A Primer on Free Trade: Answering Common Objections

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Free trade simply means unimpeded exchanges between individuals over political borders. It is the international (or interregional) equivalent of domestic free markets. In free trade, any individual or private entity can make deals, as opposed to the government's making one deal for everybody (which will be good for some and bad for others). Between free trade and trade prohibition, many degrees of managed trade exist. Managed trade includes all sorts of restrictions imposed by political authorities, such as tariffs (also called duties), antidumping rules, and nontariff barriers such as quotas ("voluntary" or overtly compulsory). So-called free-trade agreements—such as the North American Free Trade Agreement (NAFTA), the rules of the World Trade Organization (WTO), or the proposed Trans-Pacific Partnership (TPP)—are part free trade, part managed trade.[1]

OBJECTIONS TO FREE TRADE

Among Americans, fears related to free trade include the following:

1. Americans cannot compete against low-cost foreign producers, such as workers who are paid a fraction of the wages that are prevalent in the United States. (Producers in economics include both businesses and their employees.)
2. Free trade harms the United States.
3. Free trade brings detrimental trade deficits.
4. The United States is losing its factories.
5. Free trade destroys jobs.
6. Free trade pushes wages down in rich countries.
7. Free trade is not fair.

1. As an illustration related to TPP, see Pierre Lemieux, "Free Trade and TPP," *Library of Economics and Liberty*, February 1, 2016.

Those fears must be taken seriously. Many of them date from the rise of mercantilist thinking in 16th century Europe.[2] Promoted by businessmen and state rulers, mercantilism was similar to today's protectionism.

The majority of modern economists favor free trade, which is the topic on which they are most in agreement.[3] Even economists who are usually thought to be on the left generally oppose protectionism. For example, Paul Krugman, the well-known winner of the 2008 Nobel Prize in economics and *New York Times* columnist, is also the coauthor of a leading textbook on international trade that broadly defends free trade.[4] Krugman and his coauthors summarize the case for free trade ("the standard view of most international economists") as follows:

- The costs of deviating from free trade are large.
- The political process will subvert any attempt to pursue sophisticated deviations from free trade.[5]

Yet the objections to free trade must be considered, and this paper aims to do so. First it will discuss the first six of the aforementioned objections, taking each in turn. Next it will examine the politics of trade and the relationship between international trade and domestic trade. Then it will address the fairness objection, and a conclusion will pull all these threads together. This paper deals mainly with the theory of free trade, but it provides a few examples. The reader will find many other examples in the media and in political debates.

OBJECTION 1: AMERICANS CANNOT COMPETE AGAINST LOW-COST FOREIGN PRODUCERS

The first objection to free trade is that low-cost producers—those who pay low wages in countries such as China, Vietnam, Thailand, and Mexico—will always outcompete high-cost American producers. This objection was stated succinctly by a mercantilist author in 1772: "Balance of trade is against us in almost every country in Europe, because those countries who rival us in manufacture

2. Douglas A. Irwin, "The English Mercantilist Literature," chap. 2 in *Against the Tide: An Intellectual History of Free Trade* (Princeton, NJ: Princeton University Press, 1996).
3. See the source data of Daniel B. Klein, William L. Davis, and David Hedengren, "Economics Professors' Voting, Policy Views, Favorite Economists, and Frequent Lack of Consensus," *Econ Journal Watch* 10, no. 1 (2013): 116–25. More than two-thirds of the economists interviewed answered "oppose strongly" to the policy "tighter restrictions (e.g., tariffs and quotas) on imported goods"—the largest measure of consensus.
4. Paul R. Krugman, Maurice Obstfeld, and Marc Melitz, *International Trade: Theory and Policy*, 10th ed. (Boston: Addison-Wesley, 2015).
5. Ibid., 240.

and commerce by living cheaper and paying lower wages, undersell us in most foreign markets."[6] This author was one of the last mercantilists of that time, writing just as Adam Smith's famous 1776 book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, was to demolish the mercantilist doctrine.[7] The complete answer to the objection, however, was provided in the 19th century by David Ricardo's theory of comparative advantage.[8]

Absolute and Comparative Advantage

It is easy to grasp why, if country *H* (home) is more productive and competitive in good (or service) *x* and country *F* (foreign) is more productive and competitive in good (or service) *y*, it is in H's interest to export *x* and import *y*, and vice versa for *F*. (A country's interest is not clear when its inhabitants all have different interests, but this complication need not be addressed here.) Clearly such trade will make each country better off, producing what it can produce at lower cost and importing what others produce at lower cost. But what happens if one of the two countries is more productive in both *x* and *y*—that is, it has what is called an *absolute* advantage? For instance, America is certainly more productive than Bangladesh in both clothing and machinery manufacturing. In that case, is trade still in the interest of both countries? The answer is generally yes.

Consider this issue at the level of the individual. It is in individuals' best interests to specialize in what they are best at doing and to purchase whatever else they need from individuals who are best at producing those other things. This is true even if one individual has an absolute advantage in everything. Consider a high-powered executive who is better than any accountant both at managing a car company and at doing personal accounting. By hypothesis, the executive has an *absolute* advantage in both tasks. But it may be—and will typically be the case—that the executive is *comparatively* better at managing large companies and that the accountant has the opposite *comparative* advantage. The executive is "more good" at managing a company, and the accountant is "less bad" at doing

6. John Powell, *View of Real Grievances, with Remedies Proposed for Redressing Them, Humbly Submitted to the Consideration of the Legislature* (London: n.p., 1772), 281; published anonymously, the book is attributed to John Powell. The passage is also quoted in Irwin, *Against the Tide*, 154.
7. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan (London: Methuen & Co., Ltd., [1776] 1904).
8. David Ricardo, *On the Principles of Political Economy*, 3rd ed. (London: J. M. Dent & Sons Ltd., [1817, 1821] 1911), 81–84. The theory of comparative advantage was intuited (or perhaps even codiscovered) by two other economists of the same period, James Mill and Robert Torrens. On this historical controversy, see Irwin, *Against the Tide*, 89–91.

accounting. By spending time on managing a car company rather than doing personal accounting, the executive earns more money than the services of a personal accountant would cost. Conversely, the accountant earns more money doing accounting than he would save by building a car. It is in the interest of both parties to specialize in what they do better, and to buy from each other what they cannot do as efficiently. The executive buys accounting services from the accountant, and the accountant buys cars from the executive's car company (or from other car companies).

The Theory of Comparative Advantage

The same reasoning is valid for countries. The theory or "law" of comparative advantage states that a country gains by exporting what it has a *comparative* advantage in producing and by importing what foreign countries have a comparative advantage in producing. For example, trade is beneficial for both the United States and Bangladesh even if the former country has an absolute advantage in every sort of production.[9]

Although the United States has an absolute advantage (a higher productivity) over Bangladesh in producing both machinery and clothes, its advantage is much stronger in machinery; on its side, Bangladesh has less of a disadvantage in clothes. In other words, the United States can produce machinery by sacrificing less clothing production than is possible in Bangladesh; and Bangladesh can produce clothing by sacrificing less machinery production. If, in these conditions, the United States moves resources (such as labor, buildings, and industrial equipment) from clothing to machinery—that is, specializes in machinery and exports part of its machinery production to Bangladesh—it can obtain for those exports more clothes than could have been produced domestically. Bangladesh is in the opposite position: if it specializes in clothing and exports part of its production, it can obtain in exchange more machinery than it could have produced. By specializing in the production of the good for which it has a comparative advantage and by importing the other good, each country obtains a greater supply of both commodities than if it had produced both goods for itself.

9. A more formal proof of the theory of comparative advantage can be found in any good economics textbook on macroeconomics or international trade. See also Lauren F. Landsburg, "Comparative Advantage," *Library of Economics and Liberty*, accessed January 22, 2017; Donald J. Boudreaux, "Comparative Advantage," in *The Concise Encyclopedia of Economics*, ed. David R. Henderson, 2nd ed. (Indianapolis: Library of Economics and Liberty, 2008).

In other words, as Paul Krugman writes, "International trade is really just a production technique, a way to produce importables indirectly by first producing exportables, then exchanging them."[10] It allows a country to indirectly produce and consume more through exchange than it could otherwise by doing everything domestically.

Such matching comparative advantage will exist only if the relative internal cost of the two goods is different between the two countries—that is, if the rate at which they can "transform" (through moving resources) one good into the other is different. In technical parlance, the opportunity cost of the two goods must be different from one country to the other. In this case, there is an intermediate price ratio at which trade is beneficial to both. Note again that this matching comparative advantage occurs even if one country has an absolute advantage over the other. Even if the United States can produce both more machinery and more clothing than Bangladesh, it can obtain still more clothing by specializing in machinery production and trading part of its output in exchange for clothes. And even if Bangladesh is less efficient in the production of both machinery and clothes, it can obtain more machinery by producing it indirectly—that is, by exchanging part of its clothes production for imported machinery.

An alternative way to grasp comparative advantage is to understand that a poor country's low productivity (it is poor precisely because it is not productive) is more than compensated by its low wages; and, on the other side of the trade, a rich country's high wages are more than compensated by its high productivity. But this system only works for the goods in which each country has a comparative advantage. For instance, Bangladesh's low wages do not compensate for its low productivity in machinery production, and America's high productivity in clothing does not compensate for its high wages.

The crucial point is that differences in relative production costs within countries are what generate comparative advantage and an opportunity for mutually beneficial exchange. Mutually beneficial exchange does not require absolute advantage. Why does comparative advantage lead to beneficial trade? Go back to the example of the executive and the accountant: because each has different comparative capabilities, they both benefit from specializing and exchanging even if the executive is also more efficient at accounting. It's the same between two countries. Even if one country is more productive at everything than the other—for example, the United States in relation to Bangladesh—the former will find

10. Paul Krugman, "What Should Trade Negotiators Negotiate About?," *Journal of Economic Literature* 35, no. 1 (March 1997): 115.

it advantageous to specialize in the good for which its productive advantage is larger; the latter, even if it is less productive in everything, will find it advantageous to specialize in the good for which its disadvantage is smaller. By exchanging, each country can finally obtain more than if it had remained in autarky. Each "produces" through imports what would be most costly to produce itself, in exchange for what it produces at lower cost. Thus, each obtains more for less.

When critics of free trade do address the law of comparative advantage, they argue that either (1) it relies on a too-simple model or (2) it does not consider that factors of production—capital and labor—are now mobile across countries, contrary to what Ricardo assumed. The first objection is easily disposed of: to understand the world, to avoid seeing it as a confused blob, an observer needs simplified models of reality. As for the second objection, factor mobility does not change the essential results of the theory of comparative advantage. A country will always have some comparative advantage, if only because of its geographical location and characteristics, if not its history and culture. Ultimately, comparative advantage will play among individuals and companies trading across borders the same way it works within a country.[11]

Another objection is that empirical evidence does not always confirm that countries completely specialize in the goods for which they have a comparative advantage. This problem with the theory can be overcome by dropping the simplifying assumption that production costs are constant. If one assumes instead that the more machinery is produced, the higher the cost will be in terms of forgone clothing (because, say, the machinery industry will have to employ even unskilled seamstresses to work in machinery-making factories), the United States may stop specializing before no clothes at all are manufactured there.

Another issue not addressed by the theory of comparative advantage is the changes in the distribution of income that it brings within trading countries. Although trade increases total incomes, some groups may lose—such as labor displaced by foreign competition. The paper addresses this issue in the "Objection 6" section below.

Despite all these qualifications, empirical evidence seems to confirm that "productivity differences play an important role in international trade and that it is comparative rather than absolute advantage that matters."[12] The classic demonstration was given by Béla Balassa just after World War II. Balassa showed that, although the US economy had an *absolute* advantage over the British economy

11. For a more elaborate argument, see Donald J. Boudreaux, "Does Increased International Mobility of Factors of Production Weaken the Case for Free Trade?," *Cato Journal* 23, no. 3 (2004): 373–79.
12. Krugman, Obstfeld, and Melitz, *International Trade*, 47.

(all manufacturing industries were more productive in the United States than in the United Kingdom), the ratio of US exports to British exports diminished as the US *comparative* advantage became lower. The United Kingdom exported relatively more of what it had a comparative advantage in, and the United States exported relatively less of what it did not have a comparative advantage in.[13] The recent rise of poor and unproductive countries in some specialized markets (clothing, textiles, call centers, simple manufacturing assembly, and others) shows the explanatory power of the theory of comparative advantage.

Economic analysis shows not only that a country is able to compete against low-cost producers, but also that it (that is, its producers) has an interest to do so, as long as it specializes in goods in which it has a comparative advantage. In these areas of comparative advantage, its higher productivity more than compensates for the higher remuneration it must pay to its factors of production (such as labor).

OBJECTION 2: FREE TRADE HARMS THE UNITED STATES

A fuzzier protectionist argument is that free trade harms the United States. This assertion must mean that, in some way not covered by the theory of comparative advantage, the costs of free trade are higher than its benefits. From this perspective, it is usually assumed that the cost of free trade comes from imports and the benefit from exports. That is not the case.

Imports Are a Benefit; Exports Are a Cost

The mercantilists of the 16th to 18th centuries thought that a country should export as much as possible and import as little as possible. This is an economic error. Just as today individuals sell (including labor services) *in order to* buy something, countries export in order to import. As James Mill wrote nearly 200 years ago, "The benefit which is derived from exchanging one commodity for another, arises, in all cases, from the commodity *received*, not from the commodity given."[14] In other words, exports are a cost because the United States uses its resources to produce goods and services for foreign countries; imports are a benefit because the United States uses the resources of foreign countries to

13. Béla Balassa, "An Empirical Demonstration of Classical Comparative Cost Theory," *Review of Economics and Statistics* 45, no. 3 (1963): 231–38.
14. James Mill, *Elements of Political Economy* (London: Baldwin, Cradock, and Joy, 1821), 89; also quoted in Irwin, *Against the Tide*, 91.

obtain its own goods and services. So, contrary to what the mercantilists thought, the United States should import as much as it can and export as little as possible (assuming it were possible to maintain this regime for long). A reductio ad absurdum of this mercantilist argument is easy. Imagine that the United States ships its exports by sea and that the returning ships bring back imported goods. If the returning ships sank, would this situation of exports without imports be a benefit for the United States?[15] Obviously not.

This argument that the United States uses its resources to produce goods and services for exportation needs to be qualified. In a free country, resources belong not to the country as a single entity ("us") but to different individuals or private groups, including corporations, separately. America is not a single entity but the collection of millions of individual Americans. At least in a free society, "country" is just shorthand for the individuals who compose it.[16] It follows that free trade can harm a country only if it harms the individuals that constitute the country.

In economics, exchange and its benefits occupy a central place. Both parties derive benefits (or at least expect to benefit) from any exchange in which they voluntarily participate; otherwise, at least one party would have declined the deal. The benefits of exchange obviously apply to trade between a national and a foreigner, which is nothing but an exchange over a political border. How could free trade harm the country if it benefits the individuals who compose it?

Free Trade Carries Net Benefits

It can be shown that individuals generally benefit from free international trade. This paper has already presented one demonstration: if the producers of a country specialize in what they have a comparative advantage in, and if consumers are free to import what can be produced more efficiently abroad, each country ends up with more goods and services. Economic theory provides another demonstration by following what happens when a protective measure such as a tariff or an equivalent quota is applied or repealed: it can be proven that, in virtually

15. French economist Frédéric Bastiat gives a similar example in *Oeuvres complètes de Frédéric Bastiat*, vol. 4, *Sophismes économiques* (Paris: Guillaumin et Cie, 1863), translated by Arthur Goddard as *Economic Sophisms* (Irvington-on-Hudson, NY: Foundation for Economic Education, 1996).
16. Economists often make this argument; for example, "Only individuals trade, and not nation states, and the well-being of individuals, not of any organic entity, should be the rationale of trade policy," in Charles K. Rowley, Willem Thorbecke, and Richard E. Wagner, *Trade Protection in the United States* (Brookfield, VT: Edward Elgar, 1995), 239.

all cases, protection generates a net cost compared to free trade or, alternatively, that free trade generates a net benefit compared to protection.[17]

A tariff increases the domestic price of a good, including the part supplied by domestic consumers; indeed, that is precisely why it is imposed. In the general case of an unchanged world price, a tariff will end up being paid entirely by domestic consumers in the form of a higher price. (The world price of a good is the price at which it can be imported in world markets.) The tariff is added to the unchanged world price for the consumers of the country in which it is imposed.[18] Domestic consumers lose and domestic producers gain, but the consumers lose more than the producers gain, so the tariff creates a net loss. Why is this true? Because if a tariff had net benefits, it would not be necessary: domestic producers could, by lowering prices in the normal course of competition, essentially bribe consumers to patronize them instead of buying imports. That domestic producers cannot do this proves that they gain less from protection than consumers lose or, in other words, that the loss suffered by producers is more than offset by gains to consumers.

When the protectionist measure used is a tariff—as opposed to an import quota or a subsidy to domestic producers—the proof is not complete, and a second step is necessary. The previously determined net cost of the tariff must be reduced by the tariff revenues that flow to the federal treasury's coffers. Besides what they pay in excess price to domestic producers, consumers also pay foreign producers an excess price, which is equivalent to the tariff that the latter have to pay. So part of what the tariff forces consumers to pay will be returned to them in their capacity as recipients of government services (assuming the government does not waste any money).[19] One could therefore assume that there is no net cost of the tariff: what consumers lose is gained by domestic producers or by the domestic treasury. But this is not true. What domestic producers and the treasury receive does not totally compensate consumers. There remains a net cost that economists call a *deadweight loss*. This deadweight loss measures the distortion in the allocation of domestic resources as evaluated by the domestic consumers

17. Economics textbooks give an algebraic or graphical proof of this proposition; see, for example, Krugman, Obstfeld, and Melitz, *International Trade,* 212–28. What follows is a rendering of the essential argument in plain English.
18. At any rate, consumers will pay at least part of the tariff in the form of higher prices.
19. Of course, this does not mean that each consumer will receive in augmented government services exactly what he or she has paid in tariffs on the protected good. In the general case, some will receive more and others less, depending how much of the tariffed good and how much of the government services they consume. Inevitably, some government redistribution is involved, even if it is impossible to quantify with any precision. Thus, it is not only trade liberalization that causes complex redistribution effects; protectionism does, too.

themselves: domestic resources that were previously used to produce other goods are reallocated to produce an additional quantity of the protected good—additional quantity that consumers value less, because otherwise they would have rearranged their consumption before the tariff was imposed. Therefore, a tariff harms consumers more than it helps others (such as producers and consumers of government services). It follows that all individuals could potentially benefit from free trade. This is just another way to say that free trade carries net benefits.

According to most economists, the only serious exception to the demonstration just presented is the *optimal-tariff* argument. That exception is the special case in which the world price of a good is not fixed as assumed previously. Suppose that a country is so large in the world market for a certain good that its demand for imports affects the price of the good. By diminishing the country's demand, the tariff will thus cause a drop in the good's price on international markets.[20] This drop benefits the consumers of the large country; alternatively, a higher tariff can bring more revenues to the treasury. If these effects are large enough, they can potentially more than cancel the deadweight loss of the tariff, bringing a net gain for the protectionist country. (This is why it is called an *optimal* tariff.)

The optimal-tariff argument applies only to large countries whose trade can affect world prices. An optimal tariff cannot help small or poor countries. The United States is certainly a large country, in terms of the size of its economy. American imports make up about 17 percent of the total world merchandise imports, compared with 14 percent for the European Union (counted as a bloc) and 13 percent for China.[21] By comparison, the United States accounts for 24 percent of world GDP.[22] However, the optimal-tariff argument applies only to specific markets in which the large country can move prices. With regard to the American economy, it may apply to, say, large airliners but arguably not to most imported goods and services. Furthermore, there is no optimal tariff if retaliation by other countries leads to a trade war, in which many countries raise protectionist barriers and all lose because of lower trade. In general, one can say that the truly optimal tariff is zero.

Note that, unlike an optimal tariff, an export subsidy to domestic businesses cannot carry net benefits. The most it can do is to subsidize foreign consumers

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20. In other words, this country's *terms of trade*, defined as the ratio of the price of its exports to the price of imports, have increased—that is, they have become more favorable. That country can now get more imports for a given quantity of exports. The optimal-tariff argument is often called the terms-of-trade argument.
21. World Trade Organization, *World Trade Statistical Review: 2016*, 95, table A7.
22. "Gross Domestic Product 2015," World Development Indicators database, World Bank, accessed January 11, 2017.

at the cost of domestic taxpayers, while of course creating a misallocation of resources. For example, the subsidization of steel or solar panels by the Chinese government pushes down the prices of those goods on world markets and provides a subsidy to American consumers at the expense of Chinese taxpayers.

Another reason the benefit of a large country's optimal tariff remains doubtful is the integration of supply chains. Because the world economy has become more integrated and efficient, the typical chain covers several countries, and a large proportion of a country's exports includes imported inputs. "A smartphone might be designed and engineered in California and assembled in China, using components made or designed in half a dozen Asian and European countries, using metals from Africa. Likewise, every dollar of Mexican exports contains around 40 cents of American output embedded within it," notes the *Economist*.[23] A manufactured product often crosses a border many times along the different stages of production. In 2014, imports of intermediate goods in the United States amounted to $858 billion, which corresponds to more than a third of the country's total merchandise exports; in other words, a large part of US exports of goods benefits from cheaper imported inputs.[24]

One can thus confidently conclude that free trade brings net benefits to a country. It is not free trade but protectionism that harms a country.

OBJECTION 3: THE TRADE DEFICIT IS BAD

The trade-deficit objection is a restatement of the old mercantilist argument that a country should export as much as possible and import as little as possible. The balance of trade, technically called the *goods and services* balance, is the difference between total exports and total imports of goods and services; it is deemed "negative," "unfavorable," or in "deficit" when imports exceed exports, and "positive," "favorable," or in "surplus" in the opposite case. The trade-deficit or balance-of-trade objection ignores that imports are important because they directly satisfy consumers' preferences; exports are only an indirect means, just as an individual sells in order to purchase. However, the objection is worth treating separately because it is still often repeated in these terms and because it hides concerns that should not be neglected.

23. "The President-Elect's Perilous Trade Policy," *Economist*, January 5, 2017.

24. World Trade Organization, *World Trade Statistical Review: 2016*, 129, table A54, and 138, table A59. It can be shown that, in the case of two trading countries that are large enough to have an effect on each other's prices, a tax on imports has the same effects as a tax on exports; see A. P. Lerner, "The Symmetry between Import and Export Taxes," *Economica*, New Series 3, no. 11 (1936): 306–13.

What's Wrong with Trade or Current-Account Deficits?

Consider the equivalent of a trade surplus or deficit at the individual level. People who spend more than they earn or consume more than they produce have a trade deficit. One would want to have a trade deficit during one's whole life, if it were possible—that is, if some other individuals were content to have trade surpluses over their whole lives, to die with lots of debtors. (Some, of course, may want to run a lifetime trade surplus in order to leave money to their children, but at that point the debtors will have to start running surpluses to reimburse the debts they owe to the children of their former creditors.) There is nothing inherently good or inherently bad in a trade deficit. Most individuals have one during some periods in their lives.

A country's trade deficit or surplus is simply the sum of the surpluses and deficits of all individuals in that country in relation to foreigners. A trade surplus for one country implies a deficit for at least one other country. If two groups of individuals were chosen at random within a given territory, it is likely that one would have a trade deficit with the other, and the other a trade surplus. So there seems no reason to be concerned with national or territorial trade deficits. For example, the US trade balance has been negative since the mid-1970s without any noticeable problem, whereas it was positive before and during the two world wars and even during the Great Depression.[25] Note that the trade deficit and all other measures of the international balance of payments are flows over a certain period of time (a quarter or a year), not stocks.

Within the US trade balance, or balance of goods and services, the balance of goods is negative (−$762 billion in 2015) and the balance of services is positive (+$262 billion), resulting in a trade deficit of $500 billion. The United States appears to have a comparative advantage in services such as transportation and travel, intellectual property, finance, maintenance and repair, and other business services. The *trade balance* is only part—albeit the largest part—of America's *current account*. The other major component of the current account is payments received by US residents on assets held abroad, which must be thought of as exports of capital services, and payments sent abroad on foreign assets held in the United States, which must be considered imports of capital services. The balance

25. Jeffrey G. Williamson, *American Growth and the Balance of Payments 1820–1913* (Chapel Hill, NC: University of North Carolina Press, 1964), 249 and throughout. Data for 1960 and later are from the United States Census Bureau, Economic Indicator Division, "U.S. Trade in Goods and Services—Balance of Payments (BOP) Basis," February 7, 2017. Older data refer to the balance of goods (merchandise) only. See also Donald J. Boudreaux, "If Trade Surpluses Are So Great, the 1930s Should Have Been a Booming Decade," *Café Hayek*, December 21, 2006.

on those items is positive. Including all components of the current account, the US deficit is reduced to $463 billion.[26]

The Other Side of the Balance of International Payments

The second side of a country's balance of payment, the financial account, shows the flow of money and other financial instruments that corresponds to the flow of goods and services on the current account. It includes net borrowing or lending abroad, net foreign portfolio investment, net foreign direct investment, and a few other items. As a matter of accounting (debits equal credits), the balance of the financial account must exactly compensate, with an opposite sign, the current account balance. A deficit on the current account is thus the mirror image of a financial surplus.

What is of interest is not the accounting identity (which is true by definition) but the real-world adjustments that equalize the two sides of a country's balance of payments. The foreign exchange rate—the price of dollars in foreign currencies—is one such adjustment mechanism. If American consumers wanted to continuously import more than American producers export, and if foreign investors did not want to invest in America enough to compensate, the dollar would fall, reducing imports and increasing foreign investment.

It is tempting to interpret the financial account as the means by which a current-account balance is financed (foreigners lend to the United States in order to allow the United States to import more) or, alternatively, as a way to dispose of a surplus of foreign currency (Chinese investors use it to invest overseas). This interpretation is at best partially incorrect because the two sides of the balance of international payments describe actions that are partly independent. Consumers do not import only because the US dollar is high, but also because of comparative advantage. Foreign investors do not bring capital into the United States only because they do not know what to do with their dollars, but also because America offers good investment opportunities.

The relationship between the current account and the financial account goes in both directions. The attractiveness of America for foreign capital also influences imports. Other things being equal, any foreign inflow of capital contributes to a current-account deficit: the flow of more euros into America for investment pushes the euro down and the dollar up, encouraging American

26. Data are from Bureau of Economic Analysis, "Table 1.1. U.S. International Transactions," December 15, 2016.

consumers to import more from Europe. The American current-account deficit is in large part a reflection of the fact that foreigners want to invest in America. From this perspective, the current-account deficit is not a cause of American decline but, on the contrary, a consequence of America's growth and attractiveness to investors. Moreover, the financial account surplus is a reflection that American residents have a savings rate lower than their investment opportunities. They therefore borrow capital from foreigners.[27]

Some people express the fear that a surplus on the financial account—which means more investment and lending in America from foreigners than there is investment and lending overseas by American residents and which corresponds to a current-account deficit—implies that "our" debt toward foreigners increases and that our children will have to reimburse it. In one sense, this fear rings true: when foreigners invest in America or lend to American firms, they thereby obtain a claim to future production in American territory—they will use their future profits in dollars to buy American goods (or, what amounts to the same, to push down the price of the dollar, reducing the imports available to Americans). The reality, however, is a bit more complicated.

To the extent that these are foreign investment claims on future private production, they are not claims against what Americans currently own, but rather claims on new production made possible by the investment that the foreigners themselves contribute. Moreover, American workers are made more productive by this supplementary investment in the firms they work for, and those workers will earn more than they would have earned without the foreign investment. It's a win-win situation: as in any free exchange, nobody loses.

The fear that foreign investment will translate into claims against all Americans, however, becomes true when the money is lent to government for unproductive or wasteful activities, such as many forms of redistribution. The use of foreign savings by the federal government (not counting state and local governments) is far from insignificant. The (federal) debt held by the public (which includes the foreign "public") currently increases by about $1 trillion per year. It is estimated that 45 percent of that public debt is held outside America by foreign investors and foreign governments (including foreign central banks).[28] Assuming that foreigners

27. See Arnold Kling, "International Trade," in *The Concise Encyclopedia of Economics*, ed. David R. Henderson, 2nd ed. (Indianapolis: Library of Economics and Liberty, 2008).
28. United States Government Accountability Office, *Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2016 and 2015 Schedules of Federal Debt* (GAO-17-104, Government Accountability Office, Washington, DC, November 2016), 2 and 17 for the data on the debt held by the public and the proportion held outside the United States.

continue to purchase American public-debt instruments in the same proportion, it can be estimated that foreigners lend the federal government some $450 billion per year, which enters as an inflow in the financial account of the US balance of payments. This amount corresponds to nearly all the US current-account deficit (which, as previously stated, was $463 billion in 2015). It is as if, every year, the federal government gave $463 billion in claims to foreigners against the future production of all American taxpayers. When government borrowing increases, to the extent that foreigners buy some of these bonds, the result is upward pressure on the current-account deficit. But all this should be held as an argument against federal deficits and the continuous increase of the public debt, not against current-account deficits per se.

One common argument, even in the financial press, is that imports are "a subtraction in the calculation of GDP." Therefore, it is implied, if imports and the trade deficit are reduced, GDP will expand. This argument comes from a misunderstanding of an accounting identity used in the national income and product accounts:

$$\text{GDP} = C + I + G + X - M,$$

which says that GDP is spent on consumer expenditures (C), business investment (I), government expenditures (G), and the difference between exports (X) and imports (M).

This equation is an *accounting identity*, which means that it is true by definition and cannot be false. It is necessarily true because anything produced that is not purchased by domestic consumers, businesses, governments, and foreign importers will pile up in inventories, which is a form of (unintended) business investment.

The equation is usually written as

$$\text{GDP} = C + I + G + (X - M),$$

which seems to imply that a trade surplus, a positive ($X - M$), adds to GDP, whereas a trade deficit, a negative ($X - M$), subtracts from it.

This apparent implication is false, as can be readily understood. C, I, and G already include some imported goods and services. The Chinese-made fishing rod a customer bought at Walmart was captured in C; the printing press a newspaper company bought from Germany was part of I; and the salary of the foreign consultant hired by the government was included in G. M is subtracted on the right side of the equation to exclude those imports from GDP (which, as its name says, is gross domestic product—that is, the sum of all goods and services produced within a country's territory). In other words, the term $-M$ cancels the imports that are hidden in C, I, and G, as any good macroeconomics textbook explains.[29] Imports are not deducted from GDP. They cannot reduce the statistical measure of GDP because, by definition, they are not part of it—although consumers use part of GDP to import goods and services.[30]

Trade or current-account deficits, then, are not inherently problematic.[31] They reflect the general relationship of an economy with the outside world—including, in the case of the United States, its attractiveness to foreign investors and the wealth of its consumers. And because, in a free economy, individuals and corporations take care of their own surpluses or deficits, there is no need to worry about consolidation into national surpluses and deficits. And, back to first principles, one must remember that imports are what matter. Condemning a trade deficit per se is condemning imports in favor of exports.

The Case for Unilateral Free Trade

The case against trade or current-account deficits is so weak that one can argue in favor of declaring unilateral free trade—that is, completely liberalizing imports and letting the balance of payments take care of itself. In a very real sense, free trade does not require free-trade agreements but can be declared unilaterally, which is what the British government more or less did in the middle of the 19th century. Paul Krugman wrote,

> If economists ruled the world, there would be no need for a World Trade Organization. The economist's case for free trade is essentially a unilateral case: a country serves its own interests by pursuing free trade regardless of what other countries may do. [32]

One way to understand this is to realize that a country must export if it is to import. Otherwise, where would it get the foreign currency it needs to import? On the other hand, a protectionist country cannot just export without importing (or investing in foreign countries). Hence, unilateral free trade promotes exports as much as imports, at least over time. Leaving a country's residents free to import guarantees that matching exports will be forthcoming.

29. See, for example, Tyler Cowen and Alex Tabarrok, *Modern Principles: Macroeconomics* (New York: Worth Publishers, 2010), 78—but any good textbook will do.
30. For further discussion and references, see also Pierre Lemieux, "What You Always Wanted to Know about GDP but Were Afraid to Ask," *Regulation* 39, no. 4 (2016–2017): 64–69; Pierre Lemieux, "Are Imports a Drag on the Economy?," *Regulation* 38, no. 3 (2015): 6–8.
31. See also Daniel Griswold, *Mad about Trade: Why Main Street America Should Embrace Globalization* (Washington, DC: Cato Institute, 2009).
32. Krugman, "What Should Trade Negotiators Negotiate About?," 113.

If a neighboring government is protectionist, the second-best option is for the US government to maintain freedom to import (and to export) for its own residents. As economist Joan Robinson allegedly remarked, protectionist retaliation looks as sensible as "to dump rocks into your own harbors because other nations have rocky coasts."[33] National welfare is not increased by responding to protectionism with protectionism (unless the bluff works and serves to liberalize trade instead of starting a trade war). In most cases, retaliatory protectionism is like saying to the foreign protectionist government, "You hurt your subjects? I will hurt mine, too. Take that!"[34]

OBJECTION 4: THE UNITED STATES IS LOSING ITS FACTORIES

Recall one feature of a free society: "American" factories are in fact owned by multiple private businesses, themselves owned by Americans or foreigners or both. It is true that factories located on US soil employ mainly American residents, but those factories still do not belong to their employees—except partially for those who directly or indirectly own stock in the companies that own the factories.

Manufacturing Has Changed

Manufacturing has changed. In the 10 developed countries for which a consistent comparative series is available from the early 1970s to 2012 (Australia, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States), the proportion of employment in manufacturing has been declining since the early 1970s, if not before.[35]

In the United States, for which a longer series is available, the proportion of nonagricultural workers employed in manufacturing reached a peak of 38 percent in 1944 and has since been decreasing nearly nonstop, to 9 percent in

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33. Joan Robinson, *Essays in the Theory of Employment* (Oxford: Basil Blackwell, 1947), 158.
34. See also Donald J. Boudreaux, "Do Subsidies Justify Retaliatory Protectionism?," *Economic Affairs* 31, no. 3 (2011), 4–6.
35. US Bureau of Labor Statistics, percent of employment in manufacturing in different countries (discontinued), retrieved from Federal Reserve Bank of St. Louis, FRED Economic Data, accessed March 5, 2017, https://fred.stlouisfed.org/graph/?graph_id=366462&rn=4989. Economists Robert Rowthorn and Ramana Ramaswamy report that the share of manufacturing employment in industrial countries declined from 28 percent to 18 percent between 1970 and 1994; see their article "Growth, Trade, and Deindustrialization" (IMF Working Paper WP/98/60, International Monetary Fund, Washington, DC, March 1999, 18. See also "Politicians Cannot Bring Back Old-Fashioned Factory Jobs," *Economist,* January 14, 2017.

2015.[36] The actual number of manufacturing employees has been on a downward trend since 1979; from a peak of 19,553 million jobs in that year, more than 7 million have been lost.[37] Similarly, manufacturing's share (value added) of GDP has dropped from about 25 percent between the end of the 1940s and the end of the 1960s to 12 percent in 2015.[38] This decline has occurred even though real industrial output has increased by 70 percent since 1970.[39] Manufacturing output has not dropped like employment because labor productivity has increased as a result of a number of factors: technological progress, more capital, more educated and skilled labor, and long (often multicountry) supply chains. American manufacturing has "declined" mainly in the sense that it is more productive.

Manufacturing has fundamentally changed globally, and the transformation is not yet complete. The final assembly of components is now the low end of manufacturing. The high-end process consists of conception, research and development, complex manufacturing of components with new techniques such as additive manufacturing, and integrated after-sales service. Factories are now places in which highly trained engineers, designers, and technicians work with a small number of production workers in a computerized, low-noise environment.[40] Moreover, many jobs lost in factories have been relabeled as belonging to service industries because they have been outsourced to specialized firms—maintenance, cafeteria, logistics, or marketing, for example. Another false job loss may lie in the statistical reclassification of former manufacturing firms as nonmanufacturing firms even though they have kept their conception, engineering, coordination, and distribution activities.[41]

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36. US Bureau of Labor Statistics, "All Employees: Manufacturing [MANEMP]," retrieved from Federal Reserve Bank of St. Louis, FRED Economic Data, accessed May 19, 2017; US Bureau of Labor Statistics, "All Employees: Total Nonfarm Payrolls [PAYEMS]," retrieved from Federal Reserve Bank of St. Louis, FRED Economic Data, accessed May 19, 2017.
37. US Bureau of Labor Statistics, "MANEMP."
38. Bureau of Economic Analysis, "Value Added by Industry as a Percentage of Gross Domestic Product," released November 3, 2016.
39. US Bureau of Labor Statistics, "Industrial Production Index [INDPRO]," retrieved from Federal Reserve Bank of St. Louis, FRED Economic Data, accessed May 19, 2017. Besides manufacturing, the INDPRO index includes mining and electric and gas utilities.
40. On this point, it is worth reading "Politicians Cannot Bring Back Old-Fashioned Factory Jobs."
41. Andrew B. Bernard, Valerie Smeets, and Frederic Warzynski make this point for Denmark. See Bernard, Smeets, and Warzynski, "Rethinking Deindustrialization" (NBER Working Paper No. 22114, National Bureau of Economic Research, Cambridge, MA, March 2016).

Comparative Advantage Has Shifted

The cost of iPads and iPhones illustrates the changes that have occurred in manufacturing and supply chains. Half a dozen years ago, manufacturing (in the sense of assembling) costs already were only 1–2 percent of the price of these devices. The rest of the costs went to conception, engineering, software, design, and marketing, which were mostly provided in the United States. Between half and two-thirds of the consumer price of these devices remained in the United States. This example indicates that the trade deficit may be exaggerated in official statistics. This metamorphosis of manufacturing has continued.[42]

With these developments, comparative advantaged has shifted. Developing countries now have a comparative advantage in assembling components, which requires a lot of unspecialized labor. The comparative advantage of the United States lies in the most value-adding services—such as conception, design, engineering, logistics, and distribution—not in manufacturing itself.

It is thus misleading to say that the United States is losing its factories. What is happening is that factories have changed, and the United States now has a comparative advantage only in the most advanced manufacturing activities. This is not deindustrialization but rather the birth of a new configuration of manufacturing. The old manufacturing jobs for low-skilled workers have disappeared and will not come back unless the world gets much poorer. As the *Economist* wrote, "Politicians cannot bring back old-fashioned factory jobs."[43]

In this context, protectionism for the manufacturing industry is a Luddite resistance to change. Economist David Dollar writes,

> "Protectionism" is an aptly chosen word as it aims to lock in place an old industrial structure, rather than helping workers and communities adjust to inevitable change.[44]

Americans should embrace economic progress (as they are used to doing). There is nothing magical about old-style manufacturing. Physical things continue to be produced, but production occurs more efficiently—that is, by using fewer resources. There is no reason why the state should protect manufacturing—especially obsolete manufacturing. Bernard, Smeets, and Warzynski note that protecting manufacturing has been a standard component of industrial

42. See "Slicing an Apple," *Economist*, August 10, 2011; "iPadded," *Economist*, January 21, 2012; "Politicians Cannot Bring Back Old-Fashioned Factory Jobs."
43. "Politicians Cannot Bring Back Old-Fashioned Factory Jobs."
44. David Dollar, "Global Economic Forces Conspire to Stymie US Manufacturing," Brookings Institution, December 29, 2016.

policy.[45] In 2012, they report, the French government created a ministry for "industrial recovery."[46] There is no reason the US government should imitate this sort of policy. The free market and free trade are better solutions than protectionist planning by politicians and bureaucrats. As shown earlier, free trade increases consumption possibilities—that is, the standard of living. The following section of this paper will discuss how free trade is also likely to boost economic growth—that is, the rate of increase in the standard of living.

OBJECTION 5: TRADE DESTROYS JOBS

The argument that trade destroys jobs is not as compelling as it may initially seem. In fact, it is rather misleading.

Jobs vs. Consumption

The number of jobs is not a satisfactory metric of incomes or welfare.[47] People produce in order to consume, not the other way around. Faced with the choice between working for an income or obtaining an equal (if not lower) income without having to work, most people would choose the latter. The purpose of work is mainly to obtain an income (and, even more fundamentally, the "utility" or welfare that incomes make possible). It is true that the typical individual is both a consumer and a producer, and most people need a job to earn an income (rentiers being the exception), but the goal is consumption, not sweat.[48] Consumption is a better indicator of welfare than is the number of jobs.[49]

45. Bernard, Smeets, and Warzynski, "Rethinking Deindustrialization."
46. Ibid., 16.
47. Economists use "welfare" as a technical term to label and analyze the "utility" or "satisfaction" of individuals or a group of individuals. The concept is very different from the political concept of government assistance.
48. See Pierre Lemieux, *Who Needs Jobs? Spreading Poverty or Increasing Welfare* (New York: Macmillan, 2014).
49. This approach does incorporate the noneconomic aspects of jobs. For many people, part of their job is a consumption good—in terms of dignity, for example—but this component would be insufficient if an income did not also come with it. It is presumably more the income and independence a job provides than the actual work done that contribute to the sentiment of dignity. Many observations are consistent with this hypothesis. When remuneration decreases, the quantity of labor supplied generally diminishes; economists say that the labor supply curve has a positive slope. See Raj Chetty, "Bounds on Elasticities with Optimization Frictions: A Synthesis of Micro and Macro Evidence on Labor Supply," *Econometrica* 80, no. 3 (May 2012): 969–1018, for estimates of the elasticity of labor supply. Casey Mulligan, a University of Chicago economist, calculates that half the depression of the labor market during the 2008–2009 recession came from the incentives created by the expansion of the safety net. Casey B. Mulligan, *The Redistribution Recession: How Labor Market*

Short-Run Costs

As the conditions of trade change, shifts in comparative advantage can bring disruptions that result in job losses. Three economists—David Autor, David Dorn, and Gordon Hanson—emphasize the effect on employment of what they refer to as the "China shock."[50] The growth of Chinese manufacturing exports, especially in the 1999–2011 period, adversely affected manufacturing industries throughout the developed world—furniture, paper, textile, apparel, electronic devices, appliances, and so forth. The econometric estimates of Autor and his colleagues (including those from previous work with Daron Acemoglu and Brendan Price) indicate that, of the 5.8 million manufacturing jobs that were lost in the 1999–2011 period, at least 1 million were lost because of the China shock. The researchers calculated that a large number of individuals who lost their manufacturing jobs to the China shock were not able to find new jobs or had to take new ones with lower wages. Relatively few switched industries or moved to other regions. In other words, labor markets have been much less flexible than expected, which has brought high adjustment costs.

As mentioned by Autor, Dorn, and Hanson, government assistance programs—including Trade Adjustment Assistance and unemployment benefits, but mainly general assistance programs such as health and disability benefits—gave perverse incentives to workers displaced by Chinese imports. Growing regulation should also be considered to explain the labor market's inflexibility, from occupational licensure to minimum wages and European-flavored regulation of labor contracts. It thus appears that market inflexibility was the problem, not trade as such. This is where, it would seem, solutions should be found.

The problem raised by Autor, Dorn, and Hanson might also be exaggerated, as a more recent paper by economist Jonathan Rothwell argues. Using Autor, Dorn, and Hanson's dataset (extended by a few years), Rothwell argues that the original results were biased by the slowing of economic growth after the late 1990s. He suggests that foreign competition has effects similar to those of

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Distortions Contracted the Economy (New York: Oxford University Press, 2012). Gallup's "State of the American Workplace" surveys estimate that one-third of US employees are "engaged" ("involved in, enthusiastic") with their jobs, suggesting that two-thirds are there only for the paycheck. Gallup, *State of the American Workplace*, accessed March 5, 2017.

50. See David H. Autor, David Dorn, and Gordon H. Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade" (NBER Working Paper No. 21906, National Bureau of Economic Research, Cambridge, MA, January 2016); Pierre Lemieux, "Trade and Adjustment Costs," *Regulation* 39, no. 3 (2016): 10–11.

domestic competition and that it is not clear why we should protect workers from the former more than from the latter.[51]

Technological change—not international trade—is the driver of the bulk of the loss of manufacturing jobs. Even according to Autor, Dorn, and Hanson's estimates, most of the decline in manufacturing jobs is *not* explained by the China shock. Michael Hicks and Srikant Devaraj calculate that between 2000 and 2010, only 1 in 10 manufacturing job losses in the United States is attributable to trade, compared with 9 in 10 caused by productivity gains (that is, technological change).[52] The McKinsey Global Institute estimates that 20 percent of the job loss in US manufacturing during the 2000–2010 period was caused by trade, including offshoring.[53] Another study calculates that less than 20 percent of the decline of manufacturing employment between 1970 and 1994 in 18 industrial countries was caused by trade between developed and poor countries.[54] Note also that more than 6 million *net* jobs (including the losses in manufacturing) were created in America during the China-shock period (1991–2011), despite the most serious recession since the Great Depression.[55]

Long-Term and Dynamic Benefits of International Trade

It is noteworthy that Autor, Dorn, and Hanson do not question the long-term benefits of free trade. Consumers who benefit from lower prices must gain more than producers lose in the outcompeted industries. Because of poor labor mobility, this net benefit may take many years to overcome short-run adjustment costs, but there will eventually be net benefits.[56]

A number of empirical studies have concluded that openness to trade in a country is associated with higher rates of economic growth and reduced

51. Jonathan T. Rothwell, "Cutting the Losses: Reassessing the Costs of Import Competition to Workers and Communities" (George Washington University Institute of Public Policy, Washington, DC, 2017).
52. Michael J. Hicks and Srikant Devaraj, *The Myth and the Reality of Manufacturing in America* (Muncie, IN: Center for Business and Economic Research, Ball State University, 2015), 6.
53. Charles Roxburgh et al., *Trading Myths: Addressing Misconceptions about Trade, Jobs, and Competitiveness* (McKinsey Global Institute, May 2012).
54. Rowthorn and Ramaswamy, "Growth, Trade, and Deindustrialization."
55. From 1999 to 2011, civilian employment in the United States increased from 133.5 million to 139.9 million. US Bureau of Labor Statistics, "Civilian Employment Level [CE16OV]," retrieved from Federal Reserve Bank of St. Louis, FRED Economic Data, accessed May 19, 2017.
56. See David Autor, "David Autor on Trade, China, and U.S. Labor Markets," interview by Russ Roberts, *EconTalk*, March 14, 2016.

poverty.[57] Economic theory supports the idea that international trade carries dynamic benefits over and above those suggested by the static law of comparative advantage—that is, trade not only has a one-shot, level effect on GDP per capita, but it also increases the future rate of growth. The possible channels by which trade can boost economic growth are many. Trade can increase the volume and quality of capital through imports of capital goods, it can fuel technological progress through the same channel and through the general diffusion of knowledge, and it obliges producers to continuously become more efficient through increased competition. Trade also allows businesses to gain economies of scale by extending their markets. This last observation brings exports back into the argument for free trade. As Adam Smith observed, the extent of the market facilitates the division of labor and thus exchange.[58]

Protectionism, on the contrary, is more likely to dampen growth. It reduces the incentives of domestic firms and limits the extent of their market. A traditional protectionist argument, often called the "infant industry" argument, claims that certain industries require temporary protection until they have had enough time to reach the efficiency of foreign producers. In reality, these protected industries tend to remain infants forever because the producers have no incentive to become more productive. The beneficiaries of protectionism seldom claim that they are now able to do without it. For example, most of the US textile and apparel industry, despite major protection from the late 1960s until 2005, could not be maintained artificially; other developed countries had the same experience. At any rate, the return on investment in an infant industry should be high enough to make up for the losses incurred while it was becoming profitable—in which case it could obtain financing from private investors and would not need protection.

Some empirical studies have questioned the positive link between economic growth and openness to trade. For example, Prabirjit Sarkar, who uses panel data for a sample of 51 less developed countries (LDCs) over the period from 1961 to 2002, found that only the richest and most trade-dependent LDCs showed a positive relation between international trade and growth.[59] Sarkar claimed that an "editorial bias" explains the "mainstream" academic consensus

57. The evidence is reported in a recent review by the International Monetary Fund, the World Bank, and the World Trade Organization, *Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment*, April 10, 2017.
58. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*.
59. Prabirjit Sarkar, "Trade Openness and Growth: Is There Any Link?," *Journal of Economic Issues 42*, no. 3 (September 2008): 763–85.

in favor of a positive link.[60] Despite this claim, debates seem to revolve around the proper econometric models to estimate the relationship between openness to trade and economic growth, and whether their results can be interpreted as a causal relationship as opposed to a mere correlation.[61]

In general, however, the empirical evidence broadly confirms the growth effects of openness to international trade. After reviewing the economic research and debates over the past decades, Wacziarg and Horn Welch analyze time series and panel data from a sample of 133 countries between 1950 and 1998.[62] They conclude that "countries that liberalized their trade regimes experienced average annual growth rates that were about 1.5 percentage points higher than before liberalization."[63] After pointing out some limitations of existing econometric estimates and the other conditions required from developing countries to benefit from openness, Andersen and Babula conclude,

> Is there a link between openness and growth? Based on this survey of the most recent empirical and theoretical literature, we believe that the answer is yes. Nearly all empirical analyses confirm this.[64]

The liberalization of trade appears to have been a major factor in the rapid development of many countries that were very poor a few decades ago. In many economies, this result depended on trade liberalization; in others, trade liberalization was accompanied by internal liberalization. The two effects are not easy to separate, but according to Wasniarg and Horn Welsh, trade has often been the main influence for higher economic growth.[65] Paul Krugman notes,

> Beginning in the mid-1980s, a number of developing countries moved to lower tariff rates and removed import quotas and other restrictions to trade. The shift of developing countries toward

60. Ibid., 772.
61. Andreas Billmeier and Tommaso Nannicini, "Trade Openness and Growth: Pursuing Empirical *Glasnost*" (IMF Working Paper WP/07/156, International Monetary Fund, Washington, DC, June 2007).
62. Romain Wacziarg and Karen Horn Welch, "Trade Liberalization and Growth: New Evidence," *World Bank Economic Review* 22, no. 2 (2008): 187–231.
63. Ibid., 212. For further evidence, see, for example, Antoni Estevadeordal and Alan M. Taylor, "Is the Washington Consensus Dead? Growth, Openness, and the Great Liberalization, 1970s–2000s," *Review of Economics and Statistics* 95, no. 5 (December 2013): 1669–90.
64. Lill Andersen and Ronald Babula, "The Link between Openness and Long-Run Economic Growth," *Journal of International Commerce and Economics* (July 2008): 13. See also International Monetary Fund, World Bank, and World Trade Organization, *Making Trade an Engine of Growth for All*.
65. Wacziarg and Horn Welsh, "Trade Liberalization and Growth: New Evidence," 209–12.

> free trade is the big trade policy story of the past two and a half decades. . . . The old view that import substitution is the only path to development has been proven wrong, as a number of developing countries have achieved extraordinary growth while becoming more, not less, open to trade.[66]

To summarize the problems with the job objection against free trade, three lessons from economics are relevant. First, jobs are a poor metric for the welfare of individuals. Saying that free trade destroys jobs is not a good argument by itself. Second, changes in technology and comparative advantage do generate adjustment costs in terms of job losses, and the less flexible the labor market is, the higher these costs will be. Third, once the shock of such changes has passed, trade will increase incomes and job opportunities and promote future growth. In the long run, most people benefit from more efficiency and higher incomes.

The China shock is probably over because Chinese wages have increased and other poor countries (including Bangladesh, Vietnam, and Thailand) have become new destinations for outsourcing of old-style manufacturing. "The great China trade experiment may soon be over," write Autor, Dorn, and Hanson, "if it is not already. The country is moving beyond the period of catch-up associated with its market transition and becoming a middle income nation."[67] (If China returns to unabashed authoritarianism, moreover, it will probably lose some of its economic efficiency.) It is interesting to note that in the 1980s, the big scare was Japan, but that scare was greatly exaggerated.

Although one may sympathise with the victims of economic disruptions, trade should not be impeded any more than technological progress just because of its short-run costs. Nassau Senior, a famous 19th century British economist, already saw the problem:

> If we should think it madness to prohibit, or to tax, the use of an improved steam-engine, because it must be injurious to those employed in raising coal, what pretence is there for prohibiting or taxing foreign ribands or velvets because their importation would be injurious to the English silk-weaver? . . .

66. Krugman, Obstfeld, and Melitz, *International Trade*, 282–84. As its name indicates, import substitution refers to protectionist measures designed to substitute domestic production for imports.
67. Autor, Dorn, and Hanson, "The China Shock," 38.

> . . . To prohibit every change which is accompanied by individual injury would be to prohibit every improvement whatever.[68]

OBJECTION 6: TRADE LOWERS WAGES

Besides the problems of inflexible labor markets and job losses (discussed in the previous section), another objection is that free trade with poor or developing countries pushes down wages in rich countries such as the United States. This alleged effect is sometimes referred to as the *pauper labor argument*. Economics suggests that, in general, trade will not reduce real wages ("real wages" meaning what the worker can buy in goods and services with those wages). On the contrary, trade will increase real incomes and wages.

Wages Are Determined by Productivity

In a poor country, the generally lower labor productivity will translate into low average wages. In a rich country, labor's generally high productivity will bring higher average wages. Indeed, we empirically observe that wages vary with productivity: for example, the Philippines, China, and Mexico have, compared with the United States, wage rates that are proportional to their relative productivity.[69]

According to the theory of comparative advantage, trade will increase labor productivity because workers will work in the most productive or least unproductive industries. Moreover, the dynamic advantages of free trade will increase future economic growth. Thus, the average labor productivity and the level of wages will rise. The reasoning can be expressed as a syllogism: wages are determined by labor productivity; free trade increases labor productivity; therefore, free trade increases real wages.

Trade and the Distribution of Income

One factor could slow down the rise of wages, as two Swedish economists, Eli Heckscher and Bertil Ohlin, demonstrated in the early 20th century.[70] Heckscher

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68. Nassau William Senior, *Three Lectures on the Transmission of the Precious Metals from Country to Country and the Mercantile Theory of Wealth* (London: J. Murray, 1828), 59–60.
69. Krugman, Obstfeld, and Melitz, *International Trade*, 39.
70. See Bertil G. Ohlin, *Interregional and International Trade* (Cambridge, MA: Harvard University Press, 1933); Eli Heckscher, "The Effect of Foreign Trade on the Distribution of Income," in *Readings*

and Ohlin showed that a country's comparative advantage will attach to the goods that use relatively more of its most abundant factor of production and that will therefore be less expensive to produce. Imagine a country that has more capital (in the form of computers, equipment, laboratories, and so forth) and less labor compared with another that has more labor and less capital. The first country could be America; the second one, China. When the two countries trade together, America will export capital-intensive goods (such as microchips and airliners) and import labor-intensive goods (such as those merely assembled in Chinese labor-intensive factories). Thus, American demand will increase the price of labor in China, and Chinese demand will push up the price of capital goods in America. Consequently, American wages will decrease as American workers now compete with Chinese labor; and the price of Chinese capital goods, which face the competition of American capital, will fall. However, argued Heckscher and Ohlin, the *real* wages of American labor will increase because American workers will now be able to buy more goods and services because of the trade with China (think about domestic appliances, textiles, and clothes, for example). This leads to the same conclusion as before: trade will increase the real wages of American workers.[71]

Not a Zero-Sum Game

The argument always comes back to the benefits of exchange and to comparative advantage. Exchange between two individuals is not a zero-sum game: there is not one winner and one loser. Both parties gain something—otherwise, one would have declined the exchange. In the same way, international trade is not a zero-sum game: both countries gain. For each country, the benefits are higher than the costs. This is true for two reasons. First, each individual importer or exporter gains; otherwise, one would have declined to pursue the exchange. Because countries

in the Theory of International Trade, ed. H. Ellis and L. Metzler (Philadelphia: Blakiston, 1949). Ohlin had been a student of Heckscher, who originally conceived the theory later developed by his student; hence it is attributed to both.

71. There is one theoretical exception to this conclusion, as shown by the Stolper-Samuelson theorem. Wolfgang F. Stolper and Paul A. Samuelson, "Protection and Real Wages," *Review of Economic Studies* 9 (1941): 58–73. See also "An Inconvenient Iota of Truth," *Economist*, August 6, 2016. Stolper and Samuelson demonstrated that in a world with two factors of production—say, capital and labor—wages will fall in absolute terms when labor is the relatively scarce factor of production. As Stolper and Samuelson themselves point out, however, the theorem is valid only in limited circumstances. One crucial limitation is that it does not generalize to the case of more than two factors of production. For example, if there are many types of labor (say, specialized and unspecialized), the theorem cannot be proven. Because of these limitations, the Stolper-Samuelson theorem remains more a theoretical curiosity than a justification for protectionism.

are made up of individuals, each country gains. Second, benefits exceed costs even when counting the costs of third parties (producers put out of business or workers losing their jobs). Total costs are lower than total benefits. Trade can change the distribution of income (the size of individual slices of pie), but it produces more real income (the pie as a whole gets bigger).[72]

To summarize, trade will not, except under exceptional or transitory circumstances, lower wages. As free trade increases labor productivity and total consumption, trade is expected to raise the level of real income and wages. Trade is not a zero-sum game: its net benefits remain positive.

THE POLITICS OF TRADE AND A BIT MORE ECONOMICS

Now comes the puzzle: If free trade is so beneficial, why is it unpopular in government circles and in most historical periods? Why are most American and world political leaders critical of it—except in such attenuated forms that it can barely be called free trade?

Protectionism in the Real Political World

The answer is that, in political reality, protectionism does not aim to maximize income or welfare but to protect the special interests of some producers. Even if free trade benefits consumers, it hurts some producers' interests. Protectionism has the contrary effect—it hurts most people but benefits special interests among producers. Why special interests win against the interests of most people, why policies that have higher costs than benefits are enacted, is explained by what economists call the *theory of collective action*: small, concentrated interests have more ability and incentives to organize lobbying and other political actions than large, diffuse interests do. In general, the better-organized and better-financed interests win in the political process.[73]

A good example is sugar protection in the United States. Imports of sugar are restricted by an import quota, which is equivalent to a tariff in that it increases the domestic price. The domestic price of sugar in the United States is much above the world price—typically one-third above. [74] The cost of this protection

72. See Donald J. Boudreaux, "Trump on Trade," *Cafe Hayek*, January 17, 2017.
73. Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, MA: Harvard University Press, 1965).
74. John C. Beghin and Amani Elobeid, "The Impact of the US Sugar Program Redux," *Applied Economic Perspectives and Policy* 37, no. 1 (2015): 1–33. All data and information in this paragraph are from this article and from Krugman, Obstfeld, and Melitz, *International Trade*, 221–23.

for American consumers is estimated at $4.4 billion per year, or $30 for the average household. Most individuals will think it is not worth getting organized and contributing to lobbying and political campaigns to save that amount of money for their families. On the other hand, a small number of domestic farmers and large processors/refiners (who own several of the foreign sugar exporters that benefit from the higher prices in the American market) gain about $3.9 billion a year from the higher prices. The difference of $500 million represents most of the net cost of protectionism in that market. The small group of producers will have a strong incentive to lobby for the quota. Indeed, they contributed more than $4.5 million to the 2012 congressional election, and the American Sugar Alliance spent $3 million more just before the quota was reauthorized in 2013.[75]

The request of special interests for protection is often phrased in terms of the public interest against "market failures" (situations in which markets cannot efficiently satisfy consumer demand).[76] There is no reason to believe that more market failures occur in international trade than in domestic trade. But even if, in special circumstances, a convincing case for market failure could be made, there is no reason to believe that politicians and bureaucrats (who, in practice, run the government) could provide an efficient solution. Even if those individuals were perfectly well intentioned, they are not omniscient and cannot understand the detailed complexity of the economy. They lack local knowledge about consumer preferences and the costs and opportunities of producers. This knowledge problem has been well explained by Friedrich A. Hayek, the winner of the 1974 Nobel Prize in economics.[77] There is no reason to believe that government can efficiently calculate, impose, and enforce optimal tariffs. Political failures are likely to be worse than any market failure, as shown by government attempts at economic planning and control.

Domestic and International Trade

The benefits of exchange for individuals cut across political borders—they are not confined within a country. If free trade between the United States and Mexico is

75. The political contribution figures come from Krugman, Obstfeld, and Melitz, *International Trade*, 223.
76. On the public choice analysis of protectionism, see Rowley, Thorbecke, and Wagner, *Trade Protection in the United States*.
77. See F. A. Hayek, "The Use of Knowledge in Society," *American Economic Review* 35, no. 4 (1945): 519–30, reproduced in F. A. Hayek, *Individualism and Economic Order* (Chicago: Henry Regnery, 1948), 77–91; F. A. Hayek, "Economics and Knowledge," *Economica* 4 (1937): 33–54, reproduced in Hayek, *Individualism and Economic Order*, 33–56.

detrimental, it should also be detrimental between California and Mississippi. Average wages are 40 percent lower in Mississippi than in California.[78] A protectionist would not understand how California's producers could compete with Mississippi's. Why don't Californians import all their goods from Mississippi? The answer, as the reader should understand by now, lies in the theory of comparative advantage. On the other side of the bad deal, the protectionist argument could also claim, the rich California-based company Uber disrupts poor taxicab drivers in Mississippi and kills their jobs. Are both California and Mississippi exploited by free trade between the two states? Of course not. Free trade between Californians and Mississippians benefits the consumers in both states. Because the arguments for protectionism between California and Mississippi are invalid, they must also be false at the international level.

The typical protectionist will retort that free trade among countries is different. But why would that be? Is there something special about the nation-state that makes coercive redistribution within itself—from consumers to producers, through protectionism—good while voluntary trade between individuals over national borders would be bad? This question does not have many obvious answers. One possible answer is that fellow citizens, being more similar, naturally care more for each other than for foreigners. This assertion is not obvious, at least not in a diversified, open society. For example, there are arguably more similarities between urban residents of different countries than between urban and rural residents of the same country. The justification for opposing international trade while allowing domestic trade seems to come from a nationalist ideology that aims at forcing all citizens into the same mold under the same state. Jawaharlal Nehru, prime minister of India from 1947 to 1964, illustrated the protectionist power of the nationalist ideology when he said, "I believe, as a practical proposition, that it is better to have a second rate thing made in our country, than a first rate thing that one has to import."[79] Nehru was presumably expressing not a purely personal preference (which would be strange but permissible) but a coercive protectionist will.

It should be noted that free trade is a substitute for immigration—not a perfect substitute, but a substitute nonetheless. It provides foreign workers with economic opportunities as exporters while they remain in their often-preferred

78. The weekly wage in the private sector is $1,178 in California and $710 in Mississippi. See US Bureau of Labor Statistics, "Quarterly Census of Employment and Wages: Private, Total, All Industries, All States and US; 2015 Annual Averages, All Establishment Sizes," accessed May 11, 2017.
79. Quoted in Naushad Forbes and David Wield, *From Followers to Leaders: Managing Technology and Innovation* (London: Routledge, 2002), 5.

social environment. Free trade also enables Americans (or citizens of other rich countries) to benefit from inexpensive foreign labor without what some people view as immigration costs.

The politics of trade naturally tends toward protectionism. Free trade is generally viewed with suspicion among the political-bureaucratic establishment. The reason is mainly that organized interests succeed at capturing the government and denying the right of ordinary citizens to import what they want if the terms are better than those offered by domestic producers. The main ideology supporting protectionism seems to be nationalism and statism (the glorification of state power, even if democratic state power).

OBJECTION 7: FREE TRADE IS UNFAIR

It should be fairly obvious by now that the common objections to free trade are without economic foundation. They ultimately rest on a nationalist and interventionist ideology that is inconsistent not only with sound economics but also with the traditional value of individual liberty. But another objection remains: trade should be fair. Addressing (briefly) the notion of fairness will push us into the domain of normative values—what economists also call *value judgments*. Economists cannot avoid value judgments when they recommend or evaluate public policy, but these judgments must be recognized and submitted to analysis.

Moral Excuses

The moral concern of fairness is often, if not usually, an excuse. What is blamed as unfair trade is any situation when one's price is undercut by one's foreign competitor. The outcompeted producer is the one who lays the complaint. Neither the most efficient competitors nor consumers generally call free trade unfair.

Typically, a producer's "unfair" advantage simply derives from comparative advantage. Sometimes comparative advantage is man-made or "artificial," which does not make it less of an actual comparative advantage.[80] Government subsidies are a sort of artificial comparative advantage; there are good reasons to oppose subsidies, but not for the purposes of trade. Foreign subsidies are not deemed unfair by the consumers (or businesses) who benefit from lower prices. One wonders why people who otherwise appreciate subsidies from their own government would reject them from foreign taxpayers. Why should American consumers of

80. Krugman makes this argument in "What Should Trade Negotiators Negotiate About?"

subsidized Chinese solar panels find those subsidies unfair? Domestic producers of solar panels will, however, use fairness as an excuse for demanding tariffs.[81] Even in this case, fairness is an excuse to defend a material interest. The best solution to the distortions created by government subsidies or other protectionist measures is still to let free trade be free.

Another protectionist excuse is that free trade leads to the exploitation of poor foreign workers (the so-called *sweatshop argument*).[82] This argument neglects several facts. At least in relatively free labor markets, these workers are poor because their productivity is low. Those who choose to work in the export sector do so voluntarily, because working conditions elsewhere in their country are worse. A trade ban or restriction would harm these poor workers by removing the best (or least bad) alternative they have. Marxist economist Joan Robinson realized that "as we see nowadays in South-East Asia or the Caribbean, the misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all."[83] People who agitate for impeding trade with poor countries are typically special-interest groups of rich capitalists and workers threatened by the competition from poor workers in these countries.

The fairness argument against free trade often amounts to arguing, in fact, that free competition is impossible against lower-cost producers. From this perspective, competition requires an equal playing field, and foreign cost advantages must be compensated by tariffs at home. Any lower-cost foreign producer must be guilty of "dumping." This old argument was used by early 20th century American protectionists. The Republican Party (which was then more protectionist than the Democratic Party) defended "the true principle of protection," which required a fair equalization of the cost of production across countries. Economist Frank Taussig provided a definitive counterargument:

> Anything in the world can be made within a country if the producer is assured of "cost of production with reasonable profits." . . . Very good pineapples can be grown in Maine, if only a duty be imposed sufficient to equalize the cost of production between the growers in Maine and those in more favored climes. . . . Consistently and thoroughly applied, the "true principle" means that

81. Pierre Lemieux, "Protectionism by Any Other Name," *Regulation* 37, no. 3 (2014): 5–7.
82. See Benjamin Powell, *Out of Poverty: Sweatshops in the Global Economy* (Cambridge, UK: Cambridge University Press, 2014). This book is reviewed in Pierre Lemieux, "Defending Sweatshops," *Regulation* 38, no. 2 (2015): 66–68.
83. Joan Robinson, *Economic Philosophy* (London: C.A. Watts & Co., 1962), 45.

> duties shall be high enough to cause anything and everything to be made within the country and international trade to cease.[84]

A Few Moral Considerations on Free Trade

But aside from material interests masquerading as ethics, is there a moral case for fairness in trade? This paper cannot review all moral arguments about free trade[85] but will instead reflect on the simple ethical principles that seem to flow from the methodology of economics. From this perspective, two points can be safely made.

First, instead of confining free trade to fair trade, defining freedom in terms of fairness and requiring philosophical agreement on what is fair, it would seem better to define fairness in terms of liberty. Trade is fair if it is entered into voluntarily by two private parties. As philosopher Robert Nozick argued, socialism needs to "forbid capitalist acts between consenting adults."[86] Free trade is made of capitalist acts between consenting adults. The extreme case of trade in stolen goods can be treated as an exception, not because trade is not fair, but because the goods traded have been obtained unjustly. Another extreme case would be trade with a slave master who offers goods produced by his slaves. At any rate, except for extreme cases, one can argue for the presumption that fairness is liberty and that free trade is fair by definition.

Second, if there is a fairness argument to be made in matters of trade, it is that every human being should be treated equally in a formal sense. Protectionism can be in the interest of most people in a large country if—and only if—their government is able to change the terms of trade in their favor. As mentioned previously, this is the only serious argument against free trade—that a large country can manipulate the terms of trade in its favor with optimal tariffs. Even in that case, protectionism remains morally unacceptable in light of the usual methodology of economics and the foundations of a free society. It should be taken for granted, as proposed by the individualist methodology of economics, that all human beings have the same moral weight—whether they are nationals or foreigners, wherever they happen to have been born. The Manchester (classical) liberals of the 19th

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84. Frank W. Taussig, *The Tariff History of the United States*, 6th ed. (New York and London: G. P. Putnam's Sons, 1914), 364.
85. A good summary can be found in Fernando R. Tesón, "Why Free Trade Is Required by Justice," *Social Philosophy and Policy* 29, no. 1 (2011): 126–53. Tesón states that "the redistribution of wealth resulting from protectionist laws cannot possibly be supported by moral reasons," 140.
86. Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974), 163.

century, who promoted free trade and the abolition of the Corn Laws, understood that well. John Hicks, winner of the 1972 Nobel Prize in economics, wrote,

> The Manchester Liberals believed in Free Trade not only on the ground of Fairness among Englishmen, but also on the ground of Fairness between Englishmen and foreigners. The State, so they held, ought not to discriminate among its own citizens; also it ought not to discriminate between its own citizens and others.[87]

From this moral point of view, a national government, especially the government of a large and powerful country, should not treat foreigners as second-rate denizens of their empire. A different but related point is that Friedrich A. Hayek's ideal of the "Great Society"—a rule-based order meant to protect the pursuits of individuals' goals—is incompatible with protectionism, which is a residual of our forebears' tribal fear of strangers.[88]

Another claim against free trade is that it entails a loss of national sovereignty. To the extent that this argument means that the power of a national state over its citizens is diminished, it is an argument in favor of free trade, not against it. Free trade moves the sovereignty from the national level to the individual level. If national sovereignty means instead the capacity of the US government to protect individual liberty, then it cannot be invoked against citizens who want to import goods and services from beyond the national borders.

To summarize, the argument for fair trade against free trade is easily countered. Free trade *is* fair trade. The fair trade argument is usually an excuse for special interests or for state power. What is fair is to let each individual or private entity reach his or its own bargains. Even if domestic protectionism can favor some people in their own countries at the cost of harming foreigners, and especially poorer foreigners, it does not seem morally acceptable to do so.

87. John R. Hicks, "The Pursuit of Economic Freedom," in *What We Defend: Essays in Freedom by Members of the University of Manchester*, ed. E. F. Jacob (Oxford: Oxford University Press, 1942), 112–13. See also Tyler Cowen, "A Profession with an Egalitarian Core," *New York Times*, March 16, 2013.
88. See, for example, F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960); Hayek, *The Fatal Conceit: The Errors of Socialism* (Chicago: University of Chicago Press, 1988), notably chap. 3.

CONCLUSION

When I was asked in 1880 by the president of the Cobden Club to write something in defense of Free Trade, it seemed to me—recollecting as I did the instruction in politics which I had received from the Corn Law Controversy—as if I had been asked to prove Euclid.
—Thomas H. Farrer (1886)[89]

This paper has considered a number of common objections to free trade and found them wanting. The efficiency of free trade is not hampered by lower wages in foreign countries. Free trade has higher benefits than costs for the individuals who make up a country. Trade deficits do not matter as such, and retaliation against protectionist measures is not a rational solution. If factories close, it is because they are not efficient (that is, they don't have a comparative advantage); technological change plays a larger role than trade in the current disruption of manufacturing. Free trade generally does not push down real wages; on the contrary, it increases incomes overall. Free trade is the embodiment of any acceptable ideal of fairness.

In the process of responding to common objections, this paper provided a positive defense of free trade in the light of economic analysis. Because of the law of comparative advantage and the theories built upon it, most people benefit from international trade in the sense that its benefits are higher than its costs. Just like technological progress and any competitive process, international trade can create short-run disruptions and harm some individuals, but these losses will be more than amply compensated by the gains. Even if a large country's protectionist measures could turn the terms of trade in its favor, there is no justification to do so, for a number of reasons. First, free trade still produces net benefits at the world level. Second, protectionist measures can lead to retaliation and worldwide trade restrictions, which harm all countries. Third, free trade has dynamic benefits in terms of promoting competitiveness and progress. Fourth, the politics of protectionism leads to favoring powerful interest groups instead of maximizing net social benefits in some sense, besides rendering the market subject to the usual inefficiencies of political and bureaucratic processes.

This paper has considered the most common arguments against free trade. One argument it has not addressed is that free trade harms the environment. The environmental argument often seems nothing more than an argument against

89. Thomas H. Farrer, *Free Trade v. Fair Trade*, 3rd ed. (London: The Free Trade Union, [1886] 1904), 1.

free markets, of which free trade is only a special case. It is true that some real environmental issues come from market failures, but that is how they need to be addressed, whether they relate to domestic or international exchange. Often, it is the government itself that, by restricting property rights, causes market failures. Another consideration is that market failures are not necessarily worse than political failures (that is, the failure of politicians and bureaucrats to solve problems while respecting individual preferences). The main relationship that trade entertains with the environment is probably that trade promotes economic growth, which, at least at a certain level of wealth, provides the resources needed to address environmental issues—a relation that has been called the *environmental Kuznets curve*.[90]

Ultimately, the benefits of international trade simply parallel the benefits of domestic trade. After his masterful review of the intellectual history of free trade, Douglas Irwin concludes that "the broad presumption behind free trade has not been substantially undercut, but has remained intact."[91] Protectionism is not so much directed against foreigners but against nationals who are prevented from importing (directly or via intermediaries) the goods and services that they want on the best possible terms they can find. Therefore, it is in the interest of most people that America and the world move closer to free trade and farther away from protectionism.

90. See, for example, Bruce Yandle, Madhusudan Bhattarai, and Maya Vijayaraghavan, "The Environmental Kuznets Curve: A Review of Findings, Methods, and Policy Implications" (PERC Research Study 02-1, Property and Environment Research Center, Bozeman, MT, updated April 2014).
91. Irwin, *Against the Tide*, 226.

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