

The Bizarre Political Optics of Free-Trade Agreements

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Economists see the world differently than business people and politicians. This is never more evident than in discussions about the benefits of freer trade.

Here's a suggestion for an educational evening: Invite an economist, a businessman and a politician for dinner and ask them if Canada would benefit by unilaterally reducing its tariffs on imported cheese or automobiles or hundreds of other products. The businessman will likely say it is pointless unless it improves Canadian business prospects. The politician will say that Canada shouldn't make such a "concession" without other countries doing the same.

The economist will view these answers as bizarre. He will argue that all Canadian consumers stand to gain when the lower Canadian tariffs lead to greater choice and lower prices. For economists, this is pretty much a no-brainer.

Unlike many business people and politicians who seem to think that exports are "good" and imports are "bad," economists see exports as the necessary price we pay to get our desired imports of goods and services. For years, Canada has been exporting wheat, potash and oil so that we can afford to pay for the Colombian coffee, German machine tools and French wines that we like to purchase.

Isn't it obvious that we would choose to keep all of those exports at home for ourselves if we could do so and still receive all of the valuable imports? But of course, our trading partners are only prepared to give us their exports if we send them our products in return.

The bizarre view that freer international trade is really about the promotion of exports – and not about the benefits accruing to Canadian consumers – is made crystal clear in the federal government's recently released overview of the Canada-EU Comprehensive Economic and Trade Agreement (CETA). The entire document explains how reduced EU tariffs will give Canadian firms greater access to the huge EU market, how regulations will be streamlined, how the obstacles to foreign investment will be reduced, and how the dispute-settlement mechanism will operate. This is all very good.

But this document contains almost no discussion of how Canadians will receive access to a wider range of imported products and that prices paid by Canadian consumers will likely be reduced. There is equally little said about how Canadian firms that purchase foreign-made intermediate inputs might enjoy cost reductions.

I am not against improving the market for Canada's exports. The removal of existing restrictions keeping foreigners from purchasing Canadian products is obviously of benefit to

Canada. But pitching freer trade only in terms of what it means for Canadian exporters is a bad idea, especially if governments want voters to go along.

For the millions of Canadians who work in hotels, restaurants, hospitals, schools, universities, governments and construction companies, exports are not a meaningful part of their world. But as ordinary consumers, they all care about being able to purchase imported products at lower prices. For the millions more who work in wholesale or retail establishments, selling products from groceries to clothing and from books to car parts, exports are again meaningless, but imports are hugely relevant. These Canadians know that gaining access to a wider range of imported products at lower prices lies at the heart of their customers' satisfaction – and of their own commercial success.

The case of government procurement should be based on the same pro-consumer logic, but often isn't. The usual political or business position is that Canadian firms should be able to compete for government contracts in foreign countries, but the same people often feel queasy about granting comparable access to foreign firms inside Canada. For domestic firms, this is outright protectionism, as they don't want to face the greater competition from foreign firms. For governments, the presence of foreign contractors makes it more difficult to curry political favours through the granting of contracts to local firms. The favouring of local firms is also seen as an important tool for economic development, which is why CETA only opens the market for "high-value" contracts.

Those who really care about consumers' well-being have a different perspective. Canadian taxpayers are the ultimate consumers of these government projects, and our best interests are clearly served when governments get the best products and services for the lowest prices. A genuinely open competition among foreign and domestic firms is the surest (and probably the only) way to guarantee this outcome.

Truly open international competition will only occur if the pro-consumer view eventually comes to dominate our thinking about freer trade. Is this really too much to expect?

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