

**BUILDING SUPPORT FOR FREE TRADE:  
A ROCKNE ROLE?**

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## I.

The late Senator Paul Tsongas used to compare the different sorts of speeches open to people facing particularly thorny problems. Merely to think about them was to answer the question which speech to give for a politician or a proto-politician, the issue typically is a No-brainer.

One sort of speech is the honest one that takes on the hard issue, that lays out the facts and offers responsible solutions, painful as they might be. That's the Pogo type speech: A We have met the enemy, and he is us. It's the speech a union leader might give when he's looked over the books and seen that his workers are paid well in excess of what their productivity could justify in a competitive market, that at the current wage rates their company cannot survive against lower-cost, more efficient competition. It's the speech you get in the movies when the courageous fellow thinks Jimmy Stewart steps forward and says,

*A Boys, all of us count on the check we get from this mill. It's not a big check for most of us, just enough to keep a decent middle-class life, a bit of dignity, a little better than some of us feared we might have to settle for. We're not millionaires. Just folks who're doing okay, putting in an honest day's work for an honest wage.*

*A I've worked here beside you for twenty years. I know you. I know your families. I know your hopes and dreams. And almost every dream needs a little more than you get now. Enough for that car that Fred wants or that cruise vacation Betty and George have been planning since*

*the twins were born.*

*I'd love to tell you that you're going to get those things you dream of, that life is going to be easier. I'd love to tell you that, because you're good folks. You're what's made this company solid, what's made this town a wonderful place to live, what's made this nation great.*

*But I've got some tough news for you—for all of us. No, it's not the worst it could be. But it's not what you want to hear.*

*We've got a choice to make, and our future's in our hands. We can go on making steel [or cars or TVs] here for as long as we can imagine—but we can't do it unless we're willing to work for less, to sacrifice some of those benefits we fought so hard to get, to roll up our sleeves and commit ourselves to working harder and longer and smarter and better. We can do that. We should do that. And maybe if we do, some day we can go back to talking about making more money, about buying those dreams in stores instead of making >em in the basement at home.*

*What the company's asking—what I'm asking—isn't easy. But if we can't do it now, boys, we're out of business. And we'll have no one to blame but ourselves.”*

As Paul would say, that's the speech you get in the movies. It's “win one for the Gipper.” It's a speech that needs to be given more often than we'd like.

But it's not the speech you're likely to get in the real world. The union leader who looks at that speech, written by his earnest young sidekick, holds in his other hand the speech written by

his savvy vizierXthe Rasputin type who understands the media and thinks of *triangulation* as a holy sacrament. That speech is a little different. And when our union leader gets up to give it, we recognize him not as Jimmy Stewart but as Jimmy Cagney (or Jack Nicholson, before he became lovable):

*AThose bastards! They've stuck it to us again. They want us to work for less. Us! While they sit in their fancy offices smoking cigars, we=re breaking our backs out here, barely making ends meet. And when we ask for a living wage, for the kind of money every working American=s got a right to expect, they spit in our face. We made this company by the sweat of our brows, and now they want our blood, too. Well, it=s time we told >em we=re not gonna stand for it!≡*

And, of course, that speech gets cheers the other one never will. Cagney wins the union leadership and Stewart loses (even if it isn=t rigged by folks about to be indicted for RICO violations). The workers go on strike. The mill (or the plant) closes. Some of the workers move away, and some stay and work for far less than the company was willing to pay doing jobs they like far less. The work that used to be done thereXin Pennsylvania or New York or Massachusetts or (fill in your favorite high cost locale here)Xmoves to South Carolina or Arizona or Mexico. And that brings us to trade.

## II.

Americans have a general understanding of trade. We understand that trade is good. We may

not be sure exactly what free trade *is*, but we have a sense that it is mostly a good thing.

Unfortunately, the instinctive appreciation that trade is beneficial is coupled with a woeful ignorance of *why* that is so. If you listen to politicians, you'll quickly see that while *trade* is good, *imports* are bad. What's good about trade, so far as public discourse goes, is that it gives us the ability to export our goods to others. More exports, we're told, means more money. Jobs in export industries *pay* more than jobs in other parts of the economy. Exports drive the growth of our economy. But imports take bread out of Americans' mouths, take money out of the economy, pile up debts to other nations, and leave us dependent on others. Naturally, we have to permit some imports if we are to persuade others to admit our exports. But we must be on guard against the abuse of our goodwill by nations such as the target here depends on when the discussion takes place Japan or China or whatever nation we fear will just keep exporting to us until everything is made there and all we do here is flip burgers.

Told in this way, which is pretty much the norm, every aspect of the normal trade story is somewhere between misleading and completely backwards. Imports, in fact, are not an evil that must be tolerated to permit exports. Imports are what's wonderful about trade. Imports provide us choices we wouldn't have without trade, things that are made better, for less money, more suited to our tastes than domestic alternatives (at least better suited to some tastes). And exports help pay for them. It's like having money from work to go buy things at the mall. We want to

have more choices of better things to buy. The money we buy them with comes from work, but we don't buy things so that people will let us work. It's just exactly the reverse. We *want* imports, and exports help us get them.

It might be easier for people to understand trade starting with a more homely example. We don't each make our own clothes, grow our own food, build our own homes and cars and computers. We don't because we'd never be able to do it as well at as low a price as we can get by letting others who are better able to do these things specialize in what they do best while we do what we can do best. Everyone can understand that point. They can grasp that the same reason explains why we don't limit our economic reach to only our family or only our neighborhood or only our town or even to only our state. None of these allows us access to the range of goods and services we want, to the best goods at the best prices. By circumscribing the range of people and products we have access to, we inevitably cut off possibilities that will enhance our choices and increase our wealth and our welfare. That reasoning extends to international trade as well.<sup>1</sup>

The claims about returns to export industries, although plausibly connected to increased welfare in some (highly unusual) circumstances, generally add nothing to this picture. In an

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<sup>1</sup> See, e.g., JAGDISH N. BHAGWATI & T.N. SRINIVASAN, LECTURES ON INTERNATIONAL TRADE 152-66 (Cambridge: MIT Press, 1983); RONALD A. CASS & JOHN HARING, INTERNATIONAL TRADE IN TELECOMMUNICATIONS (MIT Press 1998); W. MAX CORDEN, TRADE POLICY AND ECONOMIC WELFARE 2-4, 411 (Oxford: Clarendon Press, 1974); Paul A. Samuelson, *The Gains from International Trade Once Again*, 72 ECON. J. 820 (1962), reprinted in INTERNATIONAL TRADE: SELECTED READINGS 131 (Jagdish N. Bhagwati, ed.,

unconstrained market, export industries (those that export a large value of goods (absolute or relative to overall production) or that export a large volume of goods) will not have higher returns than import industries. A difference in wages most likely is the product either of defective measurement, although there are other possibilities. It is possible that we tend to export goods in which there are strong economies of scale and transitory abnormal returns to specialized resources (labor included), a possibility consistent with an advantage in production of capital-intensive goods. But competition will erode any differential over time. What is good about trade traces back to its creation of wealth through allowing better, more efficient production and access to a more valuable set of consumption opportunities. Other explanations at best fit marginal cases.

Enough about this is understood to keep anti-trade forces from seriously undermining the framework that promotes open trade. The legal regime that governs trade globally and at home is full of provisions that are difficult to defend as consistent with sound economics, provisions that provide opportunities to protect inefficient producers, to reduce consumer welfare and national wealth, to support senescent industries and impose costs on our most promising and productive industries.<sup>2</sup> But after all is said and done, that framework has kept trade expanding

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Cambridge: MIT Press, 2d ed., 1987).

<sup>2</sup> Among the writings that make this point are ROBERT E. BALDWIN, *THE POLITICAL ECONOMY OF U.S. IMPORT POLICY* (Cambridge: MIT Press, 1985); JAGDISH N. BHAGWATI, *PROTECTIONISM* (Cambridge: MIT Press, 1988); I.M. DESTLER, *AMERICAN TRADE POLITICS: SYSTEM UNDER STRESS* (Washington, D.C.: Institute for International Economics, 1986); PIETRO S. NIVOLA,

globally and at home, in absolute terms and as a proportion of the US economy. The figures on trade are impressive. Growth in the value of trade over the past 50 years has increased at a rate substantially above the rise of world GDP.<sup>3</sup> In the United States, two-way trade grew nine-fold in real terms over the past thirty years, with US trade now measured in the trillions of dollars amounting to between one-quarter and one-third of US GDP.<sup>4</sup>

Average citizens don't know any of this, but they experience the growth in trade and its benefit to the economy in many ways. In access to Japanese cars, to French wines, to German kitchen appliances, to an array of fruits and vegetables that would have been unavailable much of the year and outrageously expensive when found. A vague perception of trade's benefits may help explain the failure of antitrade forces to generate more political traction. Hard-core trade troglodytes. Perot and Buchanan stand out on this score. gain headlines, but they don't win enough votes to change trade policy. Yet, these avatars and their allies have enough cachet to make progress difficult if not to put the direction of trade decisions in doubt. The public might have a strong suspicion that open markets are generally good, but when someone speaks out in favor of keeping markets open to imports. much less making our markets *more* open. most folks

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REGULATING UNFAIR TRADE (Washington, D.C.: Brookings Institution, 1993); JAN TUMLIR, PROTECTIONISM: TRADE PROTECTION IN DEMOCRATIC SOCIETIES (Washington, D.C.: American Enterprise Institute, 1985); Judith L. Goldstein, *The Political Economy of Trade: Institutions of Protection*, 80 AM. POL. SCI. REV. 167 (1986).

<sup>3</sup> See GENERAL AGREEMENT ON TARIFFS AND TRADE, INTERNATIONAL TRADE: TRENDS AND STATISTICS 1994, 96-105 (ISBN 92-870-1125-7); Dominick Salvatore, *Protectionism and World Welfare: Introduction* in PROTECTIONISM AND WORLD WELFARE 2-3 (Dominick Salvatore, ed., Cambridge: Cambridge University Press, 1993).

react as though they've been read the Jimmy Stewart speech. The typical reaction, when favorable, is 'We've got to do this, even if it's painful, not drinks are on the house.' Why? And what can we do about it?

### III.

The long-understood explanation for public skepticism about free trade traces to the asymmetry between pro-trade and anti-trade interests on three grounds: *visibility*, *accessibility*, and *intensity*. These asymmetries pose both educational and political problems.

Look first at *visibility*. Anti-trade interests are supported by anecdotes about job losses identified with named individuals, all of them living here, our friends and neighbors. When trade is blamed for the demise of a domestic operation, there is a picture to show, a name to identify with the story. The building that two years ago hummed with productive activity now is idle. We made shoes there; now we buy shoes made in Thailand, Malaysia, the Philippines, China, or some other *foreign* place.

Pro-trade interests speak of the gains that are made because we can export to other nations, but that has no strong visual appeal. We can see goods piled at the dock, but the picture lacks the clarity of the shuttered factory. Worse, pro-trade interests are tied to *future* gains, to expansions that will come in your business or mine. And worse yet, the interests in trade depend on gains to

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<sup>4</sup> See ECONOMIC REPORT OF THE PRESIDENT 298 (Washington, D.C.: Government Printing Office, 1995); Douglas B. Weinberg, *U.S. International Transactions, First Quarter 1995*, 75 SURVEY CURR. BUS. 76 (June 1995).

producers from access to better, cheaper components, to a fuller product line, or gains to consumer welfare from greater choice, from lower prices, from better products. None of those benefits presents itself in an obvious, visible manner. In the battle of images, the moving trucks carrying folks away and the chained gates left behind win.

Anti-trade forces have an advantage as well on grounds of *accessibility*. The visibility moral is that pictures beat words, stories beat anecdotes. But the related asymmetry exacerbates this problem. Not only are the stories of job losses easier to present in pictures than job gains or other advantages of trade; even the analytical connection between action and effect is more readily appreciated from the anti-trade perspective than from the pro-trade vantage. The anti-trade story is simple. Competition from imports (which in this story are usually labeled  $A_{\text{foreign goods}}$ ) makes it more difficult for a domestic firm to earn money. When it can't earn as much money, the firm must pay its workers less or have fewer workers or produce less or produce elsewhere. That's the downside of competition. People around the world can understand that story. And in high-wage nations such as the United States, people also see that workers elsewhere in the world are willing to work for wages far below those acceptable here. If there is no reason those workers are less able to produce what you do now—less skilled, for example, at critical tasks—there is ample reason to fear competition from them.

The argument for open trade is not so evident. It depends on understanding effects that are

more diffuse, that largely must be taken on faith. The reason the firm cannot compete with a foreign firm is not that the foreign workers earn lower wages—we don't, after all, fear losing jobs to Bangladesh and Burundi. It is that the foreign workers are able, all things considered, to do a particular set of tasks at lower cost. That is not the same thing as simply getting a lower wage. Wages tend to be productivity adjusted, both within nations and across borders, as a general proposition. Mexican workers who earn on average one-fifth as much as US counterparts are also on average only one-fifth as productive. For some types of production, the specialized skill of a US worker paid far more has greater value than the wage differential between that worker and a foreign worker. High wage economies remain strong as communications and transportation costs decline, making dispersed production and trade more economical. But the concepts of comparative advantage, of price equilibration across markets, of Stolper-Samuelson effects are not so readily understood as the syllogism: high costs mean high prices; high prices mean lower sales; lower sales mean less money. The advantages of allowing less productive uses of resources, including human resources, to be priced out of the market so that the resources can be redeployed to more productive uses are readily comprehended by economists, less so by people who identify with the human resources that will need to be redeployed.

The final asymmetry, in *intensity*, runs in the same direction and makes it more likely that the anti-trade story will be told, will be told with passion, and will motivate action than that the pro-

trade story will do so. Investment in the anti-trade story is apt to be on behalf of producers who have specialized in a particular product and cannot expect to receive similar returns from a different line of work, especially if the current enterprise has been protected from competition (by regulatory barriers, by high transportation costs, by economies of scale that are large over some domain, and so on). In other words, the anti-trade line is pushed by folks who stand to lose a lot personally from the increased competition trade brings. They have reason to be angry, to invest a great deal of time and energy and passion in complaining about imports that compete with their products, trying to prevent friends from buying those imports, supporting lobbying efforts to constrain imports, voting against candidates who favor trade liberalization, etc. And that passion, those investments, will influence others who have less reason to think hard about these issues.

On the other side, the strongest interest *in the aggregate* is the interest of consumers, a group that has little intensity on this subject because each consumer benefits only a bit from better choices and prices on each of a host of items. That will account for less of each individual's budget line—financial or psychological—than the amount at stake when the individual responds in his capacity as producer, not consumer. As Professor Elmer Schattschneider recognized 65 years ago, we can expect little concerted activity from a group whose interest in the subject is so utterly

lacking in intensity.<sup>5</sup>

More intense interest in expanded trade comes from three sources. One is the business that depends on imports. Retail businesses, especially those competing through discounted prices, have strong incentives to support liberal trade. So do businesses connected directly with trade flows, such as container businesses, shipping businesses, dock facilities, and the like. Some financial services businesses also fit into this category, as transactions associated with increased trade can substantially boost their expected returns. Similarly, businesses that use a critical input to production that is not produced domestically or is not available from domestic sources at comparable quality or comparable price as a foreign source will support liberal trade. That is particularly true if the business competes head-to-head with a foreign rival that has ready access to the cheaper or better input. Caterpillar, which uses steel as a prime input to its production of heavy construction equipment and faces competition from competitors in Japan, has been a critical promoter of pro-trade initiatives.

A second source of pro-trade interest has been businesses that see open trade including openness to imports as critical to development of a market advantage dependent on greater export opportunities. These often are vocal businesses the film and television entertainment industries, some agricultural interests, producers of some transportation equipment (largely in the

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<sup>5</sup> See E.E. SCHATTSCHEIDER, *POLITICS, PRESSURES, AND THE TARIFF: A STUDY OF FREE PRIVATE ENTERPRISE IN PRESSURE POLITICS, AS SHOWN IN THE 1929-1930 REVISION OF THE TARIFF* (Englewood Cliffs: Prentice-Hall, 1935).

aircraft industry), and producers of some computer and telecommunications equipment (largely at the high end of those industries) are exemplary. The third source of pro-trade interest has been the coterie of foreign businesses, foreign-related businesses, and domestic businesses with substantial foreign outposts that benefit directly from open trade through rationalization of their production resources.

Of these interests, the last is often most intensely interested, but is generally disabled from too-visible participation in political debate. About one-half of US two-way trade is intra-corporate. Much of that is trade that benefits a firm most Americans would consider a US firm (even if the firm's parent is English or Dutch). But much of that trade also benefits a firm that generally would be considered *foreign*—even if Honda of Marysville, Ohio, or Nissan of Smyrna, Tennessee, add considerable domestic value to whatever portion of their product arrives as imported parts, politicians will listen to their importunings with a different ear than they will to entreaties from Ford or General Motors.

This leaves the leadership of pro-trade forces in the hands of the first two groups. The export-oriented groups will have little interest in exposing the benefits of imports to domestic welfare. Their interests are a better fit with the common view of politicians, that exports are good and imports at best a necessary evil, the *quid pro quo* for exports. That view makes it more important to emphasize just how good exports are, as they must be very good to justify allowing imports. But the exporters benefit from potential preferential treatment—treatment that gives them an advantage competing in export markets—if they play this hand right.

So we ultimately depend on businesses that have strong interest in imports as inputs to push the case for trade. Each of these businesses has good reason to want to do so, but none of them will have so intense an interest in promoting imports as an import-competing business is apt to

have in protesting them. The output of the import-competing business represents the value of everything that goes into it, and imports compete with that, putting that value at risk. The import-reliant business also has an output, often one it would prefer to protect from competition, but the import makes up only a portion of the business= output value. General Motors, like Caterpillar, uses steel as an input and would benefit from reduced impediments to steel imports. But its greater interest lies in protecting its outputsXautomobilesXfrom competition. The import-reliant business will not always subordinate its interest as producer to its interest as consumer, but the edge in intensity will tend to go to the import-resistant side.

So, what is to be done?

#### IV.

At bottom, the answer must lie in education. This must be the political analogue to Allocation≡ in real estate. And the focus must be substantially on public education, not merely on education of particular decision-makers.

Success in public education is necessary both to *create* a more sympathetic environment for open-trade policies and to *sustain* such policies. Politicians might be willing to tilt this or that particular decision toward a trade-friendly outcome if persuaded that it is good for their specific constituencies even without a sense of strong public supportXa point worth returning to momentarily. But the initial reaction of politicians will be more likely to be favorableXand

certainly more likely to remain favorable over timeXif the public seems solidly behind open trade. Politicians seemed much more kindly disposed to firms that market tobacco products when they sensed a lower level of public hostility. This point is obvious, but many discussions of building support for trade skip past the public and focus on constructing political coalitions among specific politicians or specific industry groups.

The difficulties faced here are sketched above. But three tacks seem especially promising. First, using homely analogies such as offered earlierXthe make-your-own-clothes analogyXare much more effective than abstract theorizing. Putting these analogies in the public domain repeatedly can help. Second, linking trade to economic success by contrasting open-trade and closed-trade regimes can persuade some people. Comparison of Argentina and America, of Hong Kong and China, of Singapore and Pakistan, of Eastern Europe and Western Europe can help. There is significant public sympathy for the argument that insulation from trade played a significant role in the growing gap between the two Europes between 1950 and 1990. The argument links easily to concerns about trade bringing increased competition. Japanese car imports forced American car manufacturers to make substantial improvements in design, in durability, and in cost. That=s what trade does. And if imports are there, competing, all along, there=s less need for a sudden, major adjustment. Third, people understand that jobs are good and can be impressed that increases in imports as well as exports create jobs. This argument is

critical and tricky. But it must be pushed.

Politicians are much more likely to resonate to the last of these three arguments than to the first two. Most politicians have a seriously underdeveloped appreciation for general equilibrium analysis, for connections of cause and effect that have more than one step. But they like to hear about job creation in their district. Hammering home the figures on what trade means for jobs in their political base helps. And hearing from businessmen—especially from businessmen a politician will not think of as too close to foreign interests (the Honda official does not come in with the same aura that the Caterpillar official does)—makes a difference. Business leaders have significant influence on business issues. They need to repeatedly tell political leaders how important trade is to them and how counterproductive it is to try to fit all of the issues of concern to the public inside a trade negotiation.

This is what's needed. And the expansion of trade throughout our economy should make it easier. But most Americans, politicians and general public alike, remain committed to mercantilist concepts that economists knew to be wrong more than 200 years ago. Like most building trades, building support for open trade requires a hard hat. And someone who can make Jimmy Stewart's speech sound like Knute Rockne.