REALISM AND FREE-TRADE POLICY

Leland B. Yeager and David G. Tuerck

Realism versus Fantasy

Nowadays the press and the hearing rooms of Congress are full of remarks to the effect that free trade is unreal, a fantasy, a myth, "a Utopian dream." Its "Utopian-like promise" has been "eroded by the realities of the marketplace." No country does or will practice it. The classroom, where free-trade arguments flourish, is not the real world. Times have changed. The standard old arguments no longer apply, if they ever did. Enough of "the free-trade fallacy"; enough of "free-market rhetoric." The time has come for "a trade policy founded on realism," one "based on the world as it is—not as we might like it to be." Government must play a role: "Don't call it protectionism but realism." Especially nowadays, advocating free trade is seen as pointless and unreal.[1]

If our readers want a prediction from us—strictly a prediction, not an analysis or a recommendation—first we will emphasize that we are not experts in foretelling the future in general or political developments in particular. Then we will recognize that we do not expect to see, in our lifetimes, actual, literal free trade adopted in the United States or any other major country. In that restricted sense, we agree that free trade is unreal.

Adam Smith himself conceded as much in 1776:

> To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it.
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> [1937, p. 437]

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[1]Extensive citations would be tedious. However, the particular words in quotation marks come from the following sources: Raymond A. Hay, chairman of LTV Corporation, in LTV (1983b, p. 25); Kuttner (1983); Garten (1983).

Smith based his prediction on political realities:

> Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals irresistibly oppose it. [Domestic manufacturers defend their "monopoly" of the home market.] This monopoly has so much increased the number of some particular tribes of them, that . . . they have become formidable to the government, and upon many occasions intimidate the legislature. The member of parliament who supports every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services, can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.
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> [1937, pp. 437–38]

Smith also noted the role of sophistries and prejudices:

> In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest, that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question, had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind.
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> [1937, p. 461]

What is the force of predictions like Smith's and ours? They could prove wrong. Smith was wrong, or nearly wrong: Free trade was almost completely achieved in Britain some 70 years after he was writing. But even if the pessimistic predictions are right—"realistic"—they in no way invalidate the standard economic analysis of gains from trade and losses from restriction. The question for economists is not whether to predict free trade but whether to recommend it. Their job is not to be realistic but to get the analysis straight.

Of course, "realism" has different meanings. When it means trying to understand correctly how events and conditions are interrelated in the real world and what consequences would flow from various policy measures, we applaud it; we hope that we too are realists. Such realism, also sometimes called "pragmatism," implies a willingness to learn from experience, to modify one's theories in its light, and to abandon or alter policies based on theories that have proved wrong. Often, though, the widely admired realism or pragmatism means—to use blunt language—operating by the seat of one's pants, without benefit of any theories recognized as such, but only on the basis of tacit, unarticulated, unexamined theories.

The realism we particularly meant to scorn in the paragraph before last is political realism—the practice of compromising between giving the policy advice one really thinks best and giving the advice one thinks stands the best chance of commanding the necessary votes. It means trying to straddle the roles of professional economist and amateur politician. Besides being suspect in other ways, such realism is immoral. It involves actively or passively concealing the truth as one sees it; it compromises scientific integrity. By his political trimming, the "realist" reinforces a state of opinion in which the policies he truly but secretly thinks best appear all the more extreme and unrealistic. By so doing, he unjustly casts the relatively few advisors who do speak forthrightly all the more completely into the role of ivory-tower dreamers. He wins plaudits for realism at the expense of those who are more honest; he seizes special privilege for himself.

We do not condemn an advisor's answering a question about what policy he would consider second best if his first-best policy were explicitly ruled out, even perhaps on political grounds. He should avoid, however, appearing to recommend a lesser evil as a positive good. This obligation follows from the obligation to be clear and not take refuge in deceptive ambiguity. We also do not blame politicians for making tactical compromises; their job is different from the job of those who offer themselves as expert advisors.

In earlier work, we presented examples of economists and other witnesses before congressional committees who, apparently out of political realism, shrank from forthrightly recommending actual free trade.[2] Nowadays, it seems, political realism is being overshadowed by a different brand. (Our impression could be wrong; and in any case, we do not want to identify professional economists as the main culprits.) According to this "new realism," as we might call it, free trade not only lacks the votes but is objectively impossible and undesirable, and the very advocacy of it is morally suspect.

Phraseology such as we quoted in our opening paragraph characterizes this position. According to a former State Department official (Garten 1983), "the first step" toward a coherent trade policy

> is to drop the illusion that America is Mr. Clean in a hostile world of protectionists and cheaters. Others are not pure, but neither are

[2]Yeager and Tuerck (1966, pp. 282–85). (Much of the material cited in this and later references to that book also appears in our revised edition, 1976.) We follow the analysis of Philbrook (1953). Hutt (1971) develops a similar analysis.

> we, as we have demonstrated by our restrictions on imports of steel, autos, textiles and dairy products. Washington must also drop the hope that the free market will again become the norm.

Another new realist (Kuttner 1983, p. 17) describes the General Agreement on Tariffs and Trade as something that the United States invented in its own image and then commended to the rest of the world "the way the biggest kid on the block calls for a fair fight." Now the United States compounds the failure of GATT to eliminate nontariff barriers by violating its own "saintly standards" with export-promotion corporations, farm subsidies, Pentagon research, and the rest.

According to a Harvard professor of public policy whose writings have contributed to the current vogue for some sort of "industrial policy" (Reich 1983, pp. 774–75),

> the classic principle of free trade no longer offers any practical or politically compelling alternative to protectionism. The recent collapse of free-trade ideology into retaliatory protectionism attests to the bankruptcy of that ideal in the present international economy. The sources of this breakdown lie deeper than the current world-wide recession and an over-valued dollar, both of which obviously imperil political assent to an open trading system. The free-trade ideal has been eroding—both within the United States and among America's trading partners—for over a decade. The erosion originates in the profound structural changes that have been reshaping the world's economy.

Other observers (including Krauss 1978) have also identified a "new protectionism." That term refers not only to the resurgent protectionist clamor but also to increasing resort to measures other than the old-fashioned and relatively innocuous—we stress "relatively"—tariff on imports. These nontariff measures include import quotas, export and production subsidies, preferential trading arrangements, health and safety regulations and administrative complexities discriminating against imported goods, government procurement practices, "voluntary" export restraints and "orderly marketing agreements" imposed on foreign suppliers, and "adjustment assistance" programs that in some respects discourage rather than ease adjustment by domestic producers to changes in market opportunities posed in part by foreign competition. (On the last-mentioned phenomenon, see Dorn 1982.)

Old Complaints with New Decoration

Why has the free-trade ideology, formerly respectable, fallen to such low esteem? The new realists answer, in part, that when Adam

Smith and David Ricardo created that ideology, they were thinking about a "static" world in which the pattern of comparative advantage depended on "natural endowments" (Reich 1983, pp. 777–80). Actually, Smith and Ricardo were writing in times of great change, in the midst of an industrial revolution to which their own policy ideas were conducive. Furthermore, Smith knew that physical nature alone does not dictate a country's pattern of productive advantages, yet acquired advantages can be genuine. "It is an acquired advantage only, which one artificer has over his neighbour, who exercises another trade; and yet they both find it more advantageous to buy of one another, than to make what does not belong to their particular trades" (1937, p. 426).

But let this reply pass. Relatively free trade worked well for the United States in the early years after World War II, the realists continue; American producers could expand their activities without serious challenge from abroad. Now things are quite different. The rest of the world would not long tolerate a situation so favorable to American interests and to the survival of classical economics. The Japanese struck first with automobiles and consumer electronics and now threaten American hegemony in random-access memory chips and computers. Under the old assumptions, countries like Japan and Taiwan would have gone on indefinitely producing clothing and toys, but now they export CB transceivers and microwave ovens. The Germans produce specialty steel and the French produce nuclear-powered generators, all thanks to government intervention.

In passing, we note how common it is to decorate such arguments with references to particular high-tech products and particular organizations and programs; references to 64K and 256K chips and Japan's Ministry of International Trade and Industry are standard fare. Such decoration serves to convey the impression that the author possesses up-to-date and detailed knowledge of facts about technology, industry, and government, as if such facts were relevant to choosing even broad lines of economic policy; he is no mere ivory-tower dreamer.

Never mind. The upshot of the argument is that massive structural changes in the world economy have robbed the law of comparative advantage of the static framework that gave it legitimacy. Comparative advantage has become "an ever-changing product of social organization and choice." Whereas the United States was once rich in capital and other parts of the world in unskilled labor, complicated production processes and the machines that use them now flow easily into countries where the work force, suitably prepared by industry or government, turns out goods in competition with American producers. "In a very real and immediate way, a nation *chooses* its comparative advantage. The flexibility of its institutions and the adaptability of its work force govern the scope of choice. Decisions on human-capital development define a nation's competitive strategy" (Reich 1983, pp. 777–78).

In the absence of widespread government intervention, as supposedly practiced most notably by the Japanese, international trade patterns would conform to market-determined prices reflecting differences in countries' natural advantages. In today's real world, governments pursue industrial policies that distort prices and trade patterns. In the words of Kuttner (1983, p. 16), the classical theory of free trade "doesn't fit a world of learning curves, economies of scale, and floating exchange rates. And it certainly doesn't deal with the fact that much 'comparative advantage' today is created not by markets but by government action."

One article taking this general line—things are different; let's be realistic—is particularly noteworthy for being written by a conservative who is president of the United States Industrial Council, an organization supposedly dedicated to winning support for a market economy and a free society. According to Anthony Harrigan, "the United States is the target of *economic* warfare." "[T]he trade situation is a battle" whose "outcome will determine the standard of living and the national security of the American people." Foreign governments subsidize companies selling in the United States and even own some of them. Such companies may be less concerned with profit than with market share. "It is shocking [and humiliating, the implication runs] that we should be a resource base for Japan, supplying grain, soybeans, rice, and timber, and, in return, getting the manufactured goods we once produced in vast quantity and superlative quantity." America has become "a hewer of wood and a drawer of water" for foreigners. The Japanese are insular and cliquish and do not bear their fair share of defense costs. Their government controls and plans almost every phase of the Japanese economy—so Harrigan thinks.

But, he continues, "the Japanese aren't the only ones who treat trade as an offensive weapon. Around the world, barriers are put up *to keep out American products, while imports come into the* U.S. *in* a flood that threatens to swamp our industries." By the turn of the century, Harrigan says (quoting a Berkeley professor of political science), the combined industrial power of several Asian nations will exceed that of the United States or Western Europe. The upshot is that we desperately need "protection against foreign governments." We should "insist on measures to promote genuine free trade—fair

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trade—in international circles" (Harrigan 1983, followed immediately by Walter Olson's appropriate commentary).

Well, let's see. If foreign governments give their companies advantages allowing them to compete cheaply in the American market, so what? Just how does it matter why imported goods are as cheap as they are? We consider this central question in the next section of this paper. What about government ownership of some foreign companies? Well, the burden of socialism falls on the foreigners, not on us Americans. If political and other factors make for inefficiency, requiring subsidies and swelling the deficits to be covered by the taxpayers, or if private enterprise is restricted from competing with those companies in their home countries, it is primarily the foreigners who suffer. Operating within the United States, even socialized foreign companies are subject to our laws: They cannot compel customers to do business with them; they cannot forcibly exclude competitors. Since the disadvantages of socialism are concentrated on the countries practicing it, pointing to it with alarm, or, more broadly, pointing to government control and planning, serves more as a debating point than as a substantive point. It stirs up emotions against tricky and unfair foreigners.

It is odd of Harrigan, as Walter Olson (1983) notes, to think we are "cruelly dependent" on foreigners, and not vice versa, when we rely on them for things like tape decks and towels, while they rely on us for food and raw materials.

Harrigan's point about the growth of wealth and productive capacity abroad would be relevant if the foreign countries were our actual adversaries and not just metaphorical adversaries in a supposed contest of economic performance. Trade with Soviet Russia presumably benefits both the Russians and us economically; but if it benefits them *more,* as it almost surely does, then it weakens our position in an actual struggle. What weakens us is not the goods we receive from them but the strength they derive from Western goods and technology and credits. This consideration, along with others, deserves weight in our trade policy; and if the relevant arguments, including strategic and moral ones, should preponderate over the standard argument about mutually beneficial trade, we would be prepared to make an exception in this regard to our advocacy of outright free trade. Our exception about trade with Russia should not be seen, however, as an exception to our case for free markets and free people. As for our allies' obligation to bear a bigger share of the defense burden, Harrigan may well be right—but on a side issue, not on the trade issue.

The complaints already reviewed point to supposed "unfairness" as a major issue. Kenneth Schwartz, vice president of Opinion Research Corporation, reports (in LTV 1983b, p. 37):

> There's an increase in the support for protectionism, particularly with the unemployment situation, the more that people feel . . . that the country is falling behind, worldwide. . . . people are concerned about unfairness in the trade situation. They're concerned about the Japanese—they buy the Japanese products, but they're concerned about the Japanese being reciprocal.

Professor Robert Baldwin (in Amacher et al. 1979, p. 236) reports a common reaction to a familiar free-trade argument:

> If foreign governments want to use their own taxpayers' money to provide us with goods at lower prices than we can provide for ourselves, then we should welcome the addition to our living standards. . . .
>
> Members of the business and labor communities listen to such arguments with incredulity and promptly write off any economist making them as hopelessly unrealistic. To them it is abundantly clear that such government actions are grossly "unfair."

Senator Huddleston of Kentucky (in LTV 1983b, p. 122) says that we are for "fair trade and free trade, but we want to play on the same field, and we want our manufacturers to have the same opportunity to sell as we give to other manufacturers in foreign countries." Referring to the motivation behind one of the trade bills pending in Congress, Representative Frenzel of Minnesota (who happens to be relatively sympathetic to liberal trade policies) spoke of an urge "to level out the playing field, as if to state that we in America are always working uphill and everybody else is working downhill toward us. . . . I think our playing fields on the whole are not completely level, but the law that exists today can make them so" (in LTV 1983b, pp. 98, 101). William Brock, the chief U.S. trade negotiator, complains, "We still live in a world where many don't believe in playing by the rules. Pursuing freer trade will require that we play tough aggressive ball" (quoted in LTV 1983a).

Complaints about unfair trade practices often appeal to gauzy ethical intuitions by drawing analogies with games. They suggest that something like cheating at cards or sabotaging a rival driver's car is going on. "Fair competition" is an end in its own right in a game or a race—true enough—but not in trade. The objective of trade is to get goods on advantageous terms. To interfere with trade because foreigners offer us exceptionally advantageous terms is to reject the very principle of gain from trade.

Notions of "reciprocity" enter the discussion. The word used to bring reciprocal trade agreements to mind: You lower your trade barriers, and we'll lower ours. Now it is increasingly taking on the meaning of retaliation. The Canadian ambassador to the United States, Allan E. Gottlieb detects a "no-more-Mr.-Nice-Guy syndrome" in this country. As he sees it, the demand for reciprocity has come to mean: "If you won't open up your markets to us, we'll close down our markets to you." Unfortunately, "reciprocity" is a seductive term, seeming to imply "fairness, equal market access among trading partners" (in LTV 1983b, pp. 12–14).[3]

Unsurprisingly, calls for fairness and reciprocity allude to Japanese conditions. In Japan, American exporters encounter not only relatively forthright trade barriers but also the complexities of wholesale and retail distribution systems and even, supposedly, a national ethos that discourages the purchase of foreign goods. How arrogant of foreigners to expect rights in the American market that they withhold from Americans in their markets!

Lester Thurow (in Miller 1983, p. 41) would

> no longer tolerate the agricultural protection that Japan and the Common Market give their farmers. If they will not open their agricultural markets (one of our major comparative advantages), then we should close them off from some of their major comparative advantages in our markets. We simply cannot afford to continue our current generosity in agricultural trade.

Adam Smith (1937, p. 460) knew of and commented on reciprocal trade policies:

> The sneaking arts of underling tradesmen are thus erected into political maxims for the conduct of a great empire; for it is the most underling tradesmen only who make it a rule to employ chiefly their own customers. A great trader purchases his goods always where they are cheapest and best, without regard to any little interest of this kind.

Of course foreigners practice the not-so-new "new protectionism" already mentioned. Their political systems respond to the same sorts of pressures as ours does. This is regrettable. Foreign trade barriers deprive foreigners and us alike of potential gains from trade, just as our own barriers do. We would benefit from dismantling ours; we would gain more if foreigners dismantled theirs too.

Meanwhile, the foreign trade barriers and other economic interventions are facts of reality, much like facts of nature, technology, institutions, and consumer tastes. Their existence, and changes in them, have to be taken into account and coped with somehow or other. We submit that no better method is available than the market mechanism, whose price signals reflect realities (unpleasant and

[3]On the stretched meaning of the word "reciprocity," also see Joseph Sisco's remarks (in LTV 1983b, p. 6).

pleasant ones alike) and bring appropriate knowledge and incentives to bear on the decentralized decisions of millions of persons. Experience in trying to cope with the oil embargo of 1973–74 by legislation and administrative orders hardly recommends that alternative to the price system.

What can we do about foreign trade barriers? As Lord Beveridge once quipped (1932, p. 110), that other countries have bad harbors is no reason for us to sink rocks around our own coasts. "We're in the same boat with our trading partners," said President Reagan (quoted in Evans and Novak 1983, p. 101). "If one partner shoots a hole in the boat, does it make sense for the other one to shoot another hole in the boat?" If my neighbor disturbs me with loud, drunken parties, can I remedy the situation by throwing loud, drunken parties of my own?

Conceivably, we Americans might use our trade barriers as a bargaining weapon to prod foreigners to join us in adopting free trade after all. Embarking on that course—if it would work—would imply acceptance, not rejection, of the free-trade argument. We therefore do not reject the bargaining approach on principle. We do fear, though, that that approach, instead of working, would boomerang into still worse protectionism at home and abroad. The considerations necessary for forming a judgment go well beyond economic analysis, and we do not care to repeat here why we have tentatively concluded in favor of *unilateral* American adoption of free trade (Yeager and Tuerck 1966, chap. 16).

An old and sweeping complaint of protectionists is that the case for free trade presupposes certain ideal conditions—classroom conditions—not found in the real world. One representative of organized labor (Nat Weinberg in Amacher et al. 1979, p. 307) insists on examining trade policy issues

> not on the basis of abstract and questionable theories but in terms of their practical consequences for people.
>
> The fact is that the assumptions underlying comparative advantage are ridiculously irrelevant to the realities of the modern world. Among those assumptions are: (1) full employment which, particularly in the United States and the economically underdeveloped countries, has been more notable for its absence than for its presence; (2) immobility of the factors of production which, as applied to capital, is utter nonsense in the era of the transnational corporation; (3) competition which is belied by the prevalence of oligopoly and cartels; and (4)—implicit in Ricardo's original statement of the theory—international equality of wages. As if all that were not enough, there are the further departures from the theory resulting from tax havens, dirty floats, tax deferrals, transfer price manipulations, and

> the vast array of concessions and subsidies that transnational corporations extort from host countries.

Leonard Silk of the *New York Times* (1978, pp. 25–26) even asserts that the entire case for a free-market economy rests on unrealistic assumptions:

> The grand, underlying theme of Adam Smith's *Wealth of Nations* was his belief that the pursuit of individual self-interest and the attainment of the social welfare are harmonious. . . .
>
> . . . [Paul] Samuelson showed that Smith's basic tenet—the core of the classical and contemporary case for free enterprise and against state interference—rests on the assumption of *perfect competition*. . . . The entire libertarian case for laissez-faire seemed (and still seems) to Samuelson to rest on feeble assumptions.

The quoted remarks illustrate a standard debating ploy: to assert that the opponent's case rests on certain assumptions, to deny that those assumptions are valid, to allude to several of the innumerable miscellaneous facts of reality that the opponent's discussion (like any discussion of finite length) did not mention, and then to carry on as if the opponent's case had collapsed.

Valid as it is, the principle of comparative advantage is not the core of the free-trade case. The central idea, rather, is the commonsensical one that obtaining useful goods cheaply is better than obtaining them expensively. Trade, like technological progress, reduces the cost of goods in terms of labor and other scarce resources; it raises the standard of living obtainable from available resources. The role of the principle of comparative advantage is to show how a leading objection to this analysis is fallacious *even if* its central assumption is granted for the sake of argument. (See Yeager and Tuerck 1966, esp. pp. 39–42, 136–38.)

The case for free trade is a particular application of the general case for the unfettered market economy or price system. That case does not rest on any contention that free trade at home and among countries results in Pareto optimality (to use a favorite concept of the technical literature).[4] It rests, rather, on comparison with any other way of organizing economic activity. The market system leaves people free and motivated to seek and reap gains from production, innovation, and exchange. It puts inevitably dispersed knowledge to use through decentralized decision making, while prices convey signals about circumstances beyond the decision makers' immediate ken. Market prices, while not exactly "right" in the sense of the abstract

[4]The concept of Pareto optimality, however useful for other purposes, cannot sensibly serve as a policy criterion; see Yeager (1978).

theory of general equilibrium, do come under competitive pressures tending to adjust them in the right direction.[5] The price system also has the great merit of tending to keep down the power of man over man by separating political and economic power.

The protectionist assertion that the free-trade case rests on unrealistic theories and assumptions boomerangs, especially when decorated with remarks about a dynamic world. Even more unrealistic is the concept of an ideal pattern of corrective interventions, always kept ideally adjusted to changing conditions. Any moderately competent theorist can dredge up arguments, intellectually respectable in abstract principle, for almost any intervention plausible enough to enjoy political support. This very possibility of concocting superficially plausible cases for all sorts of specific interventions—notably externality cases, as we explain later—warns against overenthusiasm for them. Each intervention has repercussions that change what other interventions would be ideal. Adapting each one not only to the "imperfections" of a free economy but also to the distortions caused by all the other interventions is hardly practical.

Although sophisticated protectionists may occasionally try to score points by contrasting free markets in the real world with the conditions required for Pareto optimality, the charge that the case for free trade rests on hopelessly unrealistic theories and assumptions is more typically congruent with a sweeping contempt for economic theory. (Recall the standard scornful remarks about classrooms and textbooks.) This contempt is understandable: If one cannot answer an unwelcome argument, one disparages it in broad, vague terms. In rejecting economic theory, protectionists are rejecting attention to the possibly far-reaching and unwanted repercussions of the particular government interventions that they call for; they are rejecting attention to general economic interdependence. They are refusing to see an economic system as just that—as a *system* of intertwining and mutually conditioning activities operating in conformity with economic laws. Instead, they tend to view an economic system as a collection of separate activities amenable to improvement by such

[5]See Allais (1971). Allais warns against infatuation with formalistic general-equilibrium theories presupposing general convexity of choice and production fields, the prodigious services of the Walrasian auctioneer, and all the rest. He recommends a more realistic view of a world of multiple markets on which transactions take place at prices specific to them (not necessarily general-equilibrium prices). In this real world, people engage in a decentralized search for surpluses; that is, for gains from trade and transformation.

For a more broadly phrased case for the free-market economy, see the many writings of F. A. Hayek, for example, *The Mirage of Social Justice* (1978, chap. 10).

separate government interventions as their untutored pragmatism recommends.

No one, not even self-styled pragmatists, can operate without theory. Theory—at least some notion of how things hang together—is essential to organizing one's perceptions of reality and to forming expectations of, for example, the results of a recommended intervention. Anyone presenting a fact or figure in a policy argument has some notion, presumably, of how it fits in, of what difference it makes; and that is his theory. The true contrast is not between academics who theorize and practical men who stick to the facts but between people who theorize with the advantage of knowing what they are doing and people who theorize without realizing it. Unarticulated, unexamined theory is the worst kind.

Cheap Foreign Goods

We do not want to repeat here the standard free-trade case and the standard demolition of standard protectionist arguments. We are getting rather bored with the whole exercise—and frustrated by the protectionists' inattention. (However, we do not disparage such repetition by others. We welcome experiments in restating the message in fresh and compelling ways; "for only by varied iteration can alien conceptions be forced on reluctant minds" [Spencer 1978, vol. 1, p. 34].) Here, instead, we want to insist on a single vital question.

How does it matter to us just why foreigners offer us their goods as cheaply as they do? How does it matter why Ruritanian widgets delivered in the United States are as cheap as they are? Perhaps Ruritania's climate and resources are ideal for widget production. Perhaps the Ruritanian widget industry enjoys the special skills that its workers have developed over generations. Perhaps a mass market in Ruritania affords scope for economies of large-scale production. Perhaps Ruritanian manufacturers are selling below current cost in an effort to expand sales and production, take advantage of the learning curve, and get costs down. Perhaps widgets grow wild on bushes and can be harvested at slight cost. Perhaps, on the other hand, Ruritanian employers scandalously underpay their workers; or perhaps the Ruritanian government subsidizes the dumping of widgets in the United States at prices below the home price or the cost of production. Perhaps the Ruritanian government, using all manner of policy instruments, has been deliberately fostering a large and efficient widget industry.

How does the effect of widget imports on the American economy depend on the particular reason for their cheapness? If cheap foreign goods either benefit or harm us Americans, how could the nature and degree of that benefit or harm hinge on something more recondite than the prices of the goods themselves? If a detailed investigation of costs and prices abroad would be necessary to determine whether dumping is taking place (in either of the senses mentioned), does that very necessity not indicate that the reason why the imports are so cheap cannot be inferred from effects observable in the United States?

Yet, to mention a recent example, the U.S. Department of Commerce has been snooping around a firm's premises and records in France to determine whether that firm has been dumping industrial nitrocellulose in the United States. The investigators felt they had to consider such questions as whether it is appropriate to use straight-line or accelerated depreciation, whether costs should include research and development expenses incurred for other product lines also, and whether the seller really does offer discounts to French customers equivalent to those offered to American customers. The investigators concluded that dumping had indeed occurred: The French market value of the nitrocellulose exceeded the price in the United States by an estimated weighted-average margin of 1.38 percent (U.S. Department of Commerce 1983). What a remarkably precise answer to so inherently vague a question! It is as if psychological researchers had concluded that Icelanders are on average 5.16 percent happier than Patagonians.

We do not deny that some answers might be given to the questions we have raised, but we do challenge protectionists to face those questions squarely. Conceivably, the reason why foreign goods are cheap might give a clue to how *dependable* their cheapness is. An atrocity case is sometimes imagined: The foreigners dump their goods to destroy the American industry, then switch to exploiting us by monopolistically high prices. This case is seldom if ever documented, for such tricks would scarcely work. One or two other cases, almost mere theoretical curiosities, might also provide answers to our questions (see Yeager and Tuerck 1966, pp. 149–54, 198–99, including the long footnote on p. 199). The point to stress, however, is that foreign goods available to us at low prices offer us an opportunity for gain, whether their cheapness traces to persistent dumping or any other circumstance.

Complaints about the artificial cheapness of imports, then, are practically always a red herring. They gain political effectiveness anyway by appealing to loose ethical intuitions. Yet as we have already seen, the notion of "unfairness," as if the foreigners were cheating in a game, simply does not apply in this context.

We sympathize with American workers displaced by the competition of cheap imports. Their displacement is what it is, however, regardless of just why the imports are cheap. The reason for the cheapness affects only the opportunity to deploy arguments that appeal less to fact and logic than to emotion, xenophobia, and garbled notions of morality. Apart from such objectively irrelevant rhetoric and policies possibly triggered by it, American workers are no better or worse off if displaced by subsidized imports than if displaced by imports actually produced at low cost, displaced by competition at home, displaced by new and better products, or displaced by changes in the tastes of consumers.

An economy with rising standards of living, improving job opportunities, and freedom for consumers and workers—and, yes, for entrepreneurs and investors—to explore and cultivate the opportunities open to them is bound to be a world of change. Change always harms some people. In response to change, the choice lies between, on the one hand, institutions and policies that attempt either to block change or provide shelters against its impact and, on the other hand, institutions and policies that facilitate adjusting to change and taking advantage of it. The protectionist road leads to stagnation. Furthermore, efforts to protect particular sources or types of income throw all the more burden of change on the ones left unprotected; for not all can be protected, short of literal totalitarianism. The protectionist approach impairs the economy's coping mechanisms, including the signals and incentives conveyed by prices responsive to changing conditions. Protectionist policies also impair the growth that itself eases coping with change (for the relative or absolute shrinkage of particular job opportunities is more bearable in a growing economy). (These points form the main theme of Krauss 1978.)

The other road is that of a free-market economy, with flexible prices tending to adjust to keep markets cleared in the face of changed conditions and at the same time conveying appropriate signals and incentives. (To say this is not to express belief in complete price flexibility and equilibrium always; the real world—let's face it—does not and cannot have all imaginable perfections.) Business firms and workers challenged by new domestic or foreign competition or by adverse changes in consumers' tastes then have the option of slowing the loss of customers and jobs by accepting reduced prices and wages while seeking more attractive opportunities for adjustment; they ordinarily need not suffer instant total displacement. In a free economy, workers, businessmen, and investors can sort themselves into more and less risky lines of endeavor according to their own diverse tastes for chances of gain balanced against risks of unemployment or loss. In a free economy, entrepreneurs will discover ways of making mutually advantageous offers to displaced workers and owners of displaced productive assets. Demands for economic security will be met by insurance schemes and in other ways. We do not rule out a role for government in providing economic security, but we do caution that its measures should not make pointless distinctions between sources of displacement, should not discourage adjustment instead of easing it, and should not impair the price mechanism and rigidify the economy.

We know that the United States does not now have a fully free economy. (Analysis of an economy conforming to the textbook chapters on pure and perfect competition is valid and useful for some purposes, but not for providing a benchmark against which to assess the kind of free economy that does or could exist in the real world.) We now have a market economy distorted and impaired by all sorts of protectionist interventions. We refer to protectionism in the broad sense—to measures intended to provide shelter against all sorts of competition and change and not merely against the competition of imported goods. Besides itself undertaking innumerable protectionist actions, the government also tolerates certain notorious private coercive interferences with voluntary transactions.

Yet today's new realists and new protectionists recommend, in effect, more of the same. In particular, they want more government interference with international transactions. The more sophisticated among them, to be sure, do recognize the sorry record of government intervention—piecemeal, working at cross-purposes, distorted by political considerations, and generally counterproductive. Ironically, this state of affairs provides an argument of sorts for an industrial policy, to use the phrase now in vogue. Interventions will be rationalized, systematized, and made to serve coherent goals. The record has been sorry so far, mais nous allons changer tout cela.

The Illusion of Ideal Intervention

The Economics of Interventionism

A free-market economy would not enjoy all imaginable perfections. Some discrepancies between the marginal social benefits and marginal social costs of particular goods would always exist. Pricing to exploit monopoly positions (typically only temporary positions) is one reason. Another reason, a wide-ranging one, is "externalities." Externalities are damages and benefits that some people inflict or confer on others, who do not, however, receive or pay compensation. A standard example is the damage that a factory does by spewing smoke from its chimneys or dumping wastes into a river. On the benefit side, an apple grower may unintentionally provide nectar for his neighbor's bees, or a company's research for its own products may make new knowledge available free for others. In such cases, market prices are inaccurate signals. A person deciding on an activity that incidentally harms others will probably carry it "too far" (to the point where additions to the losses of all affected persons outweigh additions to their benefits), since he does not bear all of the true costs. A person deciding on an activity that incidentally benefits others will probably cut it "too short" (at a point where additions to the benefits of all affected persons would still outweigh additions to total costs), since not all the benefits accrue to him. Market prices misrepresent the true terms of choice between complete packages of net satisfactions. Externalities trace to failure fully to apply the logic of marketable property rights; but its full application may be impossible under the circumstances, or prohibitively expensive.

Most interventionist arguments, to the extent that they have any analytical content at all and are not mere naked demands for special favor at the expense of other people, may be interpreted as externality arguments. Suppose a particular industry is desired in the United States partly for its own sake and not merely for the products that it currently provides. It might be providing a "service of availability," standing ready for conversion to military production in wartime; or it might be providing new knowledge or experience or worker training beneficial to other sectors of the economy that it nevertheless cannot collect payment for. Such an industry might be a plausible candidate for protection against import competition, for a subsidy, or for other governmental favor.

Arguments like that can be valid in the abstract, not logical or economic nonsense. Such arguments make it easy to ridicule the unhampered market system. A sensible, coordinated program of interventions should be able to improve on its operation.

The very easiness of arguing this way should serve as a warning. It is all too easy to make a list of goods, activities, economic sectors, and kinds of employment that would superficially seem to deserve special encouragement. Yet steering productive resources into favored activities means withholding them from others; and forcing consumers (and industrial users, too) to spend more on particular goods or their substitutes, as by levying import duties, leaves less real purchasing power available for buying the outputs of other sectors of the economy. No one can comprehend such repercussions in concrete detail. Favoring some activities and sectors must disadvantage others, yet no one can know which of those others will suffer most.

How can one be sure that the shrunken activities might not themselves be especially meritorious in terms of the standard arguments? Political decisions about economic affairs, as the 19th-century economist Frédéric Bastiat (1964, chap. 1) used to argue, suffer from overemphasis on the *seen* to the relative neglect of the *unseen:* Desired and obvious results get too much attention relative to unrecognized repercussions, some of which may occur in remote sectors of the economic system and only after long time lags.

Economists might well agree on the abstract proposition that some specific but unknowable pattern of taxes and subsidies and controls and import duties would be superior to free trade at home and internationally—until ever-changing conditions change what pattern of interventions would be ideal. Yet because they could not know and agree on what specific actual pattern would be ideal, their abstract agreement would be empty, their consensus spurious.

In the real world, interventions have to be applied specifically—such and such an import duty or import quota applied to this product, defined with adequate precision; such and such a kind and rate of subsidy on this other product and tax on that still other one; such and such a job-retraining program with specific features and incentives and disincentives (whether intended or not). The dynamic nature of the world, which the realists and interventionists so much like to harp on in other contexts, poses a further obstacle to achieving and maintaining an ideally adjusted pattern of interventions. (Who, before invention of the transistor, could have predicted it and its immense repercussions?)

Now, do the champions of an industrial policy describe their program in adequate comprehensiveness and detail? Do they even agree among themselves? Do they tell us how to get their program enacted through the political process? It is not enough to say that other countries have industrial policies or to say that the United States has had one of sorts throughout its history.

What needs to be challenged is the idea that the government ought, somehow, to make the pattern of economic activity different from what would emerge in a free market, and that it should do so beyond merely supplying public goods (defense and the like) and charging for them through taxation. The government cannot actually determine the national pattern of production and consumption, let alone achieve for individuals their ultimate goals in life. It cannot systematically and sensibly allot to people the gains and losses always arising from changes in economic life. Government officials can only try to do their best in establishing and tinkering with rules and constraints on people's activities and transactions, trying to conform to broadly accepted notions of morality and justice and hoping that the results will be more satisfactory, by some criterion or other, than the pattern of activities hitherto observed. Operationally, the choice lies between alternative sets of institutions and rules, not between alternative patterns of production and resource allocation and gains and losses. In choosing between alternative rules and institutions, the government has plenty of work to do in helping maintain a framework for justice and free enterprise—peace, security, law, stable money, and the like. (On these issues we recommend Vining 1962 and 1969.)

Controlling a market economy through ideal interventions would require the controllers to have the same knowledge of wants, resources, technology, and all sorts of local and fleeting details that planners would need to operate a centrally planned economy. Here the whole vast literature on central planning and economic calculation under socialism becomes relevant. Like central planning, a program of detailed and supposedly coordinated interventions is bound to perform poorly. The market system does what central planning and intervention cannot do: It puts to use the detailed knowledge that is inevitably scattered about in millions of minds and that simply could not be articulated and assembled for use in central decisions. It achieves spontaneous coordination. It exerts pressures for economic progress. It is not as perfect as one might abstractly imagine, but it works. A free-market economy is attainable; ideal intervention is not.

Furthermore, the policy of allowing the free market to work is a definite program. It has clear meaning. Protectionism, interventionism, industrial policy, or whatever its alternative may be called, on the other hand, is a chimera. What appeal it may have derives largely from its vagueness; it means different concrete measures to its different advocates.

Such advocacy is not new, by the way. Adam Smith had it pegged. Authority to tell private people how to employ their capitals "would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it" (1937, p. 423).

The Politics of Interventionism

Besides considering the economics of the issue, we should give some thought to the politics. Can anyone seriously believe, in this day and age, that the governmental process as it operates in the United States and other democratic countries is capable of producing a coherent program of detailed interventions effectively oriented toward nationally sensible economic objectives? In governmental decision making, responsibility is fragmented, remote and long-run repercussions relatively neglected, and economic theory often scorned. The system has a short-run bias. It is notoriously responsive to special interests. Students of public-choice theory understand by now why our political system is practically bound to operate that way. Can we reasonably expect a sensible industrial policy to emerge from the process that has led, for example, to detailed cost investigations by American officials in a French nitrocellulose plant?

Consider the short-run bias and special-interest bias evident in the record of U.S. economic policies—the system of tariffs and import controls itself; the various farm programs; minimum-wage laws; the Social Security mess; blithe enactment, over the years, of entitlements to benefits without due thought for the long run, resulting now in whopping and ominous government budget deficits; progressive ruination of our money; preposterous attempts at macroeconomic fine-tuning through fiscal and monetary policy, with the Federal Reserve system still being badgered from inside and outside the government on how it should zig and zag; a hopelessly complex, irrational, and even destructive tax system; and so on and on.

We do not say that all government programs fail, but the percentages are not good. Self-congratulating realists, pragmatists, and empiricists should pay attention to the abundant empirical evidence on how our political system actually makes economic policy. Do we really want to expand this system's scope of action?

An industrial policy of the kind fashionably recommended nowadays would be a great new feeding trough for special interests. Interventionists who prate about policy for a dynamic world should remember that political influence lies with businessmen and workers in *existing* industries, not in those still to be created. Concern for the future would depend largely, and inaccurately, on the glamor and voguishness of a few high-tech fields.

As Senator William Proxmire recently said (quoted by Poole 1983):

> Money will go where the political power is. . . . It will go where the union power is mobilized. It will go where the campaign contributors want it to go. It will go where the mayors and governors as well as congressmen and senators have the power to push it. Anyone who thinks government funds will be allocated to firms according to merit has not lived or served in Washington very long.

Protectionist trade policy is a prime example of the modern perversion of democratic government. Instead of being an instrument for identifying and enforcing rules of just conduct, thereby facilitating peaceful and mutually advantageous voluntary cooperation among the members of society, government has become an instrument that special-interest groups strive to wield for their own narrow advantage. (We conjecture, by the way, that the litigation explosion and the plague of lawyers is another consequence of perceiving government as a tool for getting wealth for oneself by transfers instead of by production.) Democratic politicians, to gain and hold power, strive to stitch together artificial and temporary majorities by buying, in effect, the votes of particular interest groups. As a result, government grows in size and in the scope of its activities.

A remedy cannot be found in the field of trade policy alone. The process that has overburdened democratic government must be reversed. (As distinguished from haphazard and piecemeal interventions working at cross-purposes, comprehensive and detailed, yet coherent, economic planning simply cannot be carried out by the democratic process.) Reform must probably be sought at the constitutional and even spiritual level—in a return to the ideals of free men and women, free markets, and limited government.

We need not expect total victory for such a campaign to be worth while. We can hold down the extent of interventionism and come closer to free markets and limited government by keeping up the intellectual struggle. Interventionists will get their way less often if their arguments are widely perceived as fallacious. After all, everyone seeking special government protection wants others to believe, and wants to believe himself, that action in his own special interest is in the general interest also. That is what he argues. By keeping up the intellectual struggle, those who understand the economics involved will make it harder for such arguments to prevail. Even "unrealistic" ideals can be worth pursuing, as F. A. Hayek has explained in the passage quoted on the back cover of this journal.

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ECONOMICS AND PROTECTIONIST PREMISES

Ronald A. Krieger

In their paper "Realism and Free-Trade Policy," Professors Yeager and Tuerck have skillfully demolished the arguments of the so-called "new realist" and "new protectionist" schools and have marshaled eloquent arguments for the superiority of realistic market solutions over an impractical idealized interventionism. Yet I am struck by their statement that they are becoming rather "frustrated by the protectionists' inattention" to the standard arguments used by free traders against protectionism.[1]

This admission brings to mind the tale of the economist who was invited to dinner at the home of a certain captain of industry. They took to arguing about free markets and free trade, and the dispute became more and more heated. Finally, the industrialist pointed to the door and shouted, "Sir, get off my premises!" To which the economist replied in total frustration, "Sir, I *am* your premises."

The Nature of the Conflict

Unfortunately, the person of affairs will seldom acknowledge that the premises articulated by members of the economics profession govern the day-to-day business environment. Yet the debate over protectionism is largely a conflict over basic premises. And we economists are likely to continue to be "frustrated by the protectionists' inattention" until we can convince "practical" people of the relevance, power, and accuracy of the premises with which we approach issues of economic policy.

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[1]Leland B. Yeager and David G. Tuerck, "Realism and Free-Trade Policy," *Cato Journal* 3 (Winter 1983/84): 657.

At the heart of the protectionist case—be it the "new realism" that challenges the ethical basis of free trade or merely the familiar tenets of old-fashioned mercantilism—is a view of the world that differs sharply from that held, in the main, by those trained in economics. In Table 1, I list a series of simplified propositions, contrasting the basic premises of what I will call the "economist's view" with those of the "non-economist's view." I recognize that the former is not entirely confined to economists and that (regrettably) some members of the economics profession may agree with one or more tenets of the latter. But in the main, the distinction strikes me as valid.

The Economist's View

Let us take up in order the propositions listed in Table 1, starting with the economist's viewpoint:

A. The purpose of economic activity is to enhance the well-being of individual consumers and households. This is an absolutely basic premise of economics, from which all the other propositions follow.[2]

TABLE 1

TWO VIEWS OF THE WORLD

Concept	Economist	Non-Economist
A. The purpose of economic activity is . . .	consumer welfare	jobs and growth
B. The basic element of economic activity is . . .	exchange	production
C. Work is a . . .	cost	benefit
D. Imports are a . . .	benefit	cost
E. Exports are a . . .	cost	benefit
F. Cheap foreign goods are a . . .	benefit	cost
G. The objective of trade is to . . .	get goods cheaply	create jobs
H. Trade barriers hurt . . .	domestic residents and foreigners	foreigners only

[2]Adam Smith said it succinctly in 1776: "Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it. But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce." *The Wealth of Nations*, Modern Library ed. (New York: Random House, 1937), p. 625.

B. The basic element of economic activity is the transaction or exchange, which, if informed and uncoerced, must necessarily augment the wealth—the utility, well-being, or satisfaction—of both parties to the transaction. If producers who are not parties to the exchange—"third-party producers"—are damaged, they can (in principle) be compensated out of the gains from the exchange. However, efficiency and general-welfare considerations suggest that these producers should reallocate their resources to higher-valued uses.

C. Work is a cost or an obstacle to be overcome or endured in producing the benefits of consumption. Wants always exceed the ability of scarce resources to satisfy them, so there is always plenty of work to be done. Unemployment is thus a disequilibrium situation, resulting from a perverse incentive structure or from sluggish adjustments to changing labor-market conditions.

D/E. Imports are the benefit for which exports are the cost.

F. Cheap foreign goods are thus an unambiguous benefit to the importing country.

G. The objective of foreign trade is therefore to get goods on advantageous terms.

H. Trade barriers damage the economic well-being of both the protectionist country and its trading partners.

The Non-Economist's View

The economist's views will generally be disputed in every instance by persons untrained or only partially educated in economics, who tend to hold the following views:

A. The purpose of economic activity is to foster employment and economic growth.

B. The basic element of economic activity is production, which has as its purpose the well-being of the suppliers of the factors of production: land, labor, and capital. Transactions that damage third-party productive factors—those outside the exchange—are detrimental to economic well-being.

C. Work is a benefit. Jobs are a "good" with positive utility, to be purchased at a cost, if necessary, by sacrificing some (presumably selfish, materialistic, hedonistic, or unneeded) consumption. The market economy tends to generate underemployment and unemployment. The government must therefore intervene through a variety of measures, including trade barriers, in order to provide enough desirable jobs to accommodate everyone who wishes to hold one.

D/E. Exports are the benefit for which imports are the cost.

F. Cheap foreign goods are a disaster for the importing country, devastating its economy by destroying jobs.

G. The objective of foreign trade is therefore to create more jobs at home through exports than are destroyed by imports.

H. Trade barriers hurt only foreigners. Protection enhances the economic well-being of the populace of the home country.

Defending Free Trade

With this wide gap in perceptions and assumptions, it is small wonder that "practical people" listen uncomprehendingly to free-trade arguments based on premises they find preposterous. When no one is listening, it counts for little that we can demonstrate the superiority of the economist's point of view through rigorous internal logic. Rigorously derived conclusions are only as acceptable as the premises from which they proceed, and it is the body of premises supporting free trade—not the logic—that is under attack.

In this situation, it is an evasion for economists to retreat to the theoretical high ground, taking shelter and comfort in the rigor of our logic while complaining that our cogent arguments fall on deaf ears. We have a responsibility to make ourselves heard as professional economists, and we can do so only by mounting a frontal assault on the underlying premises of protectionism. This means taking the battle to the protectionists' turf and confronting head-on their misconceptions about "realism," job creation, and the content and purpose of economic activity. If economists' premises can win acceptance, the free-trade case will prevail.[3] I therefore propose a three-pronged attack:

- As Yeager and Tuerck have done so well, we must continue to hammer away at the impracticality of idealized interventionism. If the protectionists want to be "realistic," let us by all means give them realism, by stressing at every opportunity the lack of operational validity of protectionist policies.
- We must confront and demolish the employment arguments that have become widely accepted by political leaders, members of

[3]Although Yeager and Tuerck are becoming somewhat frustrated with repeating the arguments for free trade, they recognize the importance of such repetition and encourage others to restate the arguments "in fresh and compelling ways." Yeager and Tuerck, p. 657.

the press, and the general public. Take, for example, this unattributed assertion from a recent *Business Week* cover story: "The trade deficit is already costing 1.5 million jobs, shrinking the nation's industrial base, and sapping the economy's growth potential."[4] But do exports really create jobs? Or, for that matter, do imports reduce domestic employment? For the economy as a whole, a "job-creating" increase in exports will tend to induce either an offsetting rise in imports or a capital outflow that, by forcing up interest rates, will promote an offsetting job loss in interest-sensitive sectors. In the long run, foreign trade only rearranges employment patterns, redistributing labor to more-productive occupations. The typical protectionist argument simply assumes (incorrectly) that the jobs gained from protecting a particular industry increase employment, output, and economic growth for the economy as a whole. This is a classic case of the fallacy of composition, since job expansion in the protected sector *is normally offset by employment losses elsewhere in the* economy. There is an abundant literature in macroeconomics attesting to the futility of trying to create jobs through trade barriers,[5] and we must see to it that fallacious arguments in this vein are countered at every opportunity.

- Finally, we must continue to stress the purpose and content of economic activity. Consumers are shrewd judges of their own self-interest. Once they are disabused of the notion that their sacrifices serve to reduce unemployment, they are not likely to tolerate the unfairness of special interests profiting at the expense of the many.

A Re-education Problem

In this connection, we have a re-education problem within the economics profession, in the production and use of elementary teaching materials. The majority of college-educated citizens of the post-war generations learned their economics from textbooks that presented sterile microeconomic (perfect-competition) and macroeconomic (multiplier) models. Although it probably was not the intention of most instructors, their students took from these models the nonsensical propositions that (1) the case for free markets breaks down when

[4]"America's Hidden Problem: The Huge Trade Deficit Is Sapping Growth and Exporting Jobs," *Business Week*, 29 August 1983, pp. 66–77.

[5]See, for example, the discussion and references in Brian Hindley and Eri Nicolaides, *Taking the New Protectionism Seriously*, Thames Essay no. 34 (London: Trade Policy Research Center, 1983), chaps. 3–4.

the assumptions of perfect competition are not perfectly met, and (2) exports stimulate a multiple expansion of output and employment while imports are a "leakage" that induces a multiple contraction. Even if some astute instructors stressed the robustness of market solutions under rivalrous behavior and the partial nature and dubious validity of multiplier analysis, such lessons generally failed to take.

Thus, we must point to our own teaching and textbooks in assigning responsibility for the failure of much of the population to see the world from the economist's point of view. Until we improve our own teaching methods and free ourselves from the obsolete approaches to economic theory that permeate many of the popular textbooks, we will have only ourselves to blame for the public's misconceptions about free markets and free trade.[6]

[6]There are several refreshing exceptions to the mechanistic sterility of the traditional principles textbooks. An outstanding example is Paul Heyne, *The Economic Way of Thinking*, 4th ed. (Palo Alto, Calif.: Science Research Associates, 1983).