

In a referendum, the citizens of Britain recently voted to leave the European Union (EU). Leaving the EU could make Britain a poorer country, mostly because by leaving Britain would be giving up the ability to freely trade with other European Union countries. As a member of the European Union, regulatory restrictions and fees on trade between London and Paris are about the same as they are in a trade within Britain — between say, London and Liverpool.

Now that Britain is leaving the European Union, goods that used to trade freely across borders will now face a tax. Therefore, the price of English goods sold in France will increase in order to cover the fees that the European Union places on imports from nonmember nations. The French may find that the English goods are too expensive to buy when these prices increase. Consequently, the French may start obtaining, for example, their wool from Spain, which is in the European Union, and therefore able to sell its wool in France at a relatively low price — mostly, since Spanish wool sales in France are free from the European Union tax on imports.

Likewise, the English may decide that French wine is too expensive. The price of French wine will increase so that the French can pay the fees that the British government will charge for its wine sales in Britain.

Consequently, the British may end up producing their own wine, which they are not particularly well suited to do.

Counterintuitively, when the British start producing their own wine, the British citizens will end up being able to afford less wine. For a given number of workers, when it was able to trade freely within the European Union, Britain could have sold wool to obtain more wine than it would have been able to produce on its own. In essence, Britain may be poorer because the trade barriers that will exist after it leaves the European Union will encourage Britain to make goods, such as wine, that it was able to more cheaply obtain through trade, by making goods like wool and trading for wine.

Luckily for Britain, leaving the European Union does not necessarily doom it to becoming poorer than it would have been had it stayed in the union. Yes, exiting the union will leave trade restrictions in place that will contribute to a decline in Britain's wealth. However, this loss can be overcome by new trade agreements.

George Osborne, a cabinet minister in Britain, proposes that Britain should enter into trade agreements with Asian countries and with North American countries. Robert Zoellick, a former U.S. trade negotiator and a former World Bank President, has even suggested that Britain should become a member of Nafta, the free trade agreement between Canada, the U.S., and Mexico. All of these ideas would help Britain.

It is possible that if Britain is aggressive in signing free trade deals, it might be left with more opportunities for free trade than it had as a member of the European Union. Admittedly, this would require quite an effort, but it is possible, since there are a lot of opportunities for free trade agreements — particularly, since members of a free trade group, such as the European Union, often do not aggressively seek to lower trade barriers with nations outside of the group.

JOE MCGARRITY is a professor of economics at the University of Central Arkansas. Contact him by email at joem@uca.edu.