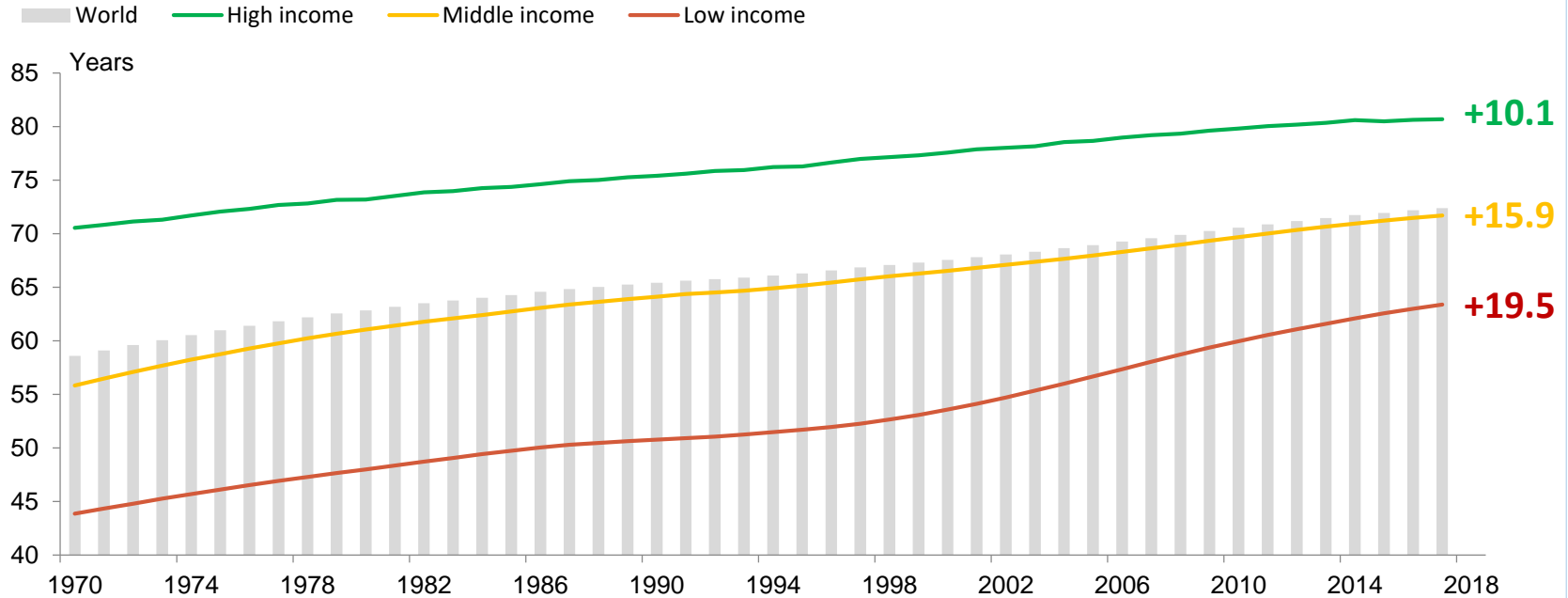


Non-fatal Occupational Injuries



Living for longer

Life expectancy



Annual data. Life expectancy at birth, years, total population.
Source: World Bank, World Economic Indicators; IfW calculations.