

Gain from Trade

Trade is not a zero-sum game; everyone can benefit from voluntary trade.

Trade is the exchange of goods and services. People decide to trade because they expect to benefit from it. Sometimes people mistakenly think of an exchange in terms of winners and losers. Their reaction to trade is that, after the sale, if the seller is happy, the buyer must be unhappy – that is, they view trade as a zero-sum game where what one gains the other must have lost. But they fail to see that voluntary trade can make everyone better off – it is not a contest where one wins and one loses. This is true because anyone who does not expect to gain from a trade would not voluntarily agree to do it in the first place. The idea that both sides benefit from voluntary trade is one of the most important concepts in economics and leads to the conclusion that, typically, the benefits of free trade far outweigh the costs. This idea applies to exchange among individuals and businesses, as well as to trade among nations.



People tend to judge their satisfaction from a trade by weighing the expected benefits against the expected costs (remember cost-benefit analysis?). The idea underlying free trade is that different people place different marginal values on goods and services, making benefits from trade possible. People tend to give up items they value less than the item they are getting in exchange. For example, if you only have one television, you are likely to want to keep it for your own use. If you have two of them, you may be willing to trade a TV for something else you may want, like a DVD player. The marginal value (or usefulness) of the second TV is less than the value you place on having a DVD player. The situation is even clearer if you have two TVs (and no DVD player) and your friend has two DVD players (and no TV). With voluntary trade, both sides expect that the value of what they gain will be greater than the value of what they give up.

Another benefit of trade is that it makes specialization possible. Specialization is the concept that people are more productive if they focus (specialize) on doing what they do best. The more you are able to concentrate your talents on doing something at which you excel, the more you are able to improve your own circumstances and the circumstances of other people. There is an important link between our ability to create wealth and the degree to which we specialize in doing certain tasks. However, unless we can trade with large numbers of people, this specialization will not be especially helpful (the fewer people we have to trade with, the less of a chance that someone will want what we produce). We need access to potential trading partners and the free market provides us with just such access. It is through social cooperation that specialization becomes possible. Thus the market allows you to take the greatest advantage of your unique skills and talents. In turn, you are able to take advantage of the unique skills and talents of millions of people you do not know.