Economists' Biggest Failure

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"We must always take heed that we buy no more from strangers than we sell them, for so should we impoverish ourselves and enrich them." So wrote Sir Thomas (no relation to Adam) Smith in 1549, in one of the earliest known expressions of what came to be called mercantilism.[1] Reduce the elegance of the prose, and those words could easily have been tweeted by Donald Trump, the most prominent mercantilist of our day. Mr. Trump apparently believes—or at least, says—that Americans "lose" whenever we run a bilateral trade deficit with any country.

Adam Smith and David Ricardo made the definitive case against mercantilism a long time ago—in 1776 and 1817 respectively. That case that has convinced virtually every economist ever since, but alas, it seems to have made only limited and fragile inroads with the broad public. I view the failure to "sell" the virtues of free trade after more than two centuries as economists' biggest failure. How can something so obviously correct garner so little public and political support?

This essay focusses on that question. But first let me ask the should-be-famous George Stigler question, "Is this fact in fact a fact?"[2]

IS THIS FACT IN FACT A FACT?

Stigler's point—made long before anyone imagined such a thing as "alternative facts"—was that some things that are commonly believed are not, in fact, true. What about the lack of public support for free trade? Is the *vox populi* really hostile to international trade? Well, that depends, at minimum, on what you mean by free trade, how you pose the question, and the time frame you have in mind. Let's work backward.

Belief in the virtues of international trade, and in practical policy steps that enhance it, have been dominant since World War II. After Smoot-Hawley, the many trade barriers that lengthened and deepened the Great Depression, and the almost total breakdown of international trade during World War II, a frightened world turned to the GATT (now the WTO), the European Union (which began as a fledgling free-trade area), NAFTA, and much more. Average tariffs levied by the United States government have been falling, with only minor interruptions, since Smoot-Hawley days.[3]

So is my alleged "fact" not in fact a fact? Well, it appears that, in the U.S. at least (and probably elsewhere), support for free trade is a mile wide but only an inch deep. How else do

[1] Quoted in Fernand Braudel, *The Wheels of Commerce: Civilization and Capitalism 15th–18th Century*, 1979, p. 204

[2] George J. Stigler, "General Economic Conditions and National Elections. *American Economic Review*, Vol. 63, No. 2 (*Papers and Proceedings*), May 1973), p. 160.

[3] Douglas Irwin, *Clashing Over Commerce: A History of US Trade Policy* (University of Chicago Press for NBER), 2017, Figure I.1.

you explain Donald Trump's ability to push so many Americans into 16th century thinking? Could he sell the phlogiston theory, too? Or bleeding to cure illnesses?

Prior to the Trump presidency, U.S. trade policy was broadly internationalist and pro-trade, at least when viewed from 50,000 feet. We led the world to the GATT, the WTO, the Kennedy Round (of tariff reductions), the Uruguay Round, and more. We signed numerous bilateral trade agreements. But when seen up-close-and-personal, U.S. trade policy looked (and still looks) rather more protectionist. NAFTA is a great example. It was a huge step toward freer hemispheric trade. But try asking a Mexican about trade in tomatoes or trucking services. It ain't pretty.

Then came the 2016 election and a new president who withdrew the United States from the painstakingly-negotiated Trans-Pacific Partnership, who threatens to upend NAFTA, and who seems hostile to many of our bilateral trade agreements. (Watch out, South Korea, and not for missiles.) Notably, candidate Trump did not hide his protectionist beliefs during the campaign; he ran on them.

That said, expressed public opinion depends on how pollsters ask the questions. The abstract phrase "free trade" seems to pass muster. For example, an NBC/Wall Street Journal poll in February 2017 asked Americans, "*In general, do you think that free trade between the United States and foreign countries has helped the United States, has hurt the United States, or has not made much of a difference either way?*" Free trade "won" this "vote" by a 43%-34% margin. (The other 23% were either unsure or thought trade had not made much of a difference.) Not exactly a landslide, but we free traders should take good news wherever we can get it.

Use the word "globalization," however, and you may find different attitudes. A CBS/New York Times poll in July 2016 asked: "*Globalization is the increase of trade, communication, travel and other things among countries around the world. In general, has the United States gained more or lost more because of globalization?*" In this case, globalization "lost" the vote by a decisive 36%-53% margin. My hunch is that "globalization" has become a *bête noir* word.

Put any mention of jobs into the question and the polling results for international trade tank. For example, a CBS poll in December 2016 asked Americans, "*Overall, would you say U.S. trade with other countries creates more jobs for the U.S., loses more jobs for the U.S., or does U.S. trade with other countries have no effect on U.S. jobs?"* About 15% gave what economists think of as the right answer: Trade has little or no effect. About 7% were unsure. The others divided 29%-48% against trade. Even more definitively, a Bloomberg poll in March 2016, posed a question about policy: *Generally speaking, do you think U.S. trade policy should have more restrictions on imported foreign goods to protect American jobs, or have fewer restrictions to enable American consumers to have the most choices and the lowest prices?"* The juxtaposition of jobs against low prices did it. The poll favored trade restrictions by 65%-22%.[4]

My conclusion from this whirlwind tour through public opinion is that people favor trade in the abstract, but often not in the concrete. And support fades fast if you connect trade to jobs, or use the G-word ("globalization"). Most clearly, public opinion toward international trade differs

[4] All these polling results can be found at www.pollingreport.com.

enormously from what we economists teach in Economics 101. If the case for free trade that Ricardo made two centuries ago is that compelling, why have we been unable to sell it?

IT JUST DOESN'T SOUND RIGHT

Let's begin with what may be the most important problem, intellectually: Comparative advantage is counterintuitive. Most big ideas in economics are not. That demand declines and supply increases as prices rise is intuitive. So even is the broad outline of Adam Smith's invisible hand: that markets do a marvelous job of producing a dazzling variety of goods and services efficiently and getting them into the hands of consumers who want (and can afford) them.

But try this question on your neighbor: Suppose Country C (not China) can produce everything more cheaply than Country U (not the USA). Will both countries gain from free and open trade? Or will jobs gravitate to low-wage Country C, leaving the workers of high-wage Country U jobless and its citizens impoverished? Ricardo assured us that it's the former, as each country exploits its comparative advantage. But naive intuition says it's the latter. After all, won't free markets send the business to the low-cost producers?

It takes some quiet reasoning to understand why Ricardo was right. My Economics 101 students at Princeton have to listen patiently for 50 minutes—taking notes!—while I explain comparative advantage and rebut the arguments against it. Viewers of 20-second TV spots are not so patient. The hard truth is that counterintuitive ideas are tough to sell.

"INTERESTED SOPHISTRY"

Second, economists and other supporters of free trade are not the only salespeople—and certainly not the best financed. In a famous passage from *The Wealth of Nations*, Smith observed that the case for free trade "is so very manifest, that it … could [never] have been called into question had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind." Interested sophistry did not end in 1776. In fact, modern mass communications and lobbying-based democratic politics have made it more powerful than ever.

Yes, free trade serves the broad public interest. But there will always be firms and workers who are hurt by trade and clamor for protection. When pure logic gets into the ring with vested interests, the referee is likely to stop the fight quickly, with logic bleeding badly. Upton Sinclair knew why: "It is difficult to get a man to understand something, when his salary depends on his not understanding it."[5]

WINNERS AND LOSERS

One thing we learn from elementary trade theory is that every trade opening creates both winners and losers—just as any economic change does. (Remember all those video rental stores?) If U.S. steel tariffs are reduced or eliminated, the arrival of more foreign steel will devalue the capital of the owners of domestic steel companies and cost some American steelworkers their jobs. Those people will rightly see themselves as victims of trade. That other Americans—say, automakers and their employees—are winners will be of little consolation.

[5] Upton Sinclair, *I, Candidate for Governor: And How I Got Licked* (Berkeley: University of California Press, 1994), 109.

Ricardo taught us 200 years ago that the gains from trade exceed the losses—an important insight that has won over most economists. That there's almost certainly a *net* gain to the nation as a whole opens up a possibility that U.S. policy rarely exploits: The "winners" could, in principle, compensate the "losers" and still have something left for themselves. Were this done, everyone would gain from trade. But it's *not* done.

Yes, the United States has some meager compensation programs, like Trade Adjustment Assistance. But TAA is poorly budgeted, hard to access, and reaches relatively few displaced workers. Could it be improved? Sure, in principle. In practice, however, Republicans don't like TAA, and organized labor sometimes scoffs at it as "burial insurance." They prefer the jobs to "welfare." This attitude, though understandable, creates an insuperable barrier. A pro-labor policy that organized labor won't support will get nowhere politically.

That's the economics. The politics of gains and losses are much harder. More often than not, the gains from a trade opening are diffuse, small, and almost invisible to most people, whereas the losses are concentrated, highly visible, and hit well-defined groups hard. Think, for example, of international trade in children's toys. Tens of millions of American families buy cheaper Chinese-made toys at Walmart and elsewhere. Add it all up and it comes to a lot of money. But what individual customer will be moved to political action to save a few dollars on toys? Contrast that with the domestic toy industry, which may be defending its firms from extinction and its workers from unemployment. To them, it *is* worth going to the political mat.

This case, though imaginary, is illustrative. When it comes to toting up the gains and losses from trade liberalization, *economic* calculus virtually always favors more open trade, but *political* calculus often does not. The gains and losses are the same, but the economic and political *weights* differ enormously. This is a generic—and insoluble—problem.

The schism between economic and political attitudes toward trade is deepened by what Charles Schultze once called the "do no direct harm principle."[6] In the hurly-burly of a modern dynamic economy, people are constantly being hurt by circumstances beyond their control. Stuff happens. But if the harm can be traced directly to government actions, there will be political hell to pay. And politicians know it.

Trade is both like that and unlike that. Few people seem to realize that free trade is the natural state of things. If governments don't erect barriers at borders, goods and services will flow freely across them. For proof, just watch the volume of trucks going back and forth through the Lincoln Tunnel between New York and New Jersey. Such natural trade creates legions of winners and losers, but without any government actions. But trade *agreements*, are different. They have "made in Washington" (and in other national capitals) written all over them. They are *deliberate*, *noticeable* actions by governments, so the losers can trace the harm directly to that source.

Trade between the U.S. and China makes a marvelous example. The volume of bilateral trade between the two countries today is roughly $650 billion dollars per year—an immense amount, bigger than the GDP of Argentina. But other than both nations belonging to the WTO,

[6] Charles L. Schultze, *The Public Use of Private Interest* (Brookings: 1977).

there are no trade agreements between the U.S. and China. That's why President Trump had nothing to abrogate.

As a final, if paradoxical, aspect of the winners-versus-losers problem, go back to mercantilism. The mercantilist concept of winning versus losing sounds silly to economists: Let's see. We treasure the opportunity to work for others (by exporting), but we shun the opportunity to get others to work for us (by importing). Right? No, wrong, economists say. But mercantilism seems to live on in the hearts and minds of many citizens. Donald Trump voices it almost daily.

Ironically, mercantilism often helps trade negotiators make deals. When trade agreements are on the political line, consumer interests are typically silent or impotent. So supporters turn for help to corporate interests—big companies seeking market access abroad. This sort of coalition building can and sometimes does work. But there's a downside: It strengthens the left's image that freer trade is part of "the corporate agenda." Remember, before Trump, protectionist sentiment came mainly from Democrats.

LUDDITES AND MERCANTILISTS

Though mercantilism hangs on, the Luddites lost their argument long ago. Despite sporadic fears of robots, it is hard to find anyone today who advocates blocking technological progress on the grounds that it will destroy jobs—which it does, on a massive scale. But of course, new technologies also create huge numbers of jobs. Much the same can be said about trade, albeit on a smaller scale. Yet these two sources of creative destruction seem to occupy very different places in the public mind. Job losses due to technology are shrugged off as inevitable, part of the price of progress. But job losses due to trade are villainized—and often opposed. Ned Ludd lost the argument. Sir Thomas Smith is hanging in there.

Economists see trade openings as similar in their effects to technological improvements. They open up possibilities for higher living standards for the majority at the expense of job displacement for the minority. In fact, improvements in technology have been, historically, major forces behind trade expansion. Transoceanic shipping, jet aircraft, containerization, and telecommunications probably did more to boost trade than all the trade agreements ever negotiated.

Most ordinary people, however—and therefore the politicians who represent them—see no contradiction in supporting technological advancement while opposing freer trade. Raging at the machine seems stupid, but raging at foreigners does not. Foreign exporters, of course, have no representation in Congress (though they do hire lobbyists) and make convenient scapegoats for demagogues like Donald Trump.

TWO DIFFERENT WORLDS

I come, finally, to what may be the biggest single reason why economists can't sell free trade to the public: The worldview that underpins the discipline of economics differs dramatically from the worldview of most citizens. What we economists think is good for them is not always viewed as "good" by "them."

Specifically, economists see the central goals of an economic system as clear: produce the goods and services that people want, at the lowest possible resource costs (roughly, prices), and then distribute them to the people who want them. Every elementary textbook in economics describes these goals, glows over how well free markets (and that includes free trade) accomplish them, and then notes some problem areas in which markets don't get it right (example: pollution externalities). The economists' focus is squarely on the well-being of *consumers*.

Not *producers*. In the economists' vision, firms are instrumentalities to serve the ultimate goal of *consumer* welfare. Work is something people do to earn the income they need to support their *consumption*; it is not an end in itself, nor a direct source of satisfaction or self-worth. Producer interests—including the roles of ordinary people as workers—count for little or nothing in economic calculus. In fact, work is scored as a *negative*—something people dislike and will do only to support their consumption.

But what if we economists have this wrong? What if people care about their role as producers/workers—about their *jobs*—more than they care about the goods and services they consume? Then economists have been barking up a lot of wrong trees for more than two centuries. Maybe the public's notion of the central goal of an economic system is to *provide* and *preserve* well-paid jobs, not to produce cheap consumer goods. If so, the standard case for free trade evaporates, and the argument for trade must be based on the idea—also found in Ricardo—that comparative advantage moves people into jobs where they are more productive and therefore earn more.

The producer perspective appears to dominate public opinion. Here are two examples. A 2016 Bloomberg poll asked Americans, "*Are you willing to pay a little more for merchandise that is made in the U.S., or do you prefer the lowest possible price?*" Even with no direct mention of jobs (though that's implicit), the results were lopsided: 82% were willing to pay a little more; only 13% preferred the lowest possible price (implicitly, from imports). A Quinnipiac poll that same year posed a similar question, "*Do you support or oppose renegotiating major trade deals with other countries, even if it means paying more for the products you buy?"* Again, neither jobs nor imports were mentioned directly. But again, public opinion was overwhelmingly protectionist: 64% were willing to pay more for domestic products; only 28% were opposed.

Of course, talk is cheap. Maybe consumers would not be willing to shell out much to buy domestic rather than foreign goods. But these polling attitudes might still resonate with politicians.

TECHNOLOGY VERSUS TRADE *REDUX*

Wait. If people care more about their jobs than their consumption, why didn't the Luddites win in the court of public opinion? Why don't governments try to block labor-saving technologies?

Good questions. To get answers, we need to go back to a few of the points made earlier. Ordinary people do not perceive the close parallels between technology and trade the way economists do. They understand that technological advance is the path to a better life. But, not having digested Ricardo, they don't understand that about trade. People also see no villain, no adversary, no "other" to blame when technological change destroys jobs. It just happens. But the villains are apparent when jobs are destroyed by trade openings.

WHAT TO DO?

I don't think there are solutions, but there are a few things we could do as palliatives—small steps that might soften the opposition to trade openings.

- We certainly could improve Trade Adjustment Assistance by making the program bigger, simpler, easier to access, and better targeted at getting displaced workers into new jobs.
- We could try, rhetorically, to tie trade closer to technology. Hammering home the similarities might generate some "innocence by association." (Remember, the Luddites lost.) I'm dubious that such a campaign would work, but it doesn't cost much to try.
- It would cost even less to get economists to stop using the dismissive term "transition costs"—as in "the job losses from trade are only transition costs." To paraphrase Harry Truman, a transition cost is when *he's* out of work; a catastrophe is when *you're* out of work. A 55-year-old steelworker who loses his job in Ohio won't find solace in the notion that new jobs in aircraft manufacture will pop up in Seattle. Nor should he be. To him personally, the "transition" may last the rest of his working life. While economists fixate on equilibrium states, most people live in transitions most of the time.

All these are things we *can* do, though their efficacy is very much in question. There is a longer, and much more important, list of things we probably *can't* do.

- The principle of comparative advantage really is counterintuitive and is therefore hard to sell to a public that barely pays attention.
- Political calculus (as opposed to economic calculus) is inherently biased against freer trade. The gains from trade are typically small, diffuse, and barely visible, while the losses are typically sizable, concentrated, and salient.
- Trade *agreements*, as opposed to just *trade*, are "made in Washington." So blame for any losses will be directed at politicians, who won't be thrilled about it.
- The coalitions needed to push trade agreements through Congress make them look like part of "the corporate agenda," which alienates the left.
- If consumers care more about good, stable jobs than about cheap consumer goods, economists' standard arguments for free trade won't persuade them.
- Demagogues like Donald Trump will always be able to blame foreigners for domestic woes. History has witnessed such scapegoating for centuries, all over the globe, sometimes with horrific results.

As Apollo 13 astronaut Jim Lovell might have said, "Free traders, we have a problem."

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