



Regulation, Not Offshoring, Is Hindering Industry from Ramping up Production

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In his latest *Bloomberg* column, Noah Smith, inspired by Larry Summers, argues that offshoring production led to the current shortage of medical masks and equipment in the face of the coronavirus.

In response, the Cato Institute's Simon Lester argues that the simple evidence of a shortage does not mean that free trade is a problem:

So is Noah right that offshoring is to blame here? No. Every country needs to have a plan for ensuring that it can get medical equipment when it needs it. But it's costly and risky to seek self-sufficiency in this production, and it's better for everyone to maintain a cooperative international approach to making these products.

Simon is right, of course, but there's one point missing. The answer to Noah Smith's/Larry Summers' original question ("Why can't the greatest economy in the history of the world produce swabs, face masks and ventilators in adequate supply?") is that we did indeed have an adequate supply. Until a few weeks ago everyone who wanted a mask could get one. The real question is: Why can't we suddenly switch production and churn out millions of masks a day in the face of an unanticipated calamity? The answer to that is not offshoring, but regulation. This isn't really a trade question at all, I think.

Here's Cato's Paul Matzko helpfully breaking down the FDA guidance that will apply to anyone thinking of switching to producing medical equipment. These are massive hurdles for new suppliers to jump over. The cost of them alone is enough that potential suppliers even in normal circumstances will be looking to save costs elsewhere. Offshoring may be as much a result of regulation as anything else.

More importantly, right now the regulatory guidance is the biggest barrier to domestic factories switching production. The market has signaled demand and suppliers would be racing to meet it— absent these regulatory barriers.

Now technically, this guidance isn't binding. If you believe that your lawyers will tell you to ignore it, I have a bridge you might be interested in.

To take Simon's point further, it might be that our best plan for a resilient society is to have multiple sources for production in the event of disaster (what happens if American factory workers start falling victim to the virus?) but the regulations stand as a nontariff barrier to us trading for the supply.

Moreover, trade restrictions hinder adapting to the new demand. If manufacturers abroad can scale up quicker than ones here, our doctors and patients should still be allowed to have needed equipment. Mutual recognition of standards can solve that problem quickly.

The debate over trade and offshoring in the face of the pandemic is misplaced. The debate should be about regulation.