

## SPEAKING ABOUT TRADE TO THE OPEN-MINDED SKEPTIC

*Russell Roberts*

In the United States, free trade receives nearly unanimous support from economists but remains quite a controversial issue among the public. That gap suggests there is a long way to go in making the case for free trade. And yet, a number of signs suggest that the situation is brighter than it appears.

Presidential candidates from either party who have made protectionism their signature issue (see Gephardt and Buchanan) have fared poorly. Perot made a splash but trade was just one of his issues. The novelty of his act has faded. Then there is the indirect but tangible proof, the long-term trend toward free trade as evidenced by the success of previous rounds of the General Agreement on Tariffs and Trade and the unmistakable trend toward lower tariff rates as seen in Figure 1: by 1996, the average import faced duties of only 2.5 percent. If the average American is hostile to free trade, the political process does not appear to reflect it.

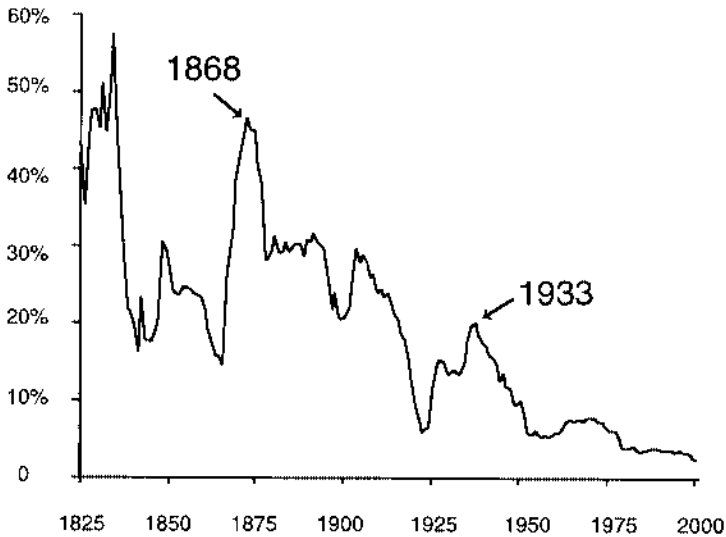
Nevertheless, there are two discouraging trends. First, Congress and the president are reluctant to act quickly and decisively when trade issues arise. Since the North American Free Trade Agreement (NAFTA), no movement toward freer trade has come easy. Trade agreements that were once nonissues have become political minefields. The explosiveness of trade issues is particularly alarming given the healthy state of the economy. When the economy falters, the demand for protectionism will be that much stronger. The recent failure of the World Trade Organization meetings in Seattle to advance an agenda for new negotiations is the latest discouraging development.

Second, nontariff barriers, particularly dumping penalties, are used to advance the cause of protectionism. So the trend in tariff rates is not quite as rosy as it seems.

---

*Cato Journal*, Vol. 19, No. 3 (Winter 2000). Copyright © Cato Institute. All rights reserved.  
Russell Roberts is John M. Olin Senior Fellow at the Center for the Study of American Business at Washington University in St. Louis.

Figure 1  
AVERAGE U.S. TARIFF RATE, 1821-1996



Sources: Historical Statistics of the United States; Statistical Abstract of the United States.

Is the glass at least half full? Probably. But we can always do better in explaining the basic economics of trade to the American people. Our best opportunity for improvement lies with the open-minded skeptic. I once debated NAFTA with a union spokesman at a local public library event. The debate did not go well. The spokesman claimed that all Mexicans live in mud huts and make 50¢ a year. His estimate of the manufacturing wage in the United States was half of the true value. Worst of all, numerous members of the audience were his family members who hooted and mocked anything I said.

One of the reasons I fared poorly was that I thought the point of the debate was to convince my opponent that free trade is good. In fact, the union spokesman was not my audience. His family members were not my audience. I had no chance of convincing them; their minds were made up. My audience was the woman in the crowd who was worried about foreign goods but was open-minded enough to hear me out. Call her the open-minded skeptic. I would have had a chance to persuade her if I had tailored my comments accordingly.

This article suggests ways of communicating good economics to the open-minded skeptic. I have four suggestions: (1) Don't lie. (2) Speak plainly. (3) Illuminate the unseen. (4) Bring trade to life.

## Don't Lie

Trade is a complicated matter. Because of its complexity, we tend to simplify when making the case for free trade. Unfortunately, that tendency sometimes leads to lying, or half-truths. Lying is a poor way to win friends and influence people, yet in Washington the dominant argument for free trade is that it creates jobs. That is not exactly a lie, but it is terrible economics. The argument maintains that free trade means greater exports and that every \$1 billion of exports creates 20,000 new jobs.

This numerical impact of exports on job growth is based on Department of Commerce data that try to count the number of jobs that involve exports. The Office of the U.S. Trade Representative (USTR) takes the dollar value of exports, measured in billions, and divides it by the estimated number of jobs. This number is then used by policy advocates as a kind of export multiplier. While the Department of Commerce and the USTR talk about the number of jobs “supported” by exports or that “depend” on exports, many free trade advocates around Washington talk about the number of jobs “created” by exports. The number (and variations on it) is invoked by reputable economists and reputable think tanks. (I will not drop names here, but if you are curious, get out your favorite search engine and have a look around.)

Arguing that exports create jobs is bad economics because it makes exports sound as if they have a life of their own, independent of imports and capital flows. It implies that if the United States could increase exports by a billion dollars, 20,000 new jobs could be created here at home. Neither statement is true or has any real meaning. In reality, the number of jobs in the American economy is roughly independent of trade, either exports or imports.

The best way to see the emptiness of the slogan “trade is good because it creates jobs” is to look at the debate over NAFTA. At the center of the debate was whether NAFTA would create or destroy jobs. Proponents said NAFTA would increase U.S. exports and thereby create jobs. Opponents said NAFTA would increase imports from Mexico and thereby destroy jobs.

Actually, we do not trade with Mexico to create jobs. We trade with Mexico because there are some things Mexicans can make more cheaply and effectively than we can. To get those goods and services we have to trade things (goods, services, assets, or currency) that Mexicans value.

In hindsight the debate was absurd, but incredibly, it still continues. Fans of NAFTA argue that it has created jobs because our exports have increased. Anti-NAFTA folks complain that since NAFTA was

put in place, our trade balance with Mexico has gone negative. That means imports exceed exports. And that means (because of the job multiplier that people like to bandy about) that every billion dollars of the trade deficit with Mexico costs the United States 20,000 new jobs. Both sides go out and actually try to count the jobs gained and lost. Each side adds up the job losses from companies that have closed factories and relocated to Mexico or companies that have opened or expanded factories that sell to Mexico.

But this is the wrong way to count the employment impact of trade with Mexico. To see why, suppose Mexico, out of sheer goodness, decides to give away its exports for nothing to the United States. Suppose Mexico picks a particular industry's product, metalworking equipment, to be its only export. As a result, the U.S. metalworking equipment industry, unable to compete with its altruistic Mexican counterparts, has to shut down all of its factories. What would be the effect on U.S. jobs of this Mexican benevolence?

Using the naïve method of counting jobs produced or lost in industries directly related to the United States and Mexico, we would lose the jobs in the U.S. metalworking equipment factories. Because the Mexicans are giving away the metalworking equipment for nothing, let us assume there will be no Mexican demand for U.S. imports and, therefore, no U.S. factories expanding production to Mexico.

The lost metalworking jobs in the United States would be a terribly misleading measure of the impact on the economy and on the labor market of the Mexican gift. If our metalworking industry shut down, the capital and resources that feed that industry would be free to go elsewhere to create new opportunities. The laid-off workers would look for new jobs. Some would take a long time to find them. Some would not find new jobs. Others would find new jobs, some of which would even pay well. As the laid-off workers looked for opportunities and as the capital flowed to new uses, all kinds of jobs would be created that were not directly related to metalworking. So looking just at expansion and contraction related to Mexico is a grossly inaccurate way to account for the job impact.

Counting up lost jobs directly related to Mexican imports and exports is bad economics. But it is worse public policy; it enables the enemies of free trade to demonize trade deficits as job destroyers by invoking the Commerce Department number.

The 19th century French economist and writer Frederic Bastiat understood the irrelevance of the trade balance for economic health. Here is a modernized example of one of his arguments against balanced trade. If you want balanced trade, build a factory on the shores of California. Load ships with the factory's output and send them off to

Asia. Before the ships actually get there and before there are any customers for any of the goods being carried, sink the cargo in international waters and have the ships return for more cargo. The cargo of the ships will be classified as exports. So exports will increase and our trade deficit will get smaller.

Bastiat's example illustrates the foolishness of focusing on the trade deficit. And it also shows the foolishness of the job accounting measures that look at export and import employment alone. Will the fake factory in California increase employment in the United States? It will increase employment in that wasteful factory in California, making it appear that U.S. employment has increased. But those workers will have to come from somewhere. Many, if not all of them, will quit other jobs to come work in the factory. To attract them, the fake factory will have to offer a good enough package of wages and benefits to draw workers away from other industries and factories. It will appear that the "export" jobs created by the fake factory pay more than other jobs in the same industry. It will appear that the factory has created jobs. But both conclusions will be false. And measuring the true impact will be impossible unless we know each industry in which those workers used to work or would have worked in the absence of the factory.

Trade determines the kind of jobs we have in the United States, not the total number. This is not a slogan to go to war for, nor does it compare with the inspiring "Trade creates jobs." But at least it is true. Below, I will attempt to make the tepid job-composition argument into something more inspiring.

Finally, there is a variation on lying that is almost as dangerous as lying. That is the whitewash. Free trade proponents commonly claim that trade is good for everybody. Free trade is not good for everybody. The transition to free trade is not good for everybody. Free trade harms some people and can harm them a great deal. Ignoring that harm in the name of advancing a free trade agenda is counterproductive.

## Speak Plainly

When trying to explain the economics of trade issues, the most persuasive arguments are the ones that noneconomists can actually understand. A lot of economists like to invoke efficiency when making the case for free trade. Invoking efficiency makes the economy sound like the engine of a car, or a complicated distribution system in a warehouse. It is a poor metaphor, it is incomprehensible to noneconomists, and it is morally deceptive as well.

For years, when I taught microeconomics to undergraduates, I always discussed the distortion caused by tariffs. I used nice pictures with triangles of deadweight loss. By the end of class, students believed that all kinds of well-meaning policies had significant costs. But if you asked them why such and such a law was costly they would say, "It's inefficient." And if you asked them why that was bad, most students would parrot back the mantra: "Some people could be made better off without making others worse off." Eventually, I realized that if I wanted my students to advance beyond bird status, I would have to explain something about the effects of trade beyond efficiency, or at least have them understand how inefficiency affects our everyday lives.

Efficiency arguments have an implicit moral dimension that is misleading. When a tariff is removed, the benefits to consumers outweigh the losses to suppliers. As is often explained, the winners gain enough to compensate the losers for their losses and are still better off after the compensation. Of course, the compensation never takes place (though trade adjustment assistance is a step in that direction). More important, efficiency analysis is static. It ignores the transition cost of moving to the new equilibrium for workers who lose their jobs. These costs are typically the ones skeptics are most concerned about.

Efficiency fails to persuade the skeptic. But it also confuses. The argument paints proponents of free trade as nothing more than soulless technocrats who care only about the smooth performance of the economy rather than the people in it.

## Illuminate the Unseen

When explaining the economics of trade policy, it is important not to lie and not to use economic jargon. I now turn to some more positive advice. When a steel mill closes, the misery is obvious and leads the nightly news. When a factory does not get built because we protected the steel industry with a quota or a tariff, no one notices because it cannot be seen. It cannot be covered on the news. The people who will not be able to work in the factory because it does not get built are not aware of the lost opportunity.

If we are going to make the effects of trade policy tangible, we have to do a better job of illuminating what Bastiat called the unseen. The fundamental challenge at the heart of trade policy is that the costs are visible while the benefits are harder to see. Here are a few ways to make the unseen impact of free trade and protectionism visible.

In the case of the steel mill, there are two ways to make steel. There is the direct way we are all familiar with: you build a steel factory, add people, machines, and raw materials, and steel is the

result. Then there is the roundabout way: you build something that the Japanese want and ship it to Japan in exchange for steel. In one case, you have steelworkers making steel. In the other, you have Boeing workers or Merck workers or Disney workers making products we export to Japan in exchange for steel. We do not see this exchange because it is masked by the currency flows that make it happen, or because sometimes we export the Boeing plane to Germany and Germany exports something to Japan.

If we let the steel mill die, the capital and talent and raw materials are free to flow elsewhere. They will flow to Boeing and Merck and Disney, and they will also flow to unknown, unseen uses that we cannot predict in advance. This is another example of the dynamism of the labor market discussed earlier. Critics of free trade demand to know how we can be sure that new jobs will be created. Looking to the past can offer some comfort and illuminate the unseen.

At the beginning of the 20th century, total employment in the United States was about 26 million. About 11 million of that total, or more than 40 percent, were agricultural jobs. Over the last 100 years, agricultural employment has shrunk to just over 3 million, or less than 3 percent of total employment. If you had told a farmer in 1900 that over the next 100 years employment in agriculture would go from more than 40 percent of economy-wide employment to less than 3 percent, he would have been horrified. What could possibly replace all of those jobs? Surely, there would be massive unemployment and famine.

It turns out that his fear would have been misplaced. While farm jobs were getting scarce, we managed to create over 100 million new jobs in the past century. Those agricultural jobs were replaced with other kinds of jobs, jobs that people preferred over working in the fields at five in the morning and slopping the hogs.

Talking to a farmer in 1900, we would have had no way of predicting what kind of jobs would be created to replace the agricultural jobs that would not have been created in the first place. With the benefit of hindsight, we can see that millions of jobs were created as U.S. resources were devoted to activities other than farming. The farmer's skepticism would have been misplaced. That error may provide comfort to today's skeptic who is concerned about the same issue of future job growth.

## Bring Trade to Life

It is not enough to illuminate the unseen. To have trade make an impact on people, we have to bring trade to life. The common way

trade advocates try to make trade come to life is a variation on the Commerce Department job creation argument: “Trade is good because your job depends on it. You work in an industry that sells to foreigners. Exports help pay your salary.” Just as with the “exports creates jobs” argument, people are encouraged to think that the best trade policy is one that opens markets abroad at any cost. It gives people the uneasy feeling that they are somehow dependent on foreign consumers. It also teaches the wrong lesson that the goal of trade is exports.

Another argument is commonly used to make people think that they have a stake in trade: free trade leads to lower prices. People like low prices. But low prices alone will not always convince the skeptic. The impact of low prices may be dwarfed by other effects that the skeptic is rightfully concerned about.

For example, a large proportion of America’s broom production comes from a few small towns in Illinois. One of them, Arcola, population 2,700, is the home of the Libman Broom Company, a major producer of U.S. brooms and one of the top two employers in town. Arcola was the poster child for opponents of NAFTA. Over time, NAFTA lowers tariffs on brooms from more than 32 percent in 1994 to zero. Because of the decreased tariff rates, U.S. broom companies will have trouble competing with Mexican broom companies. A lot of broom jobs, maybe all of them, are going to end up in Mexico rather than in Arcola.

Is it worth destroying the town of Arcola so Americans can have cheaper brooms? For most Americans, the answer to this question is no. You can argue that it is the wrong question. But it does not matter. Free trade can produce heartrending results. They may be few and far between. There may be good reasons for tolerating these results. But if we cannot articulate the economics of why these results are worth bearing, then we are handicapped in explaining the full impact of free trade. To convince the open-minded skeptic, we have to go beyond efficiency and beyond the pocketbook and speak to the heart in the same way the opponents of free trade do. And we must speak to the heart in a way that shows people the underlying economics of trade.

The people of Arcola may suffer because of NAFTA; there is more at stake than just cheap brooms. Somewhere in Arcola there is a high school girl whose parents work in that broom factory. She can stay in high school, go on to college, and begin a career. Another option is to stay in Arcola, maybe finish high school, maybe not, and go work in the broom factory with her parents.



NAFTA destroys one of those options. Let us assume that because of the lower tariffs on brooms, Mexican brooms push U.S. brooms off the shelves and the Arcola broom factory closes. That high school girl and her classmates will have lost an option. They will be pushed out into the world. Most of them will choose to leave Arcola, and Arcola in 2010 will struggle and do poorly.

That girl's parents are going to have a tough time. But is NAFTA good for that girl? A simple answer might be that if she had planned to work at the factory, she would be worse off; if she planned to leave the town anyway, losing the factory would not matter. But the simple answer is wrong. Because of NAFTA and free trade generally, we will import some things that we used to make for ourselves. That will enable capital and resources and energy and know-how to flow into other uses. New opportunities will be created.

The girl who enters the world without a broom factory in Arcola could inherit a different world outside of Arcola because we have the courage to let Arcola suffer. That world will be designed around the skills and aspirations of her generation. That world will let the girl express herself in ways she might never have done in the broom factory. The hardship of her parents will pose challenges for her and her generation. But like every generation, many will overcome those challenges in special ways to thrive in the new economy.

What ways will those be? We have no way of knowing. I only know that when I speak with high school students, they rarely speak of working in the same jobs as their parents. Free trade enables those students to achieve their own dreams by letting capital and skills accumulate to serve new ends, new markets, and new opportunities.

And Arcola? The Arcola of the future may look rundown, but its looks fail to tell us the true effect of free trade on the town. To understand the impact of free trade, we would have to do the mental experiment of bringing back all of the children that left town and prospered elsewhere. They will not be seen in Arcola's future struggles. But to assess the true impact of trade on Arcola, we have to illuminate the fate of the next generation that will choose to live elsewhere and who, because of free trade, will be able to find new opportunities elsewhere and thrive.<sup>1</sup>

<sup>1</sup>There is a postscript (or maybe a prescript) to the Arcola story. I called the Arcola Chamber of Commerce recently to find out how Libman Broom is doing. To my surprise, they're *expanding*. I learned that a Presidential Order of 1996 delayed the implementation of the broom tariff reduction. Presumably broom tariffs will eventually fall, and Arcola will have to cope with change.

Trade determines the kinds of jobs we have in this country, not the total number. As mentioned earlier, this is not exactly a romantic slogan to go to the barricades for. But it is true, and when fleshed out with a little bit of analysis of the unseen, it can begin to make a case for free trade that may speak to the open-minded skeptic.

## Conclusion

Free trade is an issue that enjoys almost unanimous support among economists. The opponents of free trade are typically noneconomists with a pecuniary stake in protectionism. The opponents know how to tell anti-free-trade stories that pull on the heartstrings. We economists need our own stories. We need stories that capture the basic economics of trade, stories that inspire, that illuminate the unseen, and that speak in the language of everyday Americans. We have won the debate in theory. To win the debate in practice, we have to find better ways of bringing the theory to life, making it sing, and getting it heard.