
When Economists Agree, But (Many) Others Do Not: Dueling Narratives on International Trade

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ABSTRACT:

Public debate about economic issues often diverges from expert views. A general consensus among economists may not be evident to the public when the media attempts to portray conflicting views that, in fact, present a decidedly minority opinion alongside one that is broadly accepted in the scholarly community, or when politicians cherry-pick arguments that do

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not accurately reflect the general views of experts. International trade offers an important example. Despite the consensus among economists that, for a very wide range of products, free trade delivers net benefits to a country, calls for restrictions on free trade are widespread and bipartisan. This essay discusses a number of reasons for this disconnect, including the point that the benefits of free trade are diffuse while its potential costs can be concentrated among a relatively small set of industries or individuals. Economists must be sensitive to the costs of trade, and cognizant of individuals and industries that are injured by it (as they need to be cognizant of dislocations arising from other changes in the economy, such as automation), in order to have their opinions resonate more strongly in public debate.

An old joke goes, “You can line up all the economists in the country, end-to-end, and you still won’t reach a conclusion.” While there is some truth to this joke because, like all scholarly fields, economics has its debates and controversies, it is also the case that there is more consensus among economists on many issues than one would be led to believe based on a reading of the popular press, or by listening to politicians’ contrasting claims about the profession’s support for their economic policies.

Public debate about economic issues sets up dueling narratives. These dueling narratives serve the purposes of the media, which gains more attention by presenting an issue as hotly contested rather than as quietly settled. A range of narratives also serves politicians who can cherry-pick arguments that serve their own interests, those of a certain set of their constituents or those of lobbyists that the politicians want to favor. But the creation of dueling narratives through underplaying the extent of consensus on issues, perhaps through a false equivalence that gives seemingly equal weight to arguments that, in fact, are not viewed as having equal merit by the large preponderance of experts, does a disservice to public discourse.

What gets lost in many dueling narratives is the extent to which economists agree about certain issues, as well as any subtleties in economic arguments. A good example of this is the debate over the benefits and costs of free trade. There is a general consensus among economists that free trade typically provides overall benefits to a country. This view is tempered by the understanding that trade, like any other dynamic process in an economy such as automation, generates winners and losers. Also, many economists who lean toward a free-trade position would not favor trade in products made under duress by prisoners or slave labor.

Nevertheless, there would be consensus among economists that, for a very wide range of products, free trade delivers net benefits to a country.

This consensus among economists is not reflected in the policy sphere. Calls for restrictions on free trade are common, widespread, and bipartisan. Most recently, the “economic nationalism” promoted by some members of the Trump Administration calls for a withdrawal from trade agreements to promote policies claiming to “put America first.”

What is the public role of economists in this situation? Calls for unfettered free trade will strike many
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A powerful antitrade narrative places
the strawman of an absolutist free trade
position against personalized stories of
workers whose lives have been ruined
by foreign competition. A subtler argu-
ment not only recognizes the benefits
of free trade but also its distributional effects which may lead to advocating
for a social safety net to help individuals adversely affected by trade.

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In an age of stark, polemical narratives, it may be challenging to put forward subtle arguments shaded with nuance. Nevertheless, pointing out the benefits along with the costs of international trade is important because, typically, the benefits of trade are less obvious than the costs. For example, stories that speak of the disruption to people’s lives of jobs lost to imports make better copy than those telling of jobs gained through exports. However, workers in export industries that face retaliation from the imposition of restrictive trade measures, workers whose jobs depend on the increasingly important network of international supply chains, and consumers who benefit from the increased range of products and affordability provided by foreign goods all benefit from an open world trading system.

The next section of this essay discusses how economists view trade, noting the general consensus and controversies among mainstream economists. It will cover reasons why popular opinion may not reflect the views of economists about trade, and how this derives from both rational analysis of people’s own plights as well as the way in which trade has been scapegoated for results that are due to a wider set of forces.

The final section of this essay will focus on a particular effort by academic economists to make better known and understood the economic arguments for and against trade and policy issues. I discuss trade and its policy issues that appear on the website *EconoFact* that I founded in January

2017, sponsored by the Edward R. Murrow Center for a Digital World at the Fletcher School. I believe that *EconoFact* can serve as a model for a way in which scholars can contribute to the public debate.

Dueling narratives are healthy in a democracy, but only to the extent that each narrative is based on facts and well-established frameworks, rather than an assertion of opinions. As Daniel Patrick Moynihan said, “People are entitled to their own opinions, but not to their own facts.” Economic analysis is not a substitute for the political process, but the political process depends on well-informed arguments, clear delineation of who gains and who loses from policy choices, and careful estimates of the size of these effects. This essay focuses on the ways in which economic analysis can inform the public debate about international trade. It is worth stressing the obvious point that economics has much to offer in other areas, as well, such as tax policy, social safety net policies, monetary policy, and policies on immigration.

INTERNATIONAL TRADE NARRATIVES

International trade, like voluntary exchange in general, makes the buyer and the seller better off—otherwise, the transaction would not take place. This basic insight is one reason why economists generally favor free trade, that is, trade between nations that does not involve special taxes (tariffs) or limits on sales (quotas). In fact, 100 percent of the economists polled by the IGM expert panel in October 2016¹ either disagreed or strongly disagreed with the following statement: “Adding new or higher import duties (that is, taxes on imports) on products such as air conditioners, cars, and cookies—to encourage producers to make them in the U.S.—is a good idea.” It is very rare to find any other survey question asked of the IGM expert panel that has this level of unanimity.

But this near unanimity of opinion by economists is not shared by the public at large. When considering trade agreements, which have been mainly geared toward reducing import duties, 50 percent of respondents to an August 2016 survey by the Pew Research center² agreed with the statement that trade agreements had been a “good thing,” but 42 percent disagreed with this view. Many politicians, perhaps sensing this divide, regularly bash trade agreements. The antitrade rhetoric comes from both the left and the right. For example, during the primaries and presidential campaign that culminated in the 2016 election, both Bernie Sanders and Donald Trump railed against trade agreements like the North American Free Trade Agreement (NAFTA) and the Trans-Pacific Partnership (TPP), and Hillary Clinton stepped back her earlier support for these treaties.

What is the source of this difference in opinion between economists and the general public? A likely reason is that those opposed to free trade are not thinking about the way in which free trade increases variety and lower prices of the goods they purchase as much as they are focusing on someone like Michael Morrison.³ Mr. Morrison worked as a skilled crane operator in a steel plant in Granite City, Illinois. In 2015, he made 86,000 dollars, an income that was better than that of 70 percent of Americans.⁴ But two days before Christmas that year, he was laid off, and after a spell of unemployment, he got a job in a warehouse that paid less than half of what he had made when he worked for United States Steel. Why did this happen to Morrison and his co-workers in Granite City? Their fate was partly a consequence of rising steel production by China, whose steel production grew from one-third of global output in 2005 to one-half of world production in 2015.

The emergence of China and its growing integration in the world trading system is one of the most consequential economic events of the past three decades. China began a series of moves toward integration into the world economy under Deng Xiaoping
 in the late 1980s and, after some reversals, moved more fully toward exporting manufactured goods to the rest of the world in the early 1990s. In 1991, U.S. spending on Chinese goods was 0.6 percent of national income. By 2007, this figure rose almost eight-fold to 4.6 percent. The surge in Chinese manufacturing over this period was
 fueled by the migration of 150 million workers from rural areas to urban centers where manufacturing plants were located.

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The increase in employment of Chinese workers in manufacturing industries contributed to the decrease in manufacturing employment in richer countries like the United States. The effect of this so-called “China Shock” on local labor markets was studied by David Autor, David Dorn, and Gordon Hanson.⁵ They looked at the effect of Chinese imports on the 772 “commuting zones” that constitute the United States. They estimated the effect over two periods, 1990–1999 and 2000–2007, arguing that Chinese imports contributed to 16 percent of the decline in manufacturing employment in the first period and 26 percent in the second period. Overall, they estimate an average contribution of Chinese imports to a decrease in manufacturing employment of 0.84 percentage points, which

represents a little more than one fifth of the 4-percentage-point decline in manufacturing employment over this period.

Trade is not alone in causing these kinds of dislocations, however. During the period studied by Autor, Dorn, and Hansen, manufacturing employment was declining in all industrial countries, not just in the United States, even as manufacturing output was rising.⁶ Automation and the greater use of information technology also disrupts industries and manufacturing employment. But while there are few calls for policies to stop the use of computers or new machines, many politicians decry trade agreements and increasing international goods trade. There is a particular focus on the reported size of the bilateral trade deficit with China— but, as described in the next section, bilateral trade statistics can be very misleading.

China and other developing countries tend to specialize in exporting goods whose production requires an intensive use of labor. This lowers the price of these manufactured goods in the markets to which China exports. For example, Walmart's "everyday low prices" are possible partly through importing merchandise from Chinese suppliers. One study estimates that Walmart imported 49 billion dollars from China in 2013, about one ninth of all United States imports from China that year.⁷ American consumers benefit from these lower prices.

An implication of this argument is that tariffs and quotas protect producers and workers who would be made worse off from import competition by imposing costs on consumers as well as on domestic companies who would like to use foreign products as inputs. For example, in the United States, there are barriers to the importation of sugar. This policy, along with other price supports, benefits American sugar cane and sugar beet farmers and the few foreign producers who are permitted to sell sugar at the high prices that prevail in the United States. The cost of this to consumers has been estimated at 1.3 billion dollars in 2013, representing the difference between the higher price of sugar in America versus the lower world price times the amount of sugar consumed.⁸ High sugar prices also affect the pattern of employment in the United States. A 2006 U.S. Department of Commerce study *Employment Changes in U.S. Food Manufacturing: The Impact of Sugar Prices* found that for each sugar growing and harvesting job saved through high prices, nearly three confectionary manufacturing jobs were lost.⁹

Restrictions on sugar imports also affect the range and quality of available products. For example, the high cost of sugar in the United States prompted Pepsi and Coca Cola to switch from sugar to high-fructose corn syrup in their cola in 1984. Some people claim that cola made with sugar

is preferable to that made with high-fructose corn syrup, so this switch may have had an adverse effect on the quality of cola in the United States. Coca Cola produced in Mexico uses cane sugar rather than corn syrup.¹⁰ In their own protectionist move, the Mexican government tried to tax the use of high-fructose corn syrup in the production of soda to protect their country's sugar producers, but, in a case brought by the United States, this tax was ruled to be in violation of world trading rules.

The advocates for trade restrictions are typically not workers or capitalists as a class, but rather those who are associated with a particular industry. For example, both workers and owners in the United States steel industry favor restrictions on the importation of lower-priced foreign steel while the workers and owners of industries that use steel, like the auto industry, are against import restrictions, because tariffs on steel raise the price of an important input to their production, just as sugar quotas raise the costs facing confectionary manufacturers.

Trade policy is an example of what Mancur Olson called the "logic of collective action" in his 1965 book by that title.¹¹ Olson noted that some policies have "concentrated benefits" but "diffuse costs." What he meant was that a policy like a tariff has large benefits for a relatively small number of people, but the costs of the tariff to those adversely affected, while larger than the benefits in total, are spread across a much wider set of people. There is a great incentive for a relatively small number of producers to lobby for gains that, for each producer, would be big. The sugar industry provides a good example. Sugar beet and sugarcane production accounted for 1.5 percent of the value of the broader category of total field and miscellaneous crop production in 2013,¹² but the three largest sugar lobbying groups accounted for 27 percent of the lobbying expenditures by the broader category in that year.¹³

Other concentrated industry groups and companies may provide a countervailing force to protectionism in the absence of a concerted effort by the diffuse group of direct consumers. For example, there is a greater chance of action against sugar tariffs by the relatively small number of soda and candy manufacturers than by the large number of people who consume products with sugar. As we will see in the next section, this type of industry dynamic is important when considering the opposition to the repeal of NAFTA.

An economic rationale for trade restrictions that might benefit the overall economy in the long run is the infant industry argument. There is a long history to this policy prescription. Alexander Hamilton argued in his 1790 *Report on Manufactures* that new industries, like those that

were just beginning in the United States, needed protection from foreign competition because older, established foreign firms enjoyed economies of scale that enabled them to produce at lower per-unit costs. The protection afforded by tariffs, according to Hamilton, would allow American manufacturing firms to grow and eventually be competitive in world markets. The tariff protection could be dismantled once the American firms reached that world-class status.

But one of the problems with the infant industry argument is that infants may never grow up—that is, firms may not develop to the point where they can compete without tariff protection. This policy requires governments to have the foresight and knowledge to decide which industries will eventually become competitive in world markets. It is difficult to pick winners. Furthermore, firms and industries that are protected will not stand idle while government protection is removed. Rather, they will lobby to maintain that protection and to keep the advantages that governments grant them by limiting foreign competition.

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Another argument that tempers support for untrammelled free trade focuses on what Dani Rodrik calls “procedural fairness.”¹⁴ There might be general public acceptance of redistribution arising from trade when an efficient foreign supplier offers a better product at a lower price while playing by the same rules as domestic firms. This acceptance would likely disappear if the lower price was possible because of the foreign firm’s unfair labor practices or due to disregard for the environmental degradation caused by its production.

The points raised in this section outline a number of competing narratives on trade policy. Trade policy, like many other economic policies, involves subtleties that often defy easy characterization. Rodrik argues that analyses of trade policy, and indeed all economic policy analyses, need to be sensitive to context in which the policy occurs. Accordingly, simple bromides, like “free trade is beneficial overall,” leads to a situation whereby economists run into difficulty “... not from taking economics too seriously, but from not taking it seriously enough.”¹⁵ While it is true that distributional effects and procedural fairness matter—and a number of policy prescriptions should be shaded in light of these concerns—it is also true

that there is no shortage of cases where it is relatively easy for economists to navigate among dueling narratives because one of these lines of argument is clearly at odds with economic theory; established facts; relevant experience; or all three of these. In the next section, I illustrate this with several examples based on recent policy debates.

THE ECONOMIST AS NAYSAYER

Economic analysis is useful along a number of dimensions, but perhaps an underappreciated one is the role of the economist as naysayer, that is, as someone who refutes popular but flawed arguments, or at least clearly shows the implications of these arguments. There is a long tradition of this. Adam Smith's *The Wealth of Nations* (1776) was, among other things, an effort to show that a nation's true wealth rested in its productive capacity rather than, as argued by mercantilists, in its stocks of valuable metals. John Maynard Keynes' *General Theory of Employment, Interest and Money* (1936) refuted then-prevailing views of the sources of business cycles, calling for government intervention when the economy was in a severe depression. In a more modern context, an argument was made that the prominent economist Larry Summers should have a post in the Obama White House if only to shoot down or fix bad ideas.¹⁶

The previous section discussed some subtle issues related to international trade. However, there are also many instances where it is much more clear-cut that policy proposals and claims made about international trade are at odds with experience and standard economic analysis. It is in these all-too-numerous cases where economists can serve an important role in differentiating among dueling narratives.

In this section, I discuss three examples in which analysis proves useful in refuting policy proposals or political claims about international trade. As mentioned in the introduction, each of these examples is based on a memo published in *EconoFact*. The first of these, authored by Marc Melitz of Harvard University and myself, shows how standard economic statistics on bilateral trade fail to capture important economic linkages across countries.¹⁷ The second, also by Marc Melitz, discusses supply chains in the automobile market across the United States, Mexico, and Canada, and how repealing NAFTA would disrupt this industry.¹⁸ The third analysis, which is by Menzie Chinn of the University of Wisconsin and myself, shows the flaws in the simplistic use of economic relationships when linking trade to economic growth.¹⁹

Bilateral Trade and Bilateral Trade Statistics

It is argued that the United States' bilateral trade deficits reflect unfair trade practices. In a policy response to this view, President Trump signed an executive order on March 31, 2017, that requires officials to produce an "omnibus" report naming U.S. trading partners with "significant" trade deficit in goods in 2016 by the end of June (although, at the time of this writing, that report has not been published). A large bilateral trade deficit with a particular country will trigger the administration to "take necessary and lawful action," which presumably means retaliatory trade restrictions.²⁰

Bilateral trade statistics misrepresent the true value of goods sold by a particular country to the United States. These statistics assign the full value of the finished good to the final country of production without taking into consideration where all the different components come from. With integrated international production chains, many goods are produced using inputs from a range of countries.

The iPhone offers a particularly illuminating example of how international supply chains cause a mismeasurement of true bilateral trade. iPhones are assembled and tested in China. Each iPhone imported into the United States is recorded as a 225-dollar import from China, since this is its manufacturing cost (the consumer unsubsidized price is 649 dollars, which reflects Apple's marketing, design, and engineering costs as well as its profit margin). Out of these 225 dollars, only 5 dollars represent work performed in China, which is almost exclusively assembly and testing. The remaining 220 dollars represent the cost of components, which are overwhelmingly produced outside of China, and then exported to China for assembly. Components come from throughout Asia (Korea, Japan, and Taiwan are the largest suppliers), as well as from Europe and the Americas. Thus, the 225-dollar recorded import from China embodies U.S. imports from many other countries, and should not be used to measure the extent of the bilateral trade deficit between the U.S. and China for this good. More broadly, reported bilateral trade statistics should not be used to infer something about the reciprocity of the associated bilateral trade policies.

NAFTA and International Supply Chains in the Automotive Industry

The North American Free Trade Agreement (NAFTA) went into effect in 1994. This agreement removed tariffs and trade barriers among the United States, Canada, and Mexico, creating a free trade zone across North America for most products (though some products, such as sugar,

were exempted from free trade). NAFTA, and other proposed trade agreements, were widely chastised by both major party candidates during the 2016 election campaign. President Trump has called NAFTA “the single worst trade deal ever approved in this country” and has made its renegotiation a central part of his economic policy.

NAFTA has ushered in increased trade among the United States, Canada, and Mexico in the two decades since it has been in place. Much of this trade is within firms that have changed their manufacturing processes to make the most of production advantages that each country has to offer. The automobile industry provides an illustrative and important example. Assembly of some smaller vehicles has moved to Mexico, which also serves as a hub for exports to Central America and South America. Assembly of many bigger vehicles has been consolidated in the United States. For example, Volkswagen assembles Golfs and Jettas in Mexico, while the larger Passat, which had been assembled in Europe, is now assembled in a new plant in Chattanooga, Tennessee. The importance of these cross-national supply chains was highlighted when the United States shut down the movement of goods across its Mexican border in the immediate wake of the September 11 attacks. At that time, automobile production in the United States came to a near halt because components from Mexico were held up at the border.²¹

Economic analysis suggests that the repeal of NAFTA would not increase car production in the United States.²² While the decline in car production would be greatest in Mexico and Canada if there were to be a repeal of the trade agreement, lower demand in those countries for U.S. cars, along with higher prices for parts, would result in lower car production in the United States, as well. The increased price of parts, such as dashboards and seats that are currently produced in Mexico, may lead companies like Volkswagen to start importing cars from Europe (especially Eastern Europe) rather than producing them in the United States. A decrease in U.S. car production could cost manufacturing jobs. According to the U.S. Department of Commerce, U.S. exports of goods and services to Mexico supported an estimated 1.1 million jobs in 2014, with 953,000 supported by goods exports and 193,000 supported by services exports.²³ Given these potentially adverse effects of a repeal of NAFTA on the automobile industry, it is not surprising that General Motors, Toyota, Volkswagen, Hyundai, Ford, and nearly every other major automaker has formed an advocacy group working against the repeal of this trade agreement, which they have called Driving American Jobs.²⁴

While the auto industry provides an important example of supply-

chain disruptions that would occur with the repeal of NAFTA, other manufacturing industries have also become increasingly integrated into NAFTA-wide supply chains. These include the aerospace, airplane, and energy industries.²⁵ If NAFTA were repealed and tariffs were to be put in place again, supply-chain effects could ripple through many sectors of the economy. In addition to these adverse effects on producers, a repeal of NAFTA would also cause consumers to face higher prices and less variety.

Trade Deficits and Economic Growth

As a candidate for president, Donald Trump made reducing the trade deficit one of his central economic goals.²⁶ Two current members of his administration, National Trade Council Director Peter Navarro and Secretary of Commerce Wilbur Ross, wrote a policy brief in September 2016 arguing that reducing the “trade deficit drag” would increase economic growth.²⁷ But the Navarro and Ross argument reflects a deep misunderstanding of basic economics, as well as an ignorance of the data.

The most common indicator of overall economic performance, gross domestic product (GDP), is, by definition, the sum of what households consume (from both domestic and foreign sources), investment by firms, government spending, and the trade surplus. The trade surplus represents that which is produced in the nation but consumed abroad (exports) minus the value of imports (which are produced abroad but consumed in the domestic economy). The concept of a “trade deficit drag” comes from this accounting identity—GDP is lower when imports exceed exports.

The flaw in this argument is that a trade deficit does not *cause* GDP to be smaller. Both the trade deficit and GDP are outcomes of other, underlying factors. For this reason, there is no simple, straightforward link between the size of the trade deficit and the level of overall economic activity as measured by GDP. For example, an increase in infrastructure spending in the United States would raise incomes and, therefore, consumption—including consumption of imported goods. This would be a situation where faster growth is associated with an increase in the trade deficit. Alternatively, the trade deficit could decrease at times when there is a recession that reduces consumption of all goods, including imports.

The idea that trade deficits cause slow growth, which is wrong in theory, is also wrong in practice. While the U.S. economy experienced strong growth between 2002–2005, the trade deficit went further in the red, from a little over 4 percent of GDP to close to 6 percent of GDP. In contrast, the trade deficit shrank sharply during the darkest days of the

Great Recession from 4.9 percent of GDP in the first quarter of 2008 to 2.7 percent of GDP in the first quarter of 2009. In fact, over the past two decades we have seen the opposite of a “trade deficit drag”; larger trade deficits have occurred when the economy has been growing more rapidly, and smaller trade deficits when the economy was performing poorly.

CONCLUSION

In his 1987 book *Hard Heads, Soft Hearts*, Professor Alan Blinder, who has served as a Member of the Council of Economic Advisors as well as Vice-Chairman of the Board of Governors of the Federal Reserve, argues that “[e]conomists have the least influence on policies where they know the most and are most agreed; and have the most influence on policy where they know the least and disagree most vehemently.”²⁸ International trade offers a striking example of what Blinder calls this “Murphy’s Law of Economic Policy.” Economics offers insights on international trade that are important inputs to policy debates. Many of the public narratives surrounding trade, however, misstate these insights, misrepresent economic frameworks, or draw on flawed statistics. And what is true of trade is also true of many other areas as well.

Economists can play an important role in informing the public debate. Their credibility is bolstered when their analyses are also honest about the limits of their knowledge and, especially, about their ability to forecast outcomes. Nevertheless, there are enough policy arguments in the public forum that are clearly at odds with economic data, historical experience, or reasonable economic frameworks to keep even a reasonably modest economist engaged and, by doing so, contributing to the level of discourse. But it also takes politicians who are well-informed and honest about their intentions, in addition to an electorate who understands the economic consequences of policies, to avoid this particular version of Murphy’s Law. *f*

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