**FOREIGN AFFAIRS**

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# The Free-Trade Paradox

## *The Bad Politics of a Good Idea*

By Alan S. Blinder

"We must always take heed that we buy no more of strangers than we sell them, for so we should impoverish ourselves and enrich them." Those words, written in 1549 and attributed to the English diplomat Sir Thomas Smith, are one of the earliest known expressions of what came to be called "mercantilism." Update the language, and they could easily have been tweeted by U.S. President Donald Trump, the most prominent mercantilist of today. Trump believes—or at least says—that the United States "loses" when it runs trade deficits with other countries. Many Americans seem to agree.

Yet the economists Adam Smith and David Ricardo made the definitive case against mercantilism and for free trade more than 200 years ago. Their arguments have convinced virtually every economist ever since, but they seem to have made only limited inroads with the broader public. Polls show only tenuous public support for free trade and even less understanding of its virtues.

Some of the problem comes from the nature of the case for trade. Unlike other economic concepts, such as supply and demand, the idea of comparative advantage—which holds that two countries can both benefit from trade even when one can produce everything more cheaply than the other—is counterintuitive. Defenders of free trade also have to contend with populist politicians and well-financed opponents who find foreign workers and firms easy scapegoats for domestic economic woes. Worst of all, economists may be fundamentally misunderstanding what most people value in the economy. These are hard problems to solve. Governments should do more to help those hurt by trade, but building the necessary political coalitions to do so is tricky. Economists should do a better job communicating with the public, but at the end of the day, they may simply have to accept the inevitable: convincing most people of the value of free trade is a losing fight.

### THEN AND NOW

A belief in the virtues of international trade (and steps to encourage it) has dominated the policies of most Western governments since World War II. After the Great Depression, which was deepened and lengthened by a rash of restrictions on trade, and after the almost total breakdown of international trade during World War II, a frightened world set out to build a new, stronger trading system. The results were impressive: the General Agreement on Tariffs and Trade, or GATT (which was later superseded by the World Trade Organization, or WTO); the European Economic Community (the forerunner to the European Union); the North American Free Trade Agreement, or NAFTA; and many other trade-opening deals.

Throughout this period, U.S. policy was broadly internationalist and pro-trade, at least when viewed from 30,000 feet. Indeed, the United States often took the lead among the big countries. The average tariffs levied by the United States have been falling, with only minor interruptions, since the notorious Smoot-Hawley tariffs of the 1930s. Washington led the negotiations that resulted in the GATT and later the WTO and did the same in several subsequent rounds of trade talks. It signed numerous bilateral trade agreements.

Most Americans' belief in free trade is a mile wide but an inch deep.

But when seen up close, U.S. trade policy looked (and still looks) rather more protectionist. Take NAFTA, which came into force in 1994. That agreement marked a huge step toward freer trade in the Western Hemisphere. But there are still many Mexican farmers who can't export their tomatoes to the United States because of quotas, for example, and Mexican truckers who can't drive their cargoes across the U.S. border despite NAFTA's provisions to the contrary.

Despite these limitations, both Democratic and Republican leaders by and large backed freer trade—until recently. But not Trump. During the 2016 presidential campaign, his protectionist outcries shocked many observers, who saw them as far outside the mainstream. Yet he did not hide them; he ran on them. And he won. Since taking office, Trump has kept to his anti-trade agenda. He withdrew the United States from the painstakingly negotiated Trans-Pacific Partnership and threatened to upend NAFTA before negotiating a new trade deal with Canada and Mexico; he has slapped tariffs on imported steel and aluminum, started a trade war with China, and expressed hostility toward other trade agreements. Despite traditional GOP support for free trade, Republican members of Congress have seemed to go along with Trump's attacks on trade, and he seems to have paid little or no political price for them.

Trump was able to push so many Americans into sixteenth-century thinking because most Americans' belief in free trade is a mile wide but an inch deep. Polls show that the level of support depends on what is meant by "free trade," how the question is posed, and when it is asked. Taken in isolation, the phrase "free trade" seems to meet with approval. For example, a poll by NBC and *The Wall Street Journal* 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: 43 percent of respondents said it helped, and 34 percent said it hurt. That's not overwhelming, but it's good news for free traders.

Kevin Lamarque / REUTERS

Trump, Trudeau, and Pena Nieto sign the new U.S.-Mexico-Canada trade agreement in Buenos Aires, November 2018.

Use the word "globalization," however, and attitudes change. A poll by CBS and *The New York Times* in July 2016 defined "globalization" as "the increase of trade, communication, travel and other things among countries around the world." It then asked, "In general, has the United States gained more or lost more because of globalization?" Globalization lost this poll decisively: 55 percent to 35 percent.

Put any mention of jobs into the question, and the results for international trade get even worse. A CBS poll in 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 percent of respondents gave what economists would call the right answer: trade has little or no effect on the number of jobs. About seven percent were unsure. Among the others, 29 percent thought trade created jobs and 48 percent thought it destroyed them. And in a poll conducted that same year by Bloomberg, which juxtaposed the costs of restrictions on imports and protecting American jobs, trade restrictions won: 65 percent to 22 percent.

It seems that Americans favor trade in the abstract but often not in the concrete. And support fades fast if trade is connected to jobs or globalization. Most important, in almost every case, public beliefs about international trade differ enormously from the lessons of Economics 101. So if the case for free trade is so compelling, why have economists failed to sell it?

## IT JUST DOESN'T SOUND RIGHT

The most obvious reason is that comparative advantage is counterintuitive. That isn't true of most big ideas in economics. The notion that demand declines and supply increases as prices rise makes intuitive sense. So does Adam Smith's concept of the invisible hand—the idea that decentralized markets produce a dazzling variety of goods and services efficiently and get them into the hands of the consumers who want (and can afford) them.

The case for trade is harder to grasp. Suppose Country A can produce every product more cheaply than Country B, thanks either to its lower wages or to its greater efficiency. Will both countries gain from trade? Or will jobs gravitate to Country A, leaving the higher-paid workers of Country B jobless? Ricardo argued that it's the former, as each country exploits its comparative advantage by specializing in producing different goods. But naive intuition says it's the latter. After all, won't free markets send the business to the cheapest producers?

It takes some time to understand why Ricardo was right. His basic insight was this: if Countries A and B trade with each other, Country A can specialize in producing what it is best at, Country B can specialize in producing what it is least bad at, and then the two countries can trade to their mutual advantage. My economics students have to listen patiently for 50 minutes while I explain comparative advantage and rebut the arguments against it. Viewers of 30-second TV ads are under no such obligation. The hard truth is that complicated ideas are tough to sell.

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Yet lack of understanding is not the only reason for public skepticism about the virtues of trade. Some people may understand the theory tolerably well but still have good reasons to oppose trade openings. Elementary trade theory shows that every move toward freer trade creates both winners and losers, just like almost any economic change. If the United States cuts or eliminates tariffs on steel, for example, the arrival of more foreign steel will hurt domestic steel companies and cost some American steelworkers their jobs. Those people will rightly see themselves as victims of trade. That other Americans—automakers and their employees, say—are winners from that same trade will be little consolation.

The theory of comparative advantage holds that the gains from trade to the nation as a whole exceed the losses. That opens up a possibility that U.S. policy has rarely exploited: the winners could, in principle, compensate the losers and still have something left over for themselves. Doing so would allow everyone to gain from trade. But successive U.S. administrations, like the governments of other countries, have failed to do anything remotely close to that.

The United States does have some meager compensation programs. Trade Adjustment Assistance, for instance, offers people who have lost their jobs to foreign competition money for retraining and extra income while they are unemployed. But TAA is poorly funded, is hard to access, and reaches few displaced workers. In principle, Washington could improve it. In practice, however, Republicans don't like the program, and organized labor sometimes scoffs at it, calling it "burial insurance." Unions prefer jobs to “welfare.” This attitude, although understandable, creates an insuperable barrier to creating a better policy. A pro-labor program that organized labor won’t support will get nowhere politically.

The way the gains and losses from trade liberalization are distributed makes the politics of trade agreements even more difficult. More often than not, the gains are widespread but small for each individual, making them almost invisible to most people. The losses, by contrast, are concentrated, are highly visible, and hit well-defined groups. When it comes to totting up these gains and losses, the economic calculus virtually always favors freer trade, but the political calculus often does not. The gains and losses are the same, but the economics and the politics place enormously different weights on them. This is likely an insoluble problem.

Take the United States’ notorious sugar quotas. Virtually every American family pays more for sugar because of them. Add it all up and it comes to a lot of money. But no individual sugar buyer will be moved to political action to save a few dollars a year. Contrast that with the U.S. beet sugar industry. The quotas may be the only thing standing between its firms and extinction and between its workers and unemployment. To them, it is worth going to the political mat to preserve the quotas. So 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.

What’s more, economists and other supporters of free trade are not the only salespeople—and certainly not the most vocal. 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, when that book was published. In fact, modern mass communication and lobbying-based democratic politics have made it more powerful than ever. It’s certainly more powerful than pure logic.

The schism between economic and political attitudes is deepened by what the economist Charles Schultze once called the “‘do no direct harm’ principle.” In the hurly-burly of a modern economy, people are constantly being hurt by economic changes beyond their control. Most of the time, that harm doesn’t have an obvious cause. But if it can be traced directly to government actions, there will be political hell to pay—and politicians know it.

In one sense, trade shouldn’t suffer from this problem. After all, free trade is the natural state of affairs, even if most people don’t realize it. If governments didn’t erect barriers at borders, goods and services would flow freely across them. Just watch the trucks going back and forth through the Lincoln Tunnel between New York and New Jersey every day. This natural trade constantly creates winners and losers, without any government action. But trade agreements are different. They are deliberate, noticeable actions by governments. They have “made in Washington” stamped all over them. So the losers know exactly whom to blame.

The way trade deals get made doesn’t help their popularity, either. In order to make it through Congress, trade agreements need political backing. But consumer interest groups are typically silent or impotent. So supporters turn to big companies seeking access to foreign markets. This sort of coalition building can work, but it has downsides.

First, by treating higher exports as the main goal, it adds political heft to mercantilist attitudes. Second, it strengthens the left's image of free trade as part of the corporate agenda. Before Trump, after all, protectionist sentiment in the United States came mainly from Democrats.

## LUDDITES AND MERCANTILISTS

There's a striking difference between the failure of the Luddites, those nineteenth-century textile workers who smashed mechanical weavers in England, and the enduring allure of mercantilism. Technology and trade seem to occupy very different places in the public mind. Ned Lud lost the argument. Sir Thomas Smith is hanging in there.

New technologies destroy (and create) far more jobs than trade does. But despite sporadic fears of robots, it is hard to find anyone today who advocates blocking technological progress on the grounds that it will cost jobs. Rather, job losses caused by technological advances are shrugged off as inevitable, part of the price of progress. But job losses due to trade are blamed on specific villains, and people try to prevent them.

Economists see technological improvements and freer trade as similar in their effects. They both offer higher living standards to the majority at the expense of job displacement for the minority. Improvements in technology, moreover, have been prime drivers of expanded international trade. The invention of ships capable of traveling long distances, jet aircraft, shipping containers, and telecommunications probably did more to boost trade than all the trade agreements ever negotiated.

But most people—and therefore the politicians who represent them—see no contradiction in supporting technological advances while opposing freer trade. Raging at the machine seems stupid, but raging at foreigners does not. The politics also work better. Unlike Silicon Valley, foreign exporters have no representatives in Congress (although they do hire lobbyists) and make convenient scapegoats for demagogues such as Trump.

## DIFFERENT WORLDS

As important as the lack of public understanding and the perverse political incentives are, the single biggest reason why economists can't sell free trade may be philosophical: the worldview that underpins the discipline of economics differs dramatically from the worldview of most people.

Economists see the central goals of an economic system as producing goods and services at the lowest possible cost and then distributing them to the people who want them. Every elementary economics textbook describes those goals, touts how well free markets accomplish them, and then notes some problem areas in which markets don't get it quite right (pollution, for example). Economists' focus is squarely on the well-being of consumers.

The well-being of producers is secondary—if it enters the picture at all. In the economists' vision, firms exist 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. The interests of producers, including the value people get from their jobs, count for little or nothing in standard economic calculus. In fact, work is scored as a negative—something people dislike and do only to support their consumption.

But what if economists have this wrong? What if people care as much (or more) about their role as producers—about their jobs—as they do about the goods and services they consume? That would mean economists have been barking up the wrong tree for more than two centuries. Maybe the public sees the central goal of an economic system as providing well-paid jobs, not producing cheap goods. If so, the standard case for free trade evaporates. The argument for trade would then have to 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. That seems a harder sell and, in any case, is not the pitch economists have been making for centuries.

The producer perspective seems to dominate public opinion. A 2016 Bloomberg poll, for example, asked Americans whether they would pay a little more for domestically produced merchandise. Even with no direct mention of saving jobs, the results were lopsided: 82 percent of respondents said they were willing to pay a little more; only 13 percent wanted the lowest prices. A Quinnipiac poll that same year posed a similar question, asking respondents whether they supported renegotiating trade deals, even if that meant paying higher prices. Again, neither jobs nor imports were mentioned directly. But again, public opinion was overwhelmingly protectionist: 64 percent were willing to pay more for U.S.-made products; only 28 percent weren't.

Talk is cheap, of course. Maybe consumers would not be willing to shell out more to buy domestic rather than foreign goods. After all, they frequent Walmart and other big retailers where imports line the shelves. But even if the attitudes that show up in polling don't have much effect on how people shop, those attitudes may still resonate with politicians.

## CAN THE SALE BE MADE?

Although there aren't any quick fixes to the problem of selling free trade to the public—it's just too difficult—there are some things economists and policymakers can and should do that might soften the opposition to free trade at the margins.

Washington should devote more money to the TAA program, make it simpler and easier to access, and boost efforts to get displaced workers into new jobs. Right now, TAA is a bureaucratic maze to navigate—and underfunded to boot. It should be easier for those who need the benefits to access them.

Economists could also try to tie trade closer to technology in people's minds. The hope here is that hammering home the similarities between the two might generate some innocence by association. For example, shopping online is becoming increasingly popular. If the goods are made abroad, online shopping becomes just the latest technological innovation that spurs trade. Do people want to give up Amazon? Such a campaign probably wouldn't work, but it wouldn't cost much to try.

It would cost even less to get economists to stop using the dismissive term "transition costs" to refer to job losses from trade. A 55-year-old steelworker who loses his job in Ohio won't find solace in the fact that new jobs are popping up in aircraft manufacturing in Seattle. Nor should he. To him, the "transition" may last the rest of his working life.

These are all things economists and policymakers can do, although it's not clear if they would work. Sadly, there is a longer, and much more important, list of things that probably can't be changed. The principle of comparative advantage really is counterintuitive and therefore hard to sell to a public that has many other demands on its attention. The political calculus really is inherently biased against freer trade. Politicians who vote for trade agreements can't avoid taking the blame for any losses that result. The left will always believe that trade favors big business. For centuries, demagogues have blamed foreigners for domestic woes; they aren't going to stop anytime soon. And most fundamental, if consumers care more about good jobs than cheap goods, the standard arguments for trade won't persuade them. Given all of this, maybe economists should feel lucky that international trade is not in even worse shape than it already is.