Regulation as a barrier to free trade [1]

Written by **Whig** [2] | Wednesday 20 February 2013

Tim Worstall expressed his exasperation [3] as to why free trade negotiations are going to take two years to complete. He's absolutely correct that, in a sane world, trade negotiations wouldn't exist - in the nineteenth century Britain simply unilaterally repealed tariff and legal barriers. Despite being a less substantial player in the world economy, there's no economic reason why we ought not do this today, although there are many political ones. It's reasonable to blame politicians for the problem, although I would argue that politicians are representative of both special interest groups - (business lobbies, labour lobbies and ideological protectionists) who seek to erect trade barriers- and a supine and ignorant population.

However, there is a genuine cause to the length and complexity of trade negotiations, namely: regulation. Tariff barriers between the US and EU aren't particularly high - the European Commission puts them at 3% on average. The real block to EU-US trade is the non-tariff barriers derived from 'from diverging regulatory systems (standards definitions notably), but also other non-tariff measures, such as those related to certain aspects of security or consumer protection'. The other area at issue is agriculture - the US and EU heavily subsidies these industries.

To enable the regulatory barriers to be removed or reduced - whilst maintaining the same levels of regulation - requires both jurisdictions to have a reasonably common standards. Because there is so much regulation and it is so complex, this requires considerable care and runs the risk of imposing costs against either EU or US producers by altering their regulatory regime.

Of course, the EU itself has for many years been engaged in the process of standardising regulation across its multiple jurisdictions. In theory this is sensible as it does, indeed, allow free trade. However, instead of simply eliminating or greatly reducing regulation, the EU has instead added greater complexity and bureaucracy whilst harming consumers in the process - the horsemeat scandal illustrates this [4] perfectly. Instead of simplifying regulations in the EU and US, the trade negotiations will simply force exporters to conform to a common set of standards at a high level of complexity. This is good for large-scale enterprises, who find the costs of compliance lower, but it imposes high costs on smaller and more marginal firms and encourages monopolies. So, growth will result and this is desirable, but it may come at the price of even greater dominance of the large multinationals that big-government loving interventions love to hate, but are actually promoting.

Worse, such trade negotiations will still not open EU-US markets to external trade. It's all well and good to create free trade areas but we should remember that free trade blocs are often protectionist to those not lucky enough to be within the bloc. In this case, that's most of the developing world. In the absence of high-tariff barriers, it's regulation which presents the greatest barrier to global free trade in the modern world. The process of standardising regulation across jurisdictions is slow, complex and open to abuse. It protects monopolists and harms the consumer whilst continuing to shut out trade from outside the bloc. Whilst trade bi-lateral trade negotiations will deliver some growth, what we really need is the standardisation of regulation by eliminating it altogether.

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