Free trade is not a 'measly' concept

NEIL REYNOLDS
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In its "draft final report" on the social, environmental and economic consequences of a free-trade agreement with Canada, a European Union-commissioned panel of trade experts has calculated that the economic gains would be only half as large as economists imagined when negotiations began in 2008.

This abrupt correction induced the Council of Canadians to accuse Prime Minister Stephen Harper of selling out the Canadian economy – in the midst of a federal election – "for a measly $6-billion," half the previously anticipated gain in GDP. But this measly $6-billion would be gained almost effortlessly every year, expanding Canada's real GDP (for example) by $60-billion every decade. Measly, indeed.

Indeed, as calculated by the EU panel, the trade agreement would boost GDP only marginally: perhaps by 0.29 per cent, perhaps – best case – by 0.36 per cent. For the moment, let's assume 0.3 per cent. With Canadian GDP at $1.3-trillion, this would mean an annual GDP gain of $4.9-billion. For the EU, with its larger GDP, the panel put the gain at one-tenth of that percentage: 0.03. This means that, in dollar terms, the Canadian and European gains in GDP would precisely match: 0.03 per cent of the EU's $16.4-trillion GDP is precisely $4.9-billion.

However modest the gains appear, the EU-Canada trade agreement would therefore generate equal benefits for the two partners in trade, according to the EU report: "[This agreement] is expected to lead to overall gains in welfare, real GDP, total exports, the balance of trade and wages in both Canada and the EU over the long term."

The panel said it could detect no significant harm to any other country. It said further gains are possible. For example, the deal would make it easier for Canadians to work in Europe, and for Europeans to work in Canada, "which could result in a more efficient allocation of skills and increased productivity."

It’s hard to determine the precise GDP gain from any particular free-trade agreement (FTA). Since Canada’s FTA with the U.S. in 1987, and its subsequent partnership with Mexico in NAFTA, trade volume among the three countries has tripled, millions of jobs have been created and wages have risen. But who can prove what might have happened without these agreements? Many economists assert only that the consequences have been “positive.”

The consequences of the EU-Canada trade agreement will almost certainly be positive, too – even if the deal produces only marginal increases in GDP. Small, incremental increases add up, creating more wealth (for companies), more wages (for workers), more mobility (especially for business and professional people) – and more income for governments to tax. Of all these benefits, increased job mobility may well be the most important: It expands individual liberty.

The EU-Canada agreement may well extend a greater right for a Canadian to take a job in Europe than NAFTA does for a Canadian to take a job in the U.S. Writing in the March issue of Policy Options, former Canadian diplomat and trade expert Colin Robertson says Canada’s objectives in the coming “perimeter border” negotiations with the States should include extensive mobility rights: “The ultimate goal should be to make the flow of traffic – people, goods and services – within the single biggest bilateral trading relationship in the world as easy as that enjoyed within the European Union.”

Mr. Robertson says “rules and regulations,” as opposed to tariffs, now constitute the biggest barriers to the free movement of people and products in North America. (Orange juice, for example, is regarded as a drug in Canada but as a food product in the U.S.) Canada and the U.S. now make 5,000 changes to trade regulations every year – costing Canadian exporters $15-billion a year; more than 1 per cent of Canada’s GDP.

The Canada-U.S. FTA eliminated tariffs. Now it is time to get rid of the rules and regulations that succeeded them – whether doing so produces GDP gains or not: Simply put, it expands human liberty. Free-trade agreements, after all, are not free-trade agreements. They are managed-trade agreements.

These legalistic, bureaucratic agreements nevertheless move peoples and nations closer to free trade – once eloquently anticipated by Frédéric Passy, the classical French economist who jointly won the first Nobel Peace Prize in 1901: “Some day, all [trade] barriers will fall,” he said. “Some day, mankind will form one workshop, one market, one family.”