

RESEARCH BRIEF • OCTOBER 2023

Why is Trade Not Free? A Revealed Preference Approach

Based on BFI Working Paper No. 2023-136, “[Why is Trade Not Free? A Revealed Preference Approach](#),” by Rodrigo Adão, University of Chicago; Arnaud Costinot, MIT; Dave Donaldson, MIT; and John Sturm, Princeton University

Redistributive trade protection accounts for a significant fraction of tariff variation in the US and causes large monetary transfers between US individuals, mostly driven by differences in the social value of transfers across individuals employed in different sectors.

Trade policies often create winners and losers within a society. For example, lowering tariffs on imports may benefit consumers by reducing prices, and harm domestic manufacturers by increasing competition. In this paper, the authors study trade policies to reveal the extent to which policymakers prioritize certain groups.

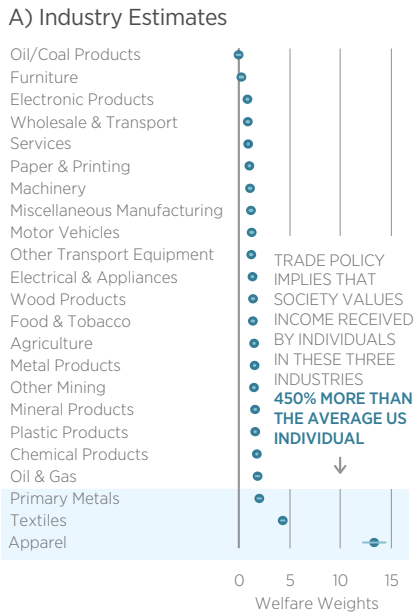
The authors develop a model to measure the tradeoffs between different beneficiaries of trade policies. Their model accounts for differences in exposure to international trade across regions and industries, both directly through imports and exports as well as indirectly through exposure to trade that arises from domestic supply chains. They apply their model to US trade policy in 2017 and estimate the value society places on a dollar transferred across individuals from 50 states (plus Washington, DC), and 23 industries. They find the following:

- Tariff policy in 2017 suggests that society assigns different values to the income of

US individuals who are working in different industries and living in different states. A hypothetical \$1 received by an individual at the 99th percentile of the authors' estimates of social value is equivalent to \$1.91 received by an individual at the 10th percentile.

- This variation is mostly driven by large differences between people working in different industries. Tariff policy in 2017 suggests that society values income received by individuals working in the Apparel, Textiles, and Metals industries 450% more than income received by the average US individual.
- Perhaps surprisingly, differences in social values across states only play a minor role in explaining 2017 tariff policy. Society appears to value income received by residents of Idaho, the state with the highest social weight, only 8% more than that received by residents of West Virginia, the state with the lowest social weight.

Figure 1 - Estimates of the Social Value that Import Tariffs Implicitly Assign to Income of People Working in Different Industries and Living in Different States



Note: These graphs show the authors' estimates of welfare weights across different industries (Panel A) and US states (Panel B). The bars denote 95% confidence intervals.

- Thirty percent of the variation in 2017 tariffs across different goods and trading partners appears motivated by redistribution, of which 27% of the variation appears aimed at benefitting particular industries directly, and 3% appears aimed at targeting particular states.
- The monetary transfers associated with redistributive trade protection are large. Transitioning to a hypothetical US economy where everyone is valued equally would shift roughly \$2,400 per worker each year from region-sector pairs at the top decile of the authors' welfare weights to those at the bottom decile.
- The sectors that exhibit the most lobbying behavior are clear winners from redistributive trade protection. They receive almost \$5,000 per worker annually through tariff protections, despite spending less than \$100 per worker annually on lobbying.

Trade policy is by no means the only policy tool available to governments seeking to help some of their constituents at the expense of others. Environmental policy, competition policy, and financial regulation are all areas to which the approach developed in the paper would be straightforward to apply. In all such cases, this analysis can offer a blueprint for identifying who the politically favored are and for evaluating the economic importance of the political favors they receive.

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