

'Folk' International Economics

BY PAUL H. RUBIN

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THE BATTLE OVER IMMIGRATION reform is a recent manifestation of a long debate over the relationship between the United States and other countries. It is a continuation of earlier debates over outsourcing, and of even earlier disputes regarding international trade and tariffs. There is now even a push to restrict outside investment into U.S. firms.

To economists, these issues are easy. Since at least the work of David Ricardo (1772-1823), economists have known that international trade is desirable and beneficial for both trading partners. Recently, over 500 economists (including me) signed a letter advocating eased immigration standards.

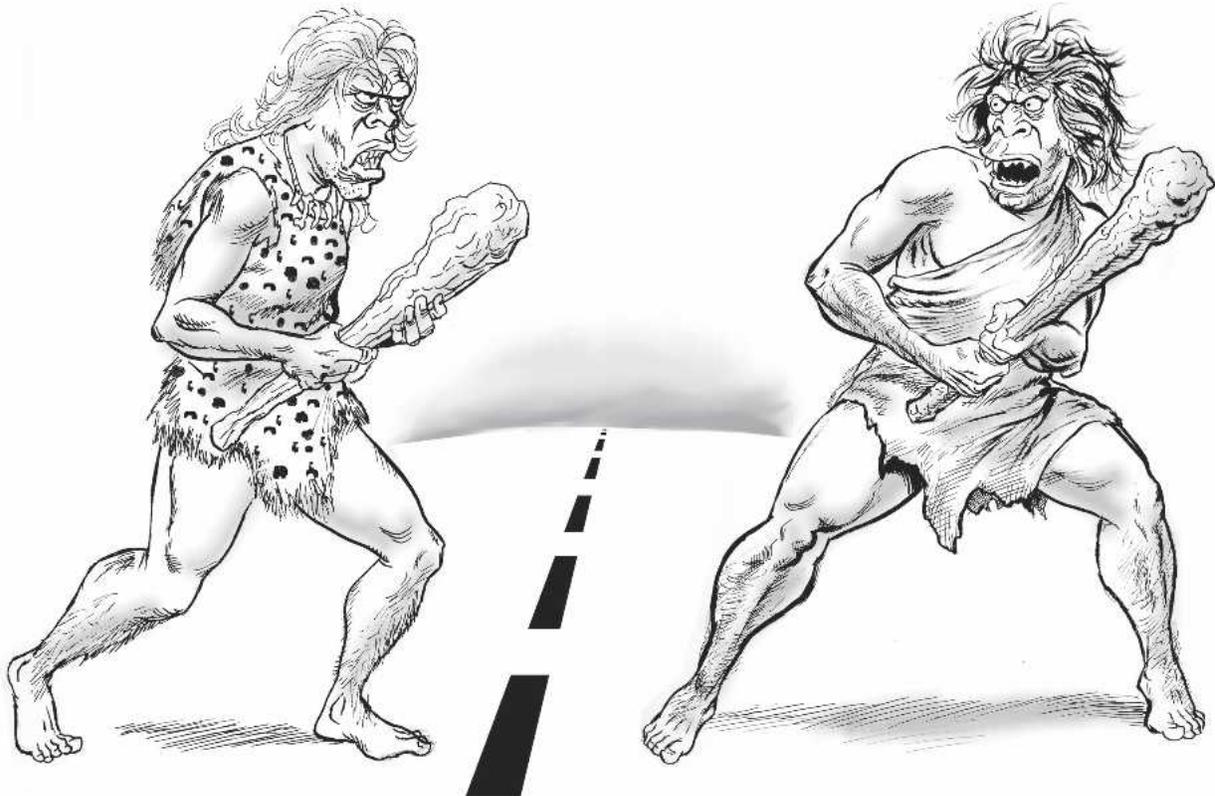
But the continuing debate over these issues is evidence that many citizens have difficulty understanding or accepting the wisdom of economists. When there is such disagreement, it is useful to look for the causes of the dispute rather than merely decrying the "ignorance" of non-economists.

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SELF-INTEREST AND BEYOND Part of the answer is self interest and rent seeking. Domestic producers, including firms and workers, are happy to argue for tariffs or other import restrictions on the goods they produce. They will use whatever arguments are available and politically powerful to support their positions. Similarly, workers (or their representatives, such as unions) who compete with immigrants are eager to seal the borders.

All interest groups would like to use the power of government to increase their wealth, but some appeals by self interested parties are more easily accepted than others. It is useful to ask why self-serving arguments are so easily accepted in the case of foreign goods and workers; there are reasons why some arguments are believed and others are not.

Part of the reason for the relative success of protectionist arguments has to do with the evolved beliefs and understandings of citizens regarding economics — what has been called "folk economics." The argument is that we have certain tendencies and beliefs that may have been useful in evolutionary times, but they are now counterproductive. For example, in the previous issue of *Regulation*, I used such an argument to explain



incorrect beliefs about oil prices (“Oil Prices and ‘Folk Economics,’” Summer 2006).

There are two aspects of the evolutionary environment that particularly affect human understanding of international economics. First, the environment was approximately zero sum. This meant that resources and incomes were fixed, and more for one person meant less for another. In the international context, this evolved belief easily translates into a fear of loss of jobs. If Mexicans are finding jobs in the United States, then it “must” be that American citizens are finding fewer jobs because, in a zero sum world, the number of jobs is fixed. Similarly, if we are importing goods from China, or outsourcing tasks to India, then the Americans who would otherwise make those goods or perform those tasks must be losing jobs.

IN AND OUT There is an additional aspect of the evolutionary environment that makes international relations difficult. Our ancestors were quite warlike. Indeed, even our close relatives, chimpanzees, engage in genocidal behavior when possible. Among hunter-gatherers, rates of homicide and deaths from inter-band conflict must have been extremely high — much higher than in modern times, even including all the wars of the bloody twentieth century. Humans have evolved to be adapted to this level of warfare. This high level of conflict has led to strong, evolved, in-group and out-group preferences.

In-groups in the evolutionary environment were small bands of related individuals (about 150 persons or fewer). We have adapted that evolved mechanism for in-group identification so that 300 million Americans of widely divergent backgrounds are considered the in-group.

This co-opting is a remarkable human achievement and makes possible the society in which we live. But there is a downside: Others are considered an out-group. If Americans are the in-group, then Mexicans or Chinese are members of an out-group. This leads to confusion between trade and warfare.

The confusion between trade and warfare is shown by the metaphors we use to discuss trade. We commonly speak of “trade wars” and of “invasion” by foreigners or by foreign-made products. Going beyond metaphor, Congress is now considering a wall to keep out Mexican immigrants. While a wall may be appropriate to keep out potential invaders who want to kill us and steal our goods, it is less useful in keeping out those who want to build our buildings and pick our fruit. Nonetheless, the confusion between trade and conflict leads to such inappropriate reactions. It is also behind the violent protests in recent years against globalization, which would generate large benefits for the poor countries in whose name the protesters claim to act.

Thus, the situation is this: We perceive foreigners — members of an out-group and therefore suspect — as taking away our jobs. Those particular individuals who actually lose from this competition can harness these innate beliefs to create political obstacles to competition, such as by keeping out products made by foreigners (in the case of tariffs) or keeping out the foreigners themselves (in the case of immigration). Those opposed to increased trade can make powerful political arguments that resonate with citizens because they

fit into various evolved mental compartments.

LEARNING ECONOMICS But while humans have an innate bias against international activities, the victory of xenophobic arguments is by no means assured. One of the great achievements of modern economics is the reduction in tariffs and other trade barriers that has occurred in recent years. The debate over outsourcing occurred in part because many who were persuaded of the benefits of trade did not perceive that outsourcing is just another name for trade. Overall, most educated Americans are willing to support international trade, and this intellectual victory must be in large part credited to the teachings of economics.

But the evolutionary lesson is also important. We do not come into the world understanding the benefits of global trade. This is a lesson that humans can learn, but it is a lesson that must be learned. Understanding economics is like reading, which must be taught, not like speech, which we acquire naturally with no instruction.

Just as we must teach each new generation of humans to read, so we must continue to teach individuals about the benefits of trade and of free markets in general. We must be vigilant and not assume that the lesson has been learned for all time. **R**

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Much Ado about MB

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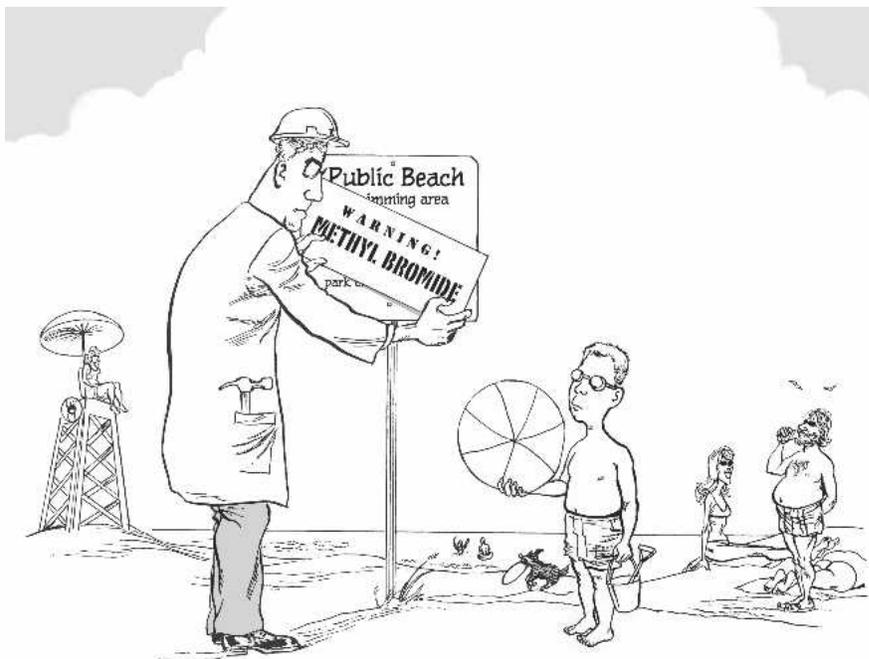
THE MONTREAL Protocol on Substances that Deplete the Ozone Layer, which took effect in 1989, is an international agreement to limit or phase out various chemicals that deplete the ozone layer. One such chemical is methyl bromide (MB), an important pesticide used to control harmful insects, rodents, pathogens and weeds. If you have ever eaten a commercially grown strawberry from California, chances are that you have methyl bromide to thank.

The U.S. Environmental Protection Agency will soon release figures showing that the volume of methyl bromide held in inventories is at a four-year low and the product available to the market is at an all-time low. The reason is the restrictive and arbitrary approach that the EPA has taken in reviewing and granting critical-use exemptions (CUEs), which are allowed under the terms of the Montreal Protocol.

In the CUE process, the U.S. government (that is, the EPA) nominates uses and volumes on behalf of American companies and must effectively persuade the international committee overseeing the protocol that there is a critical need. U.S. stakeholders have applied for CUEs for certain volumes of MB every year since 2002, but the EPA has conveyed requests for much smaller amounts.

Meanwhile, industry, growers, and researchers continue to search for suitable alternative products. (The U.S. Department of Agriculture estimates that more than \$120 million has been spent over the last 10 years, with no replacement found.) Proposed alternatives are insufficiently effective, too costly, or have unacceptable environmental impacts or human health concerns.

Those most affected by the phase-out have attempted to get the EPA to press the UN for a more practical approach to the CUE process. Specifically, they want CUEs to be granted for more than one year and production levels to be frozen at 30 percent of the 1995–1998 baseline production while scientists (both government and private sector) evaluate the



impact of methyl bromide on the ozone layer and search for an alternative.

Regulators have made the process a nightmare for those who produce or need MB. But even if all manmade methyl bromide were eliminated, more than 80 percent of the current volume would still be released into the atmosphere. How is that possible? Simple — it occurs naturally. Oceans, salt marshes, and the burning of biomass are a few of the natural sources of methyl bromide. Thus, we sustain significant economic damage from banning MB, without commensurate benefit to the environment or human health.

How much economic damage? A USDA National Agricultural Pesticide Impact Assessment Program evaluation determined that there would be a huge adverse economic impact on the agricultural community. Much of that impact would be felt in California and Florida, the primary users of MB. The USDA estimated that a phase-out for pre-planting soil fumigation would cause \$1.5 billion in lost production annually in the United States. This estimate does not take into account other economic losses, such as post-harvest, non-quarantine use; quarantine treatments of imports; or lost jobs and markets.

The condemnation of methyl bromide is an example of regulators focusing on something because it is convenient, even if the effort makes little sense, affords little benefit, and exact huge costs.

Henry I. Miller, a physician and fellow at the Hoover Institution, headed the FDA's Office of Biotechnology from 1989 to 1993. Barron's selected his most recent book, *The Frankenfood Myth*, one of the 25 Best Books of 2004.