

Why We Trade

By *Russell Roberts*

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We're used to shrugging off all sorts of rhetorical gobbledygook from our politicians. But when you hear U.S. presidential candidates start to mouth off about free trade, watch your wallet: A discredited 14th-century theory of economics is enjoying a dangerous renaissance in the 2008 campaign.

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Ship of fools: Mercantilist thinking ought to have died out along with schooners, frigates, and clipper ships.

To hear most politicians talk, you'd think that exports are the key to a country's prosperity and that imports are a threat to its way of life. Trade deficits—importing more than we export—are portrayed as the road to ruin. U.S. presidential hopefuls Hillary Clinton and Barack Obama want to get tough with China because of “unfair” trading practices that help China sell products cheaply. Republican candidate Mitt Romney argues that trade is good because exports benefit the average American. Politicians are always talking about the necessity of other countries' opening their markets to American products. They never mention the virtues of opening U.S. markets to foreign products.

This perspective on imports and exports is called mercantilism. It goes back to the 14th century and has about as much intellectual rigor as alchemy, another landmark of the pre-Enlightenment era.

The logic of “exports, good—imports, bad” seems straightforward at first—after all, when a factory closes because of foreign competition, there seem to be fewer jobs than there otherwise would be. Don't imports cause factories to close? Don't exports build factories?

But is the logic really so clear? As a thought experiment, take what would seem to be the ideal situation for a mercantilist.

Suppose we only export and import nothing. The ultimate trade surplus. So we work and use raw materials and effort and creativity to produce stuff for others without getting anything in return. There's another name for that. It's called slavery. How can a country get rich working for others?

Then there's the mercantilist nightmare: We import from abroad, but foreigners buy nothing from us. What would the world be like if every morning you woke up and found a Japanese car in your driveway, Chinese clothing in your closet, and French wine in your cellar? All at no cost. Does that sound like heaven or hell? The only analogy I can think of is Santa Claus. How can a country get poor from free stuff? Or cheap stuff? How do imports hurt us?

We don't export to create jobs. We export so we can have money to buy the stuff that's hard for us to make—or at least hard for us to make as cheaply. We export because that's the only way to get imports. If people would just give us stuff, then we wouldn't have to export. But the world doesn't work that way.

It's the same in our daily lives. It's great when people give us presents—a loaf of banana bread or a few tomatoes from the garden. But a new car would be better. Or even just a cheaper car. But the people who bring us cars and clothes and watches and shoes expect something in return. That's OK. That's the way the world works. But let's not fool ourselves into thinking the goal of life is to turn away bargains from outside our house or outside our country because we'd rather make everything ourselves. Self-sufficiency is the road to poverty.

And imports don't destroy jobs. They destroy jobs in certain industries. But because trade allows us to buy goods more cheaply than we otherwise could, resources are freed up to expand existing opportunities and to create new ones. That's why we trade—to leverage the skills of others who can produce things more effectively than we can, freeing us to make things we otherwise wouldn't be able to afford.

The United States has run a merchandise trade deficit every year since 1976. It has also added more than 50 million jobs during that time. Per capita income, corrected for inflation, is up more than 50 percent since 1976. The scaremongers who worry about trade deficits talk about stagnant wages, but they ignore fringe benefits (an increasingly important part of worker compensation) and fail to measure inflation properly.

In a recent Republican presidential debate, one of the moderators said that since 1989, the United States has lost 5 million jobs to foreign trade. He wanted to know what the candidates were going to do about it.

I have no idea how you measure that number, but the implication was that 5 million lost jobs over 18 years is a big number. Five million is a large number if we're talking about the number of pennies I have to carry in my pockets. It's a big number if we're talking about the number of people coming to my kid's birthday party. But it's a very small number when you're talking about job destruction and the job creation that follows in a dynamic economy.

On the first Friday of every month, the U.S. Bureau of Labor Statistics produces an estimate of how many new jobs are added to the U.S. economy. That's the net change, the gains minus the losses. The bureau also estimates quarterly gross job changes, the absolute number of jobs created and destroyed. In the fourth quarter of 2006, there were 7.7 million jobs created and 7.2 million jobs lost. That happens every quarter when there isn't a recession—that's how you add 50 million jobs over three decades.

Five million jobs lost over 18 years? Every three months, the U.S. job market more than makes up for those losses.

Trade is just one economic force that creates and destroys jobs. Tastes change. Innovation makes workers more productive. Some industries shrink. Others expand. Some disappear. New industries get created. Joseph Schumpeter called it creative destruction. He understood that it is the

underlying mechanism that transforms our standard of living for the better.

Let's stop trying to scare people with the Chinese threat to our economy. The world would be a better and more peaceful place if we stopped measuring the trade deficit. But if we're going to measure it, the least we can do is talk about it sensibly.

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