

*Do you have to be a free-trader to support the WTO?*

Do you have to be a free-trader to support the World Trade Organization (WTO)? Much of the public debate over the pros and cons of this international institution proceeds as if the answer is “Yes.” Participants in this debate agree on one thing: as a result of a series of international negotiations carried out within the WTO (and its predecessor, GATT), international trade has become increasingly free of tariff and non-tariff barriers. Where the two sides diverge is over the question of whether this movement toward freer trade is a good thing or a bad thing. For this reason, public support (or lack thereof) for the WTO has become synonymous with support (or lack thereof) for the economist’s case for free trade. And until relatively recently, if given the opportunity to shape the public debate most economists would have chosen to cast the arguments in just these terms. It may come as a surprise, then, that recent economic research indicates that the role that the WTO plays in the world trading system has virtually nothing to do with the economist’s case for free trade.

As anyone who has taken an undergraduate international trade course knows, the economist’s case for free trade is in some ways very special. For example, one of the most famous results of international trade theory is that, whenever a government removes an import tariff and thereby adopts a policy of free trade, there will be both winners (who enjoy increases in real income) and losers (who suffer declines in real income) within the economy. But if there are sure to be losers from tariff liberalization, so that economists can’t claim that *everyone* will gain from a move to free trade, what, then, is the economist’s case for free trade? It is that the efficiency gains associated with the removal of tariffs would allow the government to tax the winners and give the proceeds to the losers so that everyone in the economy *could* enjoy gains in real income. Of course, in the real world governments for a variety of reasons do not tax and redistribute in this way, and so there are typically segments of the population (e.g., workers who compete directly with imported products) who will lose when a country eliminates its tariffs. And evidence supports the further prediction of trade theory that many of those who lose from tariff liberalization will suffer permanent – not just transitional – reductions in their real income. Hence, in the real world, trade liberalization has real and unavoidable distributional consequences that each nation must weigh against the accompanying efficiency gains in deciding whether a move to free trade is “good” or “bad.” And understandably, different countries may feel differently about these tradeoffs, and so make different choices about the tariff levels that are appropriate for them.

If support for the WTO were based on the economist’s case for free trade, then, the case for the WTO would, like the case for free trade, rest on an assessment that the efficiency gains from a move to free trade were sufficient to outweigh any adverse distributional consequences: those who agreed with this assessment would have reason to support the WTO, and those who disagreed with this assessment would have reason to oppose the WTO. But the WTO does not seek free trade from its member governments; it does not even seek freer trade, although it anticipates that governments will indeed use the WTO to negotiate freer trade. The key observation is that the WTO is in fact nothing more (or less) than a multilateral government-to-government negotiating forum. For this reason, the case for the WTO rests on an affirmative answer to the following question: Can a government at the WTO bargaining table generate trade benefits for its trading partners with a small reduction in its tariffs that its trading partner governments value more than the costs that this

government perceives – in light of its own assessment of the efficiency/distributional tradeoffs associated with tariff liberalization – from this small amount of unilateral tariff liberalization? If so, and if its trading partners can use the WTO negotiating forum to compensate this government for the perceived costs of its unilateral commitment to lower its tariffs, then all governments can gain. In the WTO, governments do not make direct cash payments to each other, but they have found another way to make the needed compensation to induce a government to reduce its tariffs in this way: reciprocal commitments to reduce their own tariffs.

So the case for the existence of the WTO (or something like it) rests on an affirmative answer to the question posed just above. As it turns out, recent research has established that the answer to this question is indeed “Yes” in a broad set of circumstances that have virtually nothing to do with whether or not governments accept the economist’s case for free trade. What is important instead is whether a government can shift part of the costs of its unilateral tariff choices onto foreign exporters (if so, then the tariff levels it chooses unilaterally are “too high” from an international perspective), and it turns out that it can do this in a broad set of circumstances. An implication is that WTO negotiations can benefit governments regardless of whether or not they accept the economist’s case for free trade, and that WTO negotiations should lead to freer trade (as they have), but not necessarily to free trade (as they have not).

For these reasons, you do not have to be a free-trader to support the WTO!