Ask the Professor

This online column examines a new topic each month through the lens of economics, philosophy, and history. Join us on the Fraser Institute website for a live online discussion with students across Canada, or post your questions for the professor today!

*Here's an excerpt from a recent Ask the Professor discussion on **globalization and trade** with Dr. Donald J. Boudreaux, Chair of the Department of Economics at George Mason University in Fairfax, Virginia.*

How is it that a typical worker today can easily afford a wide variety of goods and services, the production of which requires the coordinated efforts of millions of workers? The answer is that each of these workers is part of a market so vast that it is worthwhile for many entrepreneurs and investors to organize highly specialized production operations that are profitable only because the market for their outputs is large. This specialization of labour and production across different industries around the world is the phenomenon of globalization.

Alia asked:
In your discussion of free trade, you note that one of the benefits is that it gives consumers the opportunity to buy goods and services from the best producers in the world. However, is it not consumers in developed countries that benefit the most? Many argue that globalization and free trade also cause great disparities, making the rich richer and the poor poorer. What role can free trade play in ameliorating these disparities? When and how do you think developing countries should restrict free trade, if ever?

Dr. Boudreaux wrote:
In fact, though, those who benefit most are consumers in developing countries. Americans, Canadians, and Brits, for example, would suffer if their governments blocked foreign trade. But because industry and market institutions in those countries are so well-developed, a sufficient amount of production would go on internally so that people there would hardly become destitute. But if, say, Guatemala or Mauritius each more severely restricted trade with the rest of the world, the industrial, agricultural, commercial, and financial capacity of those countries is so small that severe reductions in consumer well-being would become manifest in short order.

Now about inequality: the data show that increased trade is NOT associated with increasing inequality within countries. The data DO show that countries that restrict trade grow less than countries that are more open to trade.

George MacArthur asked:
You wrote in your article that, with trade, "cooperation spreads naturally and without much attention to political boundaries." Does this mean that governments are gouging the consumer surplus that would have been there without trade barriers?

Dr. Boudreaux wrote:
If I understand your question correctly, the answer is yes. Trade restrictions protect domestic sellers from competition—from foreign competition, to be precise. That's the political reason why such restrictions exist; it's the monopoly power that such restrictions bestow on domestic sellers that prompts domestic sellers to lobby for such restrictions. And whenever monopoly power exists, consumer surplus is reduced. That is, the gains from trade that consumers get from purchasing the good or service in question shrinks. ■

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