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The Benefits of Trade

By Pierre Lemieux

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About the Author

Pierre Lemieux is an economist affiliated with the Department of Management Sciences of the University of Québec in Outaouais, and a Senior Fellow at the Montréal Economic Institute. He has taught or lectured at many Canadian universities, besides working as an economic consultant for several private and public organizations. He is the author of many books, published mainly in the United States and in France, on issues of political philosophy, public policy, and economics. His latest book is *Who Needs Jobs: Spreading Poverty or Increasing Welfare* (Palgrave Macmillan, 2014). He has contributed many articles to the financial press, including the *Financial Post,* the *Wall Street Journal,* and the *Figaro-Économie.*

Executive Summary

This paper examines the economic argument for free trade, with an emphasis on the importance of trade for Canadian provinces. The author discusses international, interprovincial, and local trading relationships, explaining the benefits of free exchange for all three types. He argues that a major factor in the benefits of free trade lies in comparative advantage, whereby producers create the goods they are best suited to make and interact with consumers on a voluntary basis. Protectionism, by contrast, implies that a jurisdiction should produce and consume its own goods despite the higher cost that this requires. The author explains the benefit of dropping barriers to exchange, even when trading partners do not reply in kind: by remaining open to trade, a jurisdiction's population accrues the benefit of a higher standard of living from more-affordable goods. Producers must also improve the quality of their goods through greater competition.

Introduction

The case for robust trading relationships has become a matter of political debate. While governments of Western countries recently opposed protectionism at least officially, a rise in populism has caused many to reconsider. With calls from the United States government to protect American industry and jobs, as well as growing popularity for protection-focused nationalist parties in Europe, it is necessary to revisit the subject.

This paper sets down a basic argument for free trade, making the case for exchange as beneficial to most people in any trading jurisdiction. It may seem odd to revisit an argument that is several hundred years old, but making the case for free exchange is as important now as ever. For Canadians, whose economy depends greatly on a liberal trade order, the significance of this issue is great. Importantly, impediments to trade do not solely come from threats on protectionism south of the border or elsewhere. Canada also maintains barriers to internal trade that must be reversed.

The first section of this paper addresses the fundamental ideas at stake: Why do people trade? Why do they produce goods or services, either as employees or self-employed, and exchange the fruits of their labor for money? Why do they exchange the money they earn to obtain other goods and services? In other words, why do people exchange what they produce for other things?

Many people are suspicious of free international trade. Most economists, on the contrary, agree with the case for free trade against protectionism. The second section of the present papers will briefly review the arguments developed by economists.

This raises a question in the Canadian context: What are the relations between free international trade and free interprovincial trade? Can we justify interprovincial barriers to trade? The third section will address such questions.

Finally, is it better to buy locally? And what if some people prefer to buy non-locally? The fourth section will discuss these issues, followed by a short conclusion.

I. The Benefits of Exchange

In 1980, a popular history book published in Quebec reproduced a painting of Pierre Esprit Radisson, the famous explorer of the 17th century, purportedly making an exchange with an Indian chief. The caption makes a statement and asks a question: "In an exchange, there is always a winner. Is the winner Radisson or this Indian chief?"[1]

This is exactly how exchange should not be viewed. In a free exchange, both parties benefit; otherwise, at least one party would have declined the deal. Nothing in the painting suggests that the Indian chief was being coerced. Radisson bought pelts in exchange for such goods as kettles, hatchets, knives, arrowheads, guns, powder horns, and shots — European goods that the Indians found very useful.[2] The Aboriginals and Radisson benefited from the exchange (or at least thought they were benefiting), compared to their situation without it; otherwise, one party would have walked away.

Exchange is not a zero-sum game: net benefits are created for each party. Economists talk about the benefits of exchange, a crucial notion in the field.

James Buchanan, the 1986 Nobel economics prizewinner, explained that if he observed two individuals "trading without defrauding each other … that is the way I define what is efficient."[3] This is the standard way economics defines efficiency. Any other way of viewing exchange and its benefits would involve elitism or paternalism: it would mean that an external observer knows better than the traders themselves what is good for them; and that he may want to impose his own evaluation on them for their own good.

The benefits of exchange apply to any trade between two individuals or private organizations, whether they are trading within or over a political border; that is, whether they are involved in domestic or international trade. This economic way of seeing exchange has proven useful to analyze how people behave.

II. International Trade

Economics textbooks show that, in almost all cases, free international trade benefits a country in the sense that it potentially benefits all residents because the total benefits are higher than the total costs.[4]

Every individual benefits by specializing in his comparative advantage, exchanging what he produces, and purchasing whatever else he needs from people whose comparative advantage produces these other things. It is the same between countries, as formalized by economist David Ricardo in the early 19th century. Ricardo's theory of comparative advantage shows that a country should export what it has a comparative advantage in producing (e.g. wheat for Canada), and import what foreigners have a comparative advantage in producing (e.g. oranges in warmer climates). This is because Canadians, given the geographical conditions of their country, can import lots of oranges by selling a relatively small quantity of wheat, while they would have to sacrifice a lot of wheat to produce just a small quantity of oranges. Productive wheat land plus hothouses and labor would be used in low-productivity growing of oranges. By specializing in wheat and exchanging part of its production for oranges, Canada ends up with a greater combination of wheat and oranges than could be produced domestically. And free trade will automatically lead to such specialization because it is in the interest of businesses and workers to do what they can do better than their competitors. Saying that free trade increases the total amount of goods and services is the same as saying that it increases real income.

The law of comparative advantage applies even if one country has an *absolute* disadvantage in all areas of production. A poor country is poor because its producers generally have low productivity, but it can still benefit from exporting what it is least bad at making. ("Producers" means businesses and their employees.) All textile products could be made more efficiently in Canada than in Bangladesh, but it would use resources (labour, land, and capital) that are better used to produce things like vegetables and base metals. So, Bangladesh profitably exports textile products to Canada and imports vegetables and base metals.

Free international trade brings new competition against domestic producers and pushes prices down. Consumers gain but producers exposed to international trade lose.

How do we know that the costs borne by producers are lower than the benefits gained consumers? Think about some widget (i.e. a given product). If it were not true that the benefits of free trade to consumers were larger than domestic producers' losses, the latter would, with a lower price for the widget, force consumers to patronize them instead of their foreign competitors. Another way to see this is to realize that a protective tariff against free trade in that widget will increase its domestic price and thus incite domestic firms to produce more widgets to partly replace imports. This will lead to two sorts of distortions: (1) consumers will buy less of the now more expensive widget (because its price has increased); (2) in replacing part of the former imports, domestic producers will use resources that were previously allocated to satisfying consumer demand for other goods.[5]

Economists have found only one theoretical exception to the net benefits of free trade. If the protectionist country is large enough to influence prices on world markets, its lower demand for a protected good will lower its world price, thereby making the country's "terms of trade" more favourable. The country now pays less for its imports (the same effect as from an appreciation of its currency). This price saving can potentially more than cancel the net cost of protectionism. But we do not need to be concerned with this exception since Canada is a small country in world trade. Canadian imports of goods and services correspond to only three percent of total world imports.[6]

Other arguments against free international trade are mistaken and have been proven false by economists since they contradicted the mercantilist (protectionist) theories that reigned from the 16th to 18th centuries.

One of these mistaken arguments is that a country should export more and import less. But exports are a cost since we use our resources to produce goods and services for foreigners; and imports are a benefit since we use the resources of foreigners to obtain our own goods and services. Thus, contrary to conventional wisdom, we should import as much as we can and export as little as possible. To see that export fetishism does not make sense, imagine that a country ships its exports by sea and that returning ships, which bring back the imported goods in exchange, sink. Obviously, the country would not be better off. It would have received nothing in return for its exports.

There is a methodological error in saying that "a country" imports and exports. Only individuals or private organizations (like businesses) carry such activities. And "our" resources belong in fact to such private entities. Total (social) costs and total (social) benefits are only the summation of the costs supported by some individuals and the benefits obtained by others. The linguistic shortcuts that we use to speak of importing or exporting countries are nothing but linguistic shortcuts. It is difficult to overemphasize this point.

Another economic fallacy is that protecting jobs is the goal of economic activity in general and of international trade particularly. The goal of economic activity is not working and sweating, but earning incomes, using these incomes to buy consumable goods, and even more fundamentally obtaining the "utility" that consumption provides. People produce to consume, not the other way around.[7] Free trade generates more income. It is true that, with few exceptions (such as children), an individual is a producer and a consumer, but his goal is consumption; production is only a means to this end. Favouring exports because they create jobs sacrifices the end for the means. In other words, jobs are not a good metric for welfare: if they were, they could be multiplied by forbidding technological innovations, which are in fact beneficial.

It is also true that foreign competition, just like technological progress, creates temporary disruptions and imposes adjustment costs. But such "creative destruction" (to borrow the famous expression of economist Joseph Schumpeter) is necessary for economic progress. The recent disruptions in manufacturing are due to technological change more than to international trade — in a ratio of nine to one according to one American evaluation.[8] As much as we may sympathize with the victims of economic disruptions, trade should not be impeded any more than technological progress just because it brings short-run costs that are more than compensated by its overall benefits. Nassau Senior, a famous 19th-century British economist, already saw the problem:

> *If we should think it madness to prohibit, or to tax, the use of an improved steam-engine, because it must be injurious to those employed in raising coal, what pretence is there for prohibiting or taxing foreign ribands or velvets because their importation would be injurious to the English silk-weaver?*
>
> *[T]o prohibit every change which is accompanied by individual injury would be to prohibit every improvement whatever.*[9]

Besides the effects of the static law of comparative advantage, free trade also has dynamic effects. Competition continuously obliges domestic producers to be more alert and productive. From 1974 to 2010, exporters' labor productivity was 13 percent higher than non-exporters'.[10] Protectionism, on the contrary, dampens incentives. The "infant-industry argument" was an old protectionist line, according to which some industries must be protected until they are strong enough to face international competition. The fact is that industries protected from international competition have no incentive to adapt and tend to remain, following the metaphor, infantile. An example is the textile and apparel industry, which shrank despite three decades of special protection (from 1974 to 2004).

If free trade is efficient, why is it so often shunned in favor of protectionist measures? The problem is what economists call the logic of collective action.[11] The costs of protectionism are generally dispersed among large groups of consumers, each of whom supports only a small cost, while its beneficiaries are a few producers who each reap a large benefit. The latter therefore are motivated to organize and participate in collective action (e.g. demonstrating, lobbying, financing studies, etc.) while the former are not. Consequently, protectionism wins more easily the favour of politicians and bureaucrats while free trade faces a higher bar. Think about the farmers' organizations who defend the Canadian supply management system — limiting the importation of less expensive milk, eggs, and poultry — or the airlines and telecommunications companies protected against foreign competition.

In trade matters, any situation where one's price is undercut by a competitor tends to be blamed by the former as unfair. Producers' "unfair" advantages typically reflect comparative advantage. When a foreign government (e.g. the Chinese government) subsidizes its own exporters, the situation is deemed unfair by non-subsidized competitors elsewhere in the world, but not by the consumers who benefit from lower prices. Many businesses also benefit from cheaper imports: about a fourth of Canadian imports are used as intermediate inputs in production. It is estimated that two-thirds of Canadian productivity growth between 2000 and 2007 came from imported inputs.[12]

It is difficult to define fairness as including bans on people importing what they can find at better conditions in foreign countries. Remember that protectionism hits the very consumers whose government imposes protectionist measures. Free trade, or the freest possible trade, appears to be the most useful definition of fair trade.

Granting that free trade is better than mutual protectionism, isn't retaliation better than unilateral free trade — i.e. isn't it better to decrease the freedom to import at home when a foreign state raises protectionist barriers? The answer is no. If a foreign state bars your country's exports, your government is only making matters worse by retaliating, restricting your importation of another good. This is not only because retaliation risks fuelling a trade war, where everybody clearly loses, but also because hurting the consumers of one's own country only compounds the damage that foreign protectionism does to its exporters. Economist Joan Robinson observed that protectionist retaliation appears "just as sensible to drop rocks into our harbors because other nations have rocky coasts."[13]

Canada has always been a trading nation. Today, some 32 percent of Canadian GDP is exported, compared to 29 percent on average for the countries of the Organization for Economic Co-operation and Development (OECD), and 14 percent for the United

States. Barring government subsidies, these exports correspond to what Canadian producers are comparatively best at doing. But the most important statistic is that Canadians import a value equivalent to 33 percent of their incomes (or GDP) because they each individually think that they are making a bargain and maximizing their utility.[14] Trade has been an important factor in Canada's becoming one of the richest countries in the world — the 11th in GDP per capita according to OECD data.[15]

III. Interprovincial Trade

The benefits of exchange for individuals cut across political borders, whether international or internal. The arguments for internal and external free trade are essentially the same. Following famous trade economist Bertil Ohlin, we can see international trade as a special case of interregional trade, the benefits being of the same nature.[16] In Canada, interprovincial trade is an important part of interregional trade and raises special political issues.

When trade is free between Canadian provinces, individuals and businesses will exploit the comparative advantage of each region (whether they are due to nature or history). The fact that some provinces are poorer than others does not cancel comparative advantage. Nova Scotia ranks eighth in GDP per capita, just after Quebec and before New Brunswick and Prince Edward Island.[17] Average hourly wages are 10 percent lower in Nova Scotia than the whole country.[18] But Nova Scotians and the rest of Canada can still trade profitably, with each province specializing in the sectors in which it has a comparative advantage.

The economic argument for free trade opposes interprovincial trade barriers as much as international trade barriers. International trade barriers come under the form of tariffs and quotas, but also as costly paperwork and technical or other standards meant to discourage foreign competition. There are no tariffs or import quotas between provinces, but the other types of barriers to trade exist. They have been partly — but only partly — removed by the 1995 Agreement on Internal Trade and its amendments, and by three agreements between different groups of provinces. (One of these agreements was signed in 2015 between New Brunswick and Nova Scotia).[19] The Agreement on International Trade is now being replaced by the new Canadian Free Trade Agreement, which further removes trade barriers, but with many exceptions still.

The most important interprovincial trade barriers at this time are:

- The supply management of dairy and poultry products which imposes provincial quotas (and high foreign tariffs, such as 299 percent for butter)[20] and prevents normal competition between businesses across provinces.
- The control of alcoholic beverages by provincial governments in most provinces. In most cases, a producer in one province may not make sales directly to a consumer in another province (the Nova Scotian government, however, has been among the three provincial governments to lift some of its restrictions in this area).

- Restrictive licensure laws on certain professions and trades, which reduce labour mobility between provinces. Canada being a single country, free trade should include the free mobility of labour.
- Biased government procurement policies may also tilt the balance towards local firms, preventing competition by suppliers from other provinces.[21]

Other obstacles to interprovincial trade exist under the form of inconsistent regulations — on securities requirements, truck size and safety standards, or business registration, for example. It should be noted, however, that not all forced harmonization is good. Often, like in the case of securities regulation, regulatory competition is good, as it allows experimentation and forces jurisdictions to compete for the best regulations. Harmonization stemming from competition is more efficient than harmonization imposed from above. The benefit of regulatory competition could be reconciled with the danger of protectionism by adopting mutual recognition, like in the European Union: any business satisfying the regulation of its home province could do business in all others.

Interprovincial barriers to trade have the same impact on economic efficiency and people's incomes as external protectionism. Standard estimates of the cost of the current interprovincial barriers run between 0.2 percent and 2.5 percent of Canada's GDP.[22] A recent study by professors Lukas Albrecht and Trevor Tombe of the University of Calgary calculates that interprovincial trade increases Canadian GDP by 4.4 percent.[23] They also estimate that reducing interprovincial barriers by 10 percent would increase GDP by 0.9 percent. As in the case of international trade, interregional trade usually carries higher benefits for poorer regions because it is in these regions that opportunities widen most. Albrecht and Tombe calculate that Nova Scotia's GDP is 7.5 percent higher because of interprovincial trade (compared to the aboved-mentioned 4.4 percent for Canada as a whole). These benefits from interprovincial trade are higher in Nova Scotia than (from the largest difference to the smallest) in Ontario, Quebec, Alberta, British Columbia, and Saskatchewan.[24] Reducing policy-induced interprovincial trade costs by 10 percent would boost Nova Scotia's GDP by 1.8 percent, double the overall Canadian impact.[25] These results are only estimates of course, but they confirm the theoretical conclusion that trade matters for prosperity, especially for the poorer regions of the country. There is also some evidence of a tendency to equalization of disposable income among most provinces over the past 85 years,[26] which is the expected result of trade.

Provincial subsidies to businesses are not usually considered a protectionist measure in this context. Although very good economic reasons exist to bar government subsidies, their cost is, as far as interprovincial trade is concerned, partly compensated by the bonus they give to consumers of other provinces who purchase the subsidized goods. From the point of view of the taxpayers of the subsidizing provinces, however, subsidies are a cost that diminishes the net benefits of interprovincial trade.

As in the case of international trade, barriers to interprovincial trade are promoted by small groups of producers who benefit from them at the expense of all consumers. Consider the supply management system in agriculture. In 2014, 16,153 persons could produce in exclusivity because they obtained quotas. The total market value of these quotas — which gives a minimum estimate of the forced transfer to producers from consumers — exceeded $32.6 billion, or about $2 million per quota holder.[27] The cost for the average household is $444 per year through higher prices. But this is less than one percent of the average household's income (and two percent of poorer households, as the implicit tax is regressive).[28] Who is more motivated to lobby the politicians in favor of the system, the typical household or the typical quota holder? (The value of quotas would fall to zero if the system was abolished without compensation.) For the same reasons, producers of alcoholic beverages and especially the provincial retail quasi-monopolies and their employees resist potential competition, including from other provinces. Members of trades and professions try to limit the competition of people from other provinces.

Free trade at all levels generates net benefits within a country or a region. Poor individuals in poorer geographical areas are most likely to benefit because, as already mentioned, they gain what they lack most: new economic opportunities. If they do not get these opportunities in their own provinces, they are more likely to move to another one.[29]

Note also that with free interprovincial and international trade, markets would efficiently determine which trade flows — east-west or north-south — are most efficient for different goods and services.

IV. Local Trade

Our discussion raises a supplementary issue that has been prominent over the past few decades: instead of favoring international and interprovincial trade, shouldn't we instead advocate local trade? The "localist" movement argues that people should preferably buy from local businesses, who should therefore sell their products mainly to local people. The localist movement is typically opposed to globalization.[30]

Localism is defined in terms of "local," but it is not clear how far "local" is. Is it walking distance, a short car ride, or one day of travel away? There is some limited evidence (from an online survey) that Canadian consumers consider beef to be local if it comes from less than 160 kilometres away, and that they also prefer (are willing to pay a premium price for) home-province beef to local beef.[31] Another problem in localism is that goods produced locally may have travelled to and from other locations (for further processing, packaging, etc.) before being ready for local marketing. Local goods will often contain inputs from other regions or countries.

The economics of local trade is the same as the economics of exchange over longer distances. Local trade is necessarily beneficial to the parties involved when the exchange is voluntary. We can understand that, for the typical individual, buying local is a good idea if, and only if, the prices offered by local producers are lower, including travel costs. Some individuals, of course, may prefer to pay a higher price, up to a point, to satisfy their localist preferences, but that is their prerogative. The reasons why non-local trade is often beneficial are the same as the reasons why trading out of the province or out of the country is beneficial: to get better goods and services at a lower price.

The main reason it is cheaper to buy some goods and services in one region rather than in another is the same factor that guides international and interprovincial trade: comparative advantage. Local producers have an interest in specializing in their comparative advantage and in selling their output to local and non-local consumers. Consumers will normally import from other regions the goods in which these regions have an advantage. This way, the consumers in each locality obtain more of all the goods they want. The relatively small share of the market occupied by the localist movement[32] reflects the simple fact that it is often less expensive to buy from far (or very far) away, even when transportation costs are factored in. For example, during the winter it costs less to import New Zealand apples into the United Kingdom than to keep local apples in cold storage from the previous fall.[33]

Economists have long argued that individual self-interest leads the production of goods and services in places with a comparative advantage. Adam Smith wrote:

The natural advantages which one country has over another in producing particular commodities are sometimes so great that it is acknowledged by all the world to be in vain to struggle with them. By means of glasses, hotbeds, and hot walls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expence for which at least equally good can be brought from foreign countries.[34]

Benefiting of the theory of comparative advantage developed after Adam Smith, American economist Frank Taussig noted a century ago that "very good pineapples can be grown in Maine, if only a duty be imposed sufficient to equalize the cost of production between the growers in Maine and those in more favored climes."[35] He could well have replaced "Maine" with any Atlantic Canadian province.

A related reason for which the production of some goods or services is concentrated in some regions and not in others lies in economies of scale. Together, comparative advantage and economies of scale explain why, for example, automobiles are not produced in Nova Scotia. Similarly, cars, computers, or bicycles are not produced in most localities.

Many of the arguments proposed by localist advocates are invalid. "Keeping the money in the community" is not a more valid rule of thumb for a locality than it is for a province or a country. If something costs less to import, it is better to send the money out of the community and to bring more money back into the community by exporting goods in which local producers have a comparative advantage. This will maximize consumption possibilities. After all, money is merely a means of exchange. Professor Pierre Desrochers of the University of Toronto and his co-author Hiroko Shimizu note that, a century ago, the Horse Association of America argued against buying oil-powered vehicles because it did not keep money within local communities.[36]

Another invalid argument is that local trade uses fewer resources than far-away trade. To mean anything, "fewer resources" must refer to a lower total value of all resources used; one cannot add quantities of, say, labour and steel. The only rational way to value a resource is its market price, which corresponds to the value of its best use — for the price of a resource is bid up by those for whom it is most valuable. If it costs less to produce something far away than locally, it means that it uses fewer resources (measured by their value).

Of course, when there is no market for a resource (e.g. pure air, stream water), either because of natural externalities or because of laws preventing its private appropriation, its cost does not represent its true value. But even in that case — which can be subsumed under the "pollution" label — local trade is often less efficient based on environmental criteria. For example, car travel to buy small quantities of food in farmers' markets may use more energy than less frequent trips to a supermarket efficiently supplied by large tractor-trailers.[37] As Desrochers and Shimizu argue, local trade is often bad, even from an environmentalist viewpoint.

Since voluntary trade produces the lowest costs and prices, it will come as no surprise that any local trade encouraged or imposed by public authorities is especially disadvantageous for the poor. Desrochers and Shimizu note that more expensive locally-grown food may seem a good idea for "upper middle class consumers who can always cut back on the cappuccinos to spend eight dollars for a dozen eggs and $3.90 for a pound of Frog Hollow peaches," but is not typically something a poor consumer can afford. Modern specialization and delocalization of food production, dictated by comparative advantage, explains why home food consumption costs about six percent of disposable income in the United States compared to more than 40 percent in some African countries.[38]

Local trade is often beneficial, as revealed by the fact that it is voluntarily practiced. This is obviously true in services that are not easily traded (e.g. haircuts, restaurant meals). It is often true in physical goods too. For example, the greater economic region of Halifax-Southern Nova Scotia-Annapolis Valley trades internally about five times as much as it imports from the Greater Montreal region.[39]

Economic freedom is the key word here. Free exchange does not force any individual to take the cheapest price he can find; it only allows this choice to those who want to exercise it. Most individuals do find it in their interest to do so, which is why protectionism requires government coercion. But an individual should always be free to buy at a high price if the sacrifice is worth the cost in his own preferences. If buying local is voluntary, nothing can be said against it. Government subsidies to implement it, however, force taxpayers to finance a reduction in production and income.

V. Conclusion

We have seen how economic analysis supports the idea that free exchange, whether international, domestic or local, is good for individuals. As usual in economics, "good" is defined according to what each person conceives as good for himself or in his own self-interest. I have argued three related points:

1) By allowing each country (that is, the producers in each country) to produce according to its comparative advantage, free international trade increases the volume of goods and services available for consumers, and thus carries net benefits.

2) The same conclusion can be reached for interprovincial trade, which increases total income in each province.

3) The same conclusion extends to local trade. Free trade does not force individuals to exchange with far away partners, but they will often do so out of normal self-interest. "Buy local" is only good if local production has a comparative advantage or if some individuals freely choose to do it.

Conversely, any protectionist barrier imposed by government — at the local, provincial, or international level — reduces total income and economic opportunities. At each level examined in this paper, free trade is beneficial.

Endnotes

1. Lamarche (1980), p. 261: "Dans un marché, il existe toujours un perdant. Est-ce Radisson ou ce chef indien?" The painting is reproduced from Canadian painter Charles William Jefferys (1869-1951), and was in fact titled "Radisson Meets the Indians" or alternatively "Arrival of Radisson in an Indian Camp 1660." See http://www.cwjefferys.ca/radisson-meets-the-indians (accessed February 3, 2017). This painting is reproduced on page 7 of this paper.
2. Nute (1978), p. 141.
3. Buchanan and Musgrave (1999), p. 245.
4. For the formal proof, see any textbook of international economics, for example: Krugman (2015), especially pp. 24-48 and 212-228.
5. Students of economics will recognize that I have just summarized the formal argument that uses consumer surplus, producer surplus, and deadweight losses. For example, see Krugman (2015), pp. 212-228.
6. World Bank, World Development Indicators, series BM.GSR.GNFS.CD, updated February 1, 2017 (accessed February 5, 2017).
7. See Lemieux (2014).
8. Hicks and Devavraj (2015). According to another estimate, by Roxburgh *et al.* (2012), 20% of the current economic disruption is caused by trade, the rest being due to technological factors and other factors.
9. Senior (1828), respectively pp. 59 and 60.
10. Cross (2016), p. 3.
11. Olson (1965).
12. See Cross (2016), pp. 3 and 6.
13. Robinson (1947), p. 158.
14. OECD, Trade in goods and services (indicator), doi 10.1787/0fe445d9-en (accessed on February 6, 2017).
15. OECD, Gross domestic product (GDP) per capita 2015 (constant 2010 prices and PPP) (accessed July 31, 2016). See also Cross (2016), p. 2.
16. Ohlin (1933), pp. 49, 159, and *passim.*
17. Conference Board of Canada (2017).
18. Statistics Canada, CANSIM, Table 281-0030, last modified March 31, 2016 (accessed February 7, 2017).
19. About interprovincial trade barriers, see Luu (2016).
20. Cardwell *et al.* (2015), p. 3.
21. Albretch and Tombe (2016, pp. 238 and 258) mention this barrier.
22. Luu (2016), p. 35.
23. Albrecht and Tombe (2016), p. 239 and *passim.*
24. Albrecht and Tombe (2016), p. 256.
25. Albrecht and Tombe (2016), p. 258.
26. Brown and McDonald (2015). Note however that disposable income includes government transfers, which may distort the comparison.
27. Data from Heminthawong (2015), p. 3.
28. Caldwell *et al.* (1015). p. 10 and *passim.*
29. Amirault (2013), p. 26.

30. See Hess (2009).
31. Lim and Hu (2016).
32. As acknowledged by Hess (2009), p. 247.
33. Desrochers and Shimizu (2012), pp. 99-100.
34. Smith (1786), Book IV, Ch. 2.
35. Taussig (1914), p. 364. See also Lemieux (2016c).
36. Desrochers and Shimizu (2012), p. 85.
37. Desrochers and Shimizu (2012), pp. 98-99.
38. Desrochers and Shimizu (2012), pp. 56-57.
39. Statistics Canada, CANSIM, Table 386-0004 (accessed February 7, 2017).

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