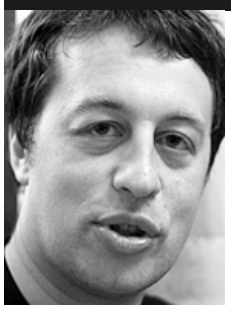
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Trade Barriers Do More Harm Than Good

By Konstantin Sonin

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Economics commentators have very little "wiggle room." The general reader has no desire to go into the finer points of economic theory, and so the writer must use whatever pretext he can to capture the interest of his audience — even if the subject initially seems unrelated to economics.

For example, the current situation with Ukraine offers an excellent opportunity to discuss the purpose of various types of customs unions.

Who benefits from a trade barrier? To understand that, imagine lowering or completely eliminating import tariffs on a particular product. This would result in some Russians buying the foreign-made product rather than the same or similar product produced domestically. Which Russians would suffer? First, the manufacturer, who will earn lower profits and will have to either cut production or possibly close down the business, would suffer. That would then cause hardship for employees and their families.

Lastly, all Russians suffer in the form of lower tax revenues and higher payouts for social benefits to the unemployed. However, when distributed across the entire population, those losses are negligible. Which people in Russia benefit from the lack of trade barriers? Consumers who bought less expensive foreign products who therefore have more to spend on other things.

Of course, the owners and employees of the shuttered Russian company suffer greater losses than the minor savings that individual consumers experience. However, at most tens of thousands of individuals suffer losses, whereas tens of millions experience a gain.

Economics commentators often take a disparaging attitude toward the few rubles that Russian consumers save when buying less expensive Chinese, Ukrainian or Polish goods in place of Russian products. However, for the overwhelming majority of Russians, the cumulative savings from buying less expensive products means they pocket that much more money for higher quality food, better medicines, braces for their children, a few more inches of living space or a new television — in short, for all of the things that contribute to health and happiness.

The difference between the two groups is that business owners and their employees are small but often highly organized and vocal groups — especially in the case of single-industry towns in which the entire population can stage a major public protest when their livelihood is threatened. By contrast, the millions of consumers who lose out if the trade barriers remain in place are not organized, although collectively they stand to lose enormous sums. That makes them a silent and politically impotent majority.

Thus, trade barriers generally lower the standard of living for tens of millions of people. There are exceptions: perhaps an industry critical to national defense deserves protection, for example. And, of course, a greater reliance on domestic production makes a country more resilient to external financial shocks. But each time leaders consider erecting a new trade barrier, they should ask themselves this question: Does the immediate benefit really warrant diminishing the economic welfare of tens of millions of citizens?

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