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Retesting Congress in Free Trade 101

By N. Gregory Mankiw

If Congress were to take an exam in Economics 101, would it pass? We are about to find out.

The issue at hand is whether Congress will give President Obama "fast track" authority to negotiate a trade deal with our trading partners in the Pacific. The bill is favored by some congressional leaders of both parties, including Senator Orrin G. Hatch, the Republican chairman of the Finance Committee, Senator Ron Wyden, the committee's ranking Democrat, and Representative Paul D. Ryan, the Republican chairman of the House Ways and Means Committee.

House and Senate committees approved versions of the legislation last week. But with influential lawmakers like Senator Elizabeth Warren, a Democrat, opposed to the measure, final congressional approval is far from certain.

Among economists, the issue is a no-brainer. Last month, I signed an open letter to John Boehner, Mitch McConnell, Nancy Pelosi and Harry Reid. I was joined by 13 other economists who have led the President's Council of Economic Advisers, a post I held from 2003 to 2005. The group spanned every administration from Gerald Ford's to Barack Obama's.

We wrote, "International trade is fundamentally good for the U.S. economy, beneficial to American families over time, and consonant with our domestic priorities. That is why we support the renewal of Trade Promotion Authority (TPA) to make it possible for the United States to reach international agreements with our economic partners in Asia through the Trans-Pacific Partnership (TPP) and in Europe through the Trans-Atlantic Trade and Investment Partnership (TTIP)."

Economists are famous for disagreeing with one another, and indeed, seminars in economics departments are known for their vociferous debate. But economists reach near unanimity on some topics, including international trade.

The economic argument for free trade dates back to Adam Smith, the 18th-century author of “The Wealth of Nations” and the grandfather of modern economics. Smith recognized that the case for trading with other nations was no different from the case for trading with other individuals within a society.

According to Smith, “it is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy.” Just as no sensible person tries to make all his own clothes and grow all his own food, he said, no sensible nation will aim to achieve prosperity by isolating itself from other nations around the world.

Smith was responding to a then-prevalent doctrine called mercantilism. The mercantilists favored exports but were wary of imports. In their view, the revenue from exports allowed the accumulation of gold, whereas the purchase of imports drained a nation’s gold reserves.

Smith turned this perspective on its head. A nation benefits from imports, he argued, because they expand its opportunities for consumption. Exports are necessary only because other nations have the temerity to want to be paid for the goods they provide.

Fetishism about gold is now rare, but a new form of mercantilism pervades the modern debate about trade. Politicians and pundits often recoil at imports because they destroy domestic jobs, while they applaud exports because they create jobs.

Economists respond that full employment is possible with any pattern of trade. The main issue is not the number of jobs, but which jobs. Americans should work in those industries in which we have an advantage compared with other nations, and we should import from abroad those goods that can be produced more cheaply there.

If economists are so sure about the benefits of free trade, why are the public and their elected representatives often skeptical? One answer comes from a 2007 book by Bryan Caplan, a George Mason University professor, called “The Myth of the Rational Voter: Why Democracies Choose Bad Policies.”

Mr. Caplan argues that voters are worse than ignorant about the principles of good policy. Ignorance would be random and might average out in a large population. Instead of being merely ignorant, voters hold on to mistaken beliefs.

Politicians, whose main goal is to get elected, mold those mistaken beliefs into bad policy. Mr. Caplan writes: “What happens if fully rational politicians compete for the support of irrational voters — specifically, voters with irrational beliefs about the effects of various policies? It is a recipe for mendacity.”

In the case of international trade, three biases that he identifies are most salient.

The first is an anti-foreign bias. People tend to view their own country in competition with other nations and underestimate the benefits of dealing with foreigners. Yet economics teaches that international trade is not like war but can be win-win.

The second is an anti-market bias. People tend to underestimate the benefits of the market mechanism as a guide to allocating resources. Yet history has taught repeatedly that the alternative — a planned economy — works poorly.

The third is a make-work bias. People tend to underestimate the benefit from conserving on labor and thus worry that imports will destroy jobs in import-competing industries. Yet long-run economic progress comes from finding ways to reduce labor input and redeploying workers to new, growing industries.

The Princeton economist Alan Blinder once proposed Murphy’s Law of economic policy: “Economists have the least influence on policy where they know the most and are most agreed; they have the most influence on policy where they know the least and disagree most vehemently.”

The debate about international trade is a case in point. In the coming weeks, members of Congress will have an opportunity to prove Mr. Blinder wrong. Let’s hope they take it.