The Trade Debate's Unlevel Playing Field

Ronald A. Cass

Americans have a general understanding of trade. We understand that trade is good. We may not be exactly sure what "free trade" *is*, but we have a sense that it is mostly a good thing.

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

Selling the Benefits of Imports

Told in this way, which is pretty much the norm, every aspect of the normal trade story is somewhere between misleading and completely backwards. Imports, in fact, are not an evil that must be tolerated to permit exports. Imports are what is wonderful about trade. Imports provide us choices we wouldn't have without trade, things that are made better, for less money, more suited to our tastes than

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Ronald A. Cass is dean of the Boston University School of Law and Melville Madison Bigelow Professor of Law. Cass previously served as a member of the U.S. International Trade Commission, and as the commission's vice chairman in 1989–90.

domestic alternatives (at least better suited to some tastes). And exports help pay for them. It is like having money from work to go buy things at the mall. We want to have more choices of better things to buy. The money we buy them with comes from work, but we don't buy things so that people will let us work—it is just exactly the reverse. We *want* imports, and exports help us get them.

It might be easier for people to understand trade by starting with a homelier example. We don't each make our own clothes, grow our own food, build our own homes and cars and computers. Why? Because we can't do it as well or at as low a price. We let others specialize in what they do best while we specialize in what we do best. Everyone can understand that. They can grasp that the same reason explains why we don't limit our economic reach to only our family or only our neighborhood or only our town or even only our state—none of these allows us access to the range of goods and services we want, to the best goods at the best prices. By circumscribing the range of people and products we have access to, we inevitably cut off possibilities that will enhance our choices and increase our wealth and our welfare. That reasoning extends to international trade as well (see Bhagwati and Srinivasan 1983; Cass and Haring 1998; Corden 1974; Samuelson 1987).

The claims about returns to export industries, although plausibly connected to increased welfare in some (highly unusual) circumstances, generally add nothing to this picture. In an unconstrained market, export industries (those that export a large value of goods, absolute or relative to overall production, or that export a large volume of goods) will not have higher returns than import industries. A difference in wages most likely is the result of defective measurement, although there are other possibilities. Perhaps we tend to export goods in which there are strong economies of scale and transitory abnormal returns to specialized resources (labor included), a possibility consistent with an advantage in producing capital-intensive goods. But competition will erode any differential over time. What is good about trade traces back to its creation of wealth through allowing better, more efficient production and access to a more valuable set of consumption opportunities. Other explanations at best fit marginal cases.

Enough about this is understood to keep anti-trade forces from seriously undermining the framework that promotes open trade. The legal regime that governs trade—globally and at home—is full of provisions that are difficult to defend as consistent with sound economics, provisions that provide opportunities to protect inefficient producers, reduce consumer welfare and national wealth, support senescent industries, and impose costs on our most promising and productive industries (see Baldwin 1985; Bhagwati 1988; Destler 1986; Goldstein 1986; Tumlir 1985). But after all is said and done, that framework has kept trade expanding globally and at home, in absolute terms and as a proportion of the U.S. economy. The figures on trade are impressive. Growth in the value of trade over the past 50 years has increased at a rate substantially above the rise of world gross domestic product (GDP) (GATT 1994; Salvatore 1993). In the United States, two-way trade grew ninefold in real terms over the past 30 years, with U.S. trade now measured in the trillions of dollars, amounting to one-quarter of the U.S. GDP (Council of Economic Advisers 1995; Weinberg 1995). Average citizens do not know any of this, but they experience the growth in trade and its benefit to the economy in many ways—in access to Japanese cars, to French wines, to German kitchen appliances, to an array of fruits and vegetables that would have been unavailable much of the year and outrageously expensive when found. A vague perception of trade's benefits may help explain the failure of anti-trade forces to generate more political clout. Hard-core trade troglodytes—Ross Perot and Pat Buchanan stand out on this score—gain headlines, but they do not win enough votes to change trade policy. Yet, these avatars of autarky and their allies make progress difficult but not enough to put the direction of trade decisions in doubt. The public might have a strong suspicion that open markets are generally good, but when someone speaks out in favor of keeping markets open to imports—much less making our markets *more* open—most folks react without much enthusiasm. The typical reaction, when favorable, is "We've got to do this, even if it's painful," not "Drinks are on the house." Why? And what can we do about it?

An Uphill Battle for Free Trade

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

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

Pro-trade interests speak of the gains that are made because we can export to other nations, but that argument has no strong visual appeal. We can see goods piled at the dock, but the picture lacks the clarity of the shuttered factory. Worse, pro-trade interests are tied to *future* gains, to expansions that will come in your business or mine. And worse yet, the interests in trade depend on gains to producers from access to better, cheaper components, to a fuller product line, or gains to consumer welfare from greater choice, lower prices, and better products. None of these benefits presents itself in an obvious, visible manner. In the battle of images, the moving trucks carrying folks away and the chained gates left behind win.

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

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

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

On the other side, the consumer interest while maximal *in the aggregate* is minimal in intensity on the subject of free trade. Each consumer benefits marginally from better choices and prices on each of a host of items. That will account for less of each individual's budget line—financial or psychological—than the amount at stake when the individual responds in his capacity as a producer, not a consumer. As Professor Elmer Schattschneider (1935) recognized 65 years ago, we can expect little concerted activity from a group whose interest in the subject is so utterly lacking in intensity.

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

A second source of pro-trade interest has been businesses that see open trade—including openness to imports—as critical to developing a market advantage dependent on greater export opportunities. These often are vocal businesses: the film and television entertainment industries, some agricultural interests, producers of some transportation equipment (largely in the aircraft industry), and producers of some computer and telecommunications equipment (largely at the high end of those industries).

The third source of pro-trade interest has been the coterie of foreign businesses, foreign-related businesses, and domestic businesses with substantial foreign outposts that benefit directly from open trade through rationalization of their production resources.

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

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

So we ultimately depend on businesses that have a strong interest in imports as inputs to push the case for trade. Each of these businesses has good reason to want to do so. However, none of them will have as intense an interest in promoting imports as an import-competing business might have in protesting them. The output of the import-competing business represents the value of everything that goes into it, and imports compete with that, putting that value at risk. The import-reliant business also has an output, often one it would prefer to protect from competition, but the import makes up only a portion of the business's output value. General Motors, like Caterpillar, uses steel as an input and would benefit from reduced impediments to steel imports. But its greater interest lies in protecting its outputs—automobiles—from competition. The import-reliant business will not always subordinate its interest as producer to its interest as consumer, but the edge in intensity will tend to go to the import-resistant side.

So, what is to be done?

Educating the Public on Trade

At bottom, the answer must lie in education. Education must be the political analogue to "location" in real estate. And the focus must be substantially on public education, not merely on education of particular decisionmakers.

Success in public education is necessary both to *create* a more sympathetic environment for open-trade policies and to *sustain* such policies. Politicians might be willing to tilt this or that particular decision toward a trade-friendly outcome if persuaded that it is good for their specific constituencies even without a sense of strong public support—a point worth returning to. But the initial reaction of politicians will more likely be favorable—and certainly more likely to remain favorable over time—if the public seems solidly behind open trade. Politicians seemed much more kindly disposed to companies that market tobacco products when they sensed a lower level of public hostility. This point is obvious, but many discussions of building support for trade skip past the public and focus on building political coalitions among specific politicians or specific industry groups.

The difficulties faced here have been sketched out. But three tacks seem especially promising:

First, simple analogies such as offered earlier—the make-your-own-clothes analogy—are much more effective than abstract theorizing. Repeatedly putting these analogies in the public domain can help.

Second, linking trade to economic success by contrasting open-trade and closed-trade regimes can persuade some people. Comparing

Argentina and America, Hong Kong and China, Singapore and Pakistan, Eastern Europe and Western Europe can help. There is significant public sympathy for the argument that insulation from trade played a significant role in the growing gap that separated the two Europes between 1950 and 1990. The argument links easily to concerns about trade bringing increased competition. Japanese car imports forced American car manufacturers to make substantial improvements in design, durability, and cost. That's what trade does. And if imports are there, competing, all along, there's less need for a sudden, major adjustment.

Third, people understand that jobs are good and can be impressed that increases in imports as well as exports create jobs. This argument is critical and tricky. But it must be pushed.

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

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

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