EconoFact Chats: People, Communities, and Economic Changes
Jeffry Frieden, Harvard University
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Michael Klein
I'm Michael Klein, executive editor of EconoFact, a non-partisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein
Professor Jeff Frieden ends his article, "A Place for Politics," that appears in the IMF publication Finance and Development, by quoting Oscar Wilde who spoke of those who "know the price of everything but the value of nothing." Wilde was referring to cynics. An article in The Economist Magazine from six years ago titled "Economists Focus too Little on What People Really Care About," quotes Wilde in saying that "economists often assume that prices are all anyone needs to know." While, as an economist, I strongly disagree with this claim, I also recognize that economic analyses need to be augmented with values to make them politically acceptable and relevant. Perhaps one of the biggest areas in which this is true is international trade. Economists have recognized the distributional effects of trade at least since David Ricardo in the early 19th century – but perhaps there are values that our analyses do not give enough weight to. Is politics, then, the proper forum? To discuss these points, I'm very pleased to welcome back to EconoFact Chats Jeff Frieden. Jeff is a professor in the Harvard University Department of Government. His path breaking research demonstrates the linkages between politics and economics. Jeff, welcome once again to EconoFact Chats.

Jeffry Frieden
Thank you, Michael. Always a pleasure.

Michael Klein
Jeff, to begin with, I'll ask you to pretend that you're an economist rather than a political scientist, and I'll ask you to make the economic case for unfettered international trade.

Jeffry Frieden
Okay, I'll do my best. I think to me the most cogent statement is one that's often attributed to Keynes, who said at one point, 'society cannot make itself better off by making goods artificially expensive to its consumers.' And that, I think, captures the fact that what barriers to trade do is make it more expensive for consumers, and by consumers, I mean not only people, but firms to buy the goods of the rest of the world, which can impede not only consumption and national income, but the ability of the country to enter into international trade to export. So barriers to trade, with some exceptions, are a barrier to economic efficiency, to economic growth, to prosperity more generally.

Michael Klein
Jeff, I'm glad that you mentioned it's not only consumers. One of our most widely read memos by Kadee Russ and Lydia Cox points out the effects of steel tariffs, and they have this striking result that for every job in the steel-making industry that's saved by a tariff, 80 jobs are affected in industries like washing machines or car manufacturing. So we typically think of tariffs as affecting only consumers, but this knock-on effect to producers is really important as well. So you quote Keynes, has trade delivered on the promises in the aggregate?

Jeffry Frieden
In the big picture, absolutely. I think that if we think about the world in the last 40 or 50 years, we would really need to focus not on trade in the United States or Europe, which is where a lot of the political focus is, but on its impact in the world at large. And there, I think the big picture, the picture that historians 200 years from now, I am sure will focus on is that since about 1980, international economic integration, of which trade is a crucially important part, has helped lift a billion and a half and maybe more people—in Asia largely—out of absolute poverty and into the ranks of the world's middle classes. You know, in 1980, at the point in which China and India really for the first time in modern years entered into the world economy, around two-thirds of their populations were living at the brink of starvation – at what the World Bank and the IMF call absolute poverty. Today, that number is about 5% to 10%. So that's, as I say, about a billion and a half people. And there is no question at all that that could not have happened without those countries having access to the world's markets, technology, capital, ideas. So international economic integration and trade in particular have been central to this extraordinary success in economic growth and prosperity in other parts of the world. Now, that has not come without costs. And we can talk about those costs. But I think we should always keep in mind that big picture, which is what globalization has done at the global level for people who had been living in poverty for centuries.

Michael Klein
Yeah, I've seen quotes that say that that episode of people being brought out of poverty, as you mentioned, largely through internationalization and trade is the greatest advance in human welfare in the history of humanity.

Jeffry Frieden
I don't doubt it at all.

Michael Klein
So I know you don't really like playing being an economist, Jeff. And I didn't want to put you in that uncomfortable position for too long. So let's go back to political economy. Political economy is all about who wins and who loses from different policies, and changes in the economic environment, a topic that economists, to their discredit, probably don't pay enough attention to. In terms of trade, Jeff, who wins and who loses?

Jeffry Frieden
Well, I hate to say it this way, but it is complicated. And there are many different considerations that we'd have to take into account. But generally speaking, the closer a person or firm or an industry or a region is to what a country does best, does particularly well, the more they're going

to be advantaged by international trade. That's the well-known concept of comparative advantage. So if you are in a country that is very, very good at biotechnology, or high-tech production, and you're in that sector or have skills that are used by that sector, you're going to be better off. But if you are in an unskilled labor-intensive sector, you're probably not going to be better off. So I would say the closer you are to the country's comparative advantage, the better off you're going to be. And that applies not only to individuals, but also to firms and industries and even regions as well. However, I would also add to that, that especially in recent years, the role of technological change has played a big part. There have been major technological advances in production in the last 30 or 40 years, which has tended to mean that if you have these skills that are desired by high-tech sectors, especially computer skills, no matter what country you're in, you're going to be better off. And if you don't have them, you're probably not.

Michael Klein
I had a really interesting discussion with Simon Johnson about his new book with Daron Acemoglu and they talk all about technological change in that. And I really enjoyed that and learned a lot from reading that book. So, Jeff, you're talking about comparative advantage, which is a core theoretical concept in international economics. Does the evidence bear out what the theory suggests?

Jeffry Frieden
Largely, with some variation. I think that simple theories of the distributional effects of international trade, for example, would predict that opening the U.S. economy to the rest of the world would have a positive effect on people with high skills, and owners of capital, and largely a negative effect on unskilled and semi-skilled workers. And I think we see that. We have seen that areas and individuals and industries that make intensive use of unskilled and semi-skilled labor in the U.S. have done poorly in the last 30 or 40 years. The one caveat is the one that I mentioned before. We would have expected that trade would be particularly positive for unskilled and semi-skilled workers in developing countries, and that has helped them, but it has helped high skilled workers in developing countries more. And that, I think, is largely because of technological change. So, as I said before, if you have high-end computer skills, whether you're in Bangalore, or Shanghai, or New York, you're doing well in a globalized world economy. So, with that caveat, I would say, yeah, the theories are largely borne out.

Michael Klein
And that also points out this important aspect that it's not like we have a laboratory experiment where we have globalization going on and no technological change or technological change progressing and no globalization. And it's often hard to disentangle the two. What about areas in the United States that in the 1980s got the name the Rust Belt – places where there was manufacturing? There have been both effects of globalization, and effects of technological change here, right, Jeff?

Jeffry Frieden
Absolutely. And as you say, it is hard to disentangle them because at some level, technological change spurred globalization, and globalization spurred technological change. So, if we think of those two together, there's no question that they've led to a massive amount of structural change in the U.S., comparable in some sense to the massive structural transformation that we went

through in the late 19th and early 20th century, when we went from a country, you know, half to two-thirds of whose people were in farming, to a country that was almost exclusively urban. That was a wrenching change. It made the country better off, but it displaced a lot of people and was very wrenching. And the same thing is true, I think, today. There were regions of the country, and you don't have to go as far as the—I prefer to call it the Industrial Belt. The Rust Belt seems, you know, disrespectful—but you don't have to go that far. As you well know, Michael, there are parts of the northeast of New England and the northeast that have been suffering from deindustrialization and the loss of good-paying manufacturing jobs for decades. I happen to know that you come from one such town, Gloversville in upstate New York, that was a thriving manufacturing center for many, many years and lost, I guess, the producers of gloves, and has been depressed ever since. And the point to be made about that is that if you're in a small city or a town that has relied on manufacturing, losing a factory or a few factories is not the end of the story. You lose those factories, incomes go down, unemployment rises, property values go down, property tax revenues go down, the government doesn't have the resources to provide local public goods, the schools begin to suffer, the infrastructure stuff suffers, and you're in a downward spiral that is extremely hard for these regions to get out of. And the people, many of the people there are sort of stuck because their houses are worth much less than they had been. They can't afford to move to the prosperous big cities. Housing prices are way too expensive. So you have this kind of downward spiral that ends up with what Anne Case and Angus Deaton have called 'deaths of despair,' with opioid addiction and alcoholism and suicide in these declining and declined distressed areas. So I think that there is a pretty direct connection between the loss of these good paying manufacturing jobs, whether because of technological change, or trade, and the real problems that a lot of the areas in the industrial belt and areas like it have been suffering with, really for decades.

Michael Klein
Yeah, I know in Gloversville, when my family left in the mid-70s, the population was about 25,000. And the tanneries and the glove factories were still going there. But now I think the population is more like 15,000. And virtually all the glove companies have closed. I don't know if there are any tanneries left open. And if you drive down Main Street, every second store is shuttered. So it's a very sad thing. And anybody sort of my age who could have left in the late 70s and early 80s did, in fact, leave. So you talk about this downward spiral. And that's talking about a community as a whole. Economists often don't think enough about communities. They think about individuals, atomistic individuals. And there's this idea in economics called pareto optimality, that a situation is pareto optimal if you can't make anybody better off without making somebody else worse off. But that doesn't really take into account that, you know, it could be that you would make the rich a little bit worse off and the poor a lot better off. But that wouldn't be pareto optimal. And so when we think about trade as economists, too often we think about the possibility of people being compensated if they lose their job or if they lose their livelihood. In fact, this compensation doesn't really take place, does it?

Jeffry Frieden
Well, it does more than you might imagine in the following sense. We've known for a long time that countries that are more open to the world economy tend to have larger governments, and deeper and broader social safety nets. And in fact, it was noted as early as the 50s and 60s that the very small, very open economies of Europe were the ones with the broadest and deepest

social safety nets. And a lot of research found that starting in the 20s and 30s, these were countries that had no choice but to be open to the rest of the world. They could not be protectionist because they're too small. The Austrias and Netherlands and Swedens and Belgiums of the world. And as a result, they developed these social policies that cushion the blows of the vagaries of being involved in a somewhat uncertain international economy. So there is compensation at that level, but you're absolutely right that certainly, especially in the United States, compensation that's targeted for people that have been adversely affected by trade, for example, is minimal to almost nonexistent. We have a thing called trade adjustment assistance, but it's trivial, very small amounts of money. It's extremely difficult to get. Most workers who are affected by trade don't even know about it. So there really isn't that kind of compensation. I would also say, and this builds on the point that you were making before, that those compensation mechanisms, with the exception of these broad social safety nets, but even those, they're targeted to individuals. You get unemployment insurance, you get disability pay, you get maybe trade adjustment insurance, but that doesn't address the fact that your community is falling apart. And so, really, the kinds of social policies that, in my view, would address the social problems that the decline of places like Gloversville and others are facing are about a regional or place-based problem, rather than individual problems. If you're a dentist in Kent, Ohio, or Erie, Pennsylvania, and the community is declining, it's going to affect you just almost as badly as it would affect the factory workers themselves. You're losing your patients, your patients can't pay you. So we really need to, I think, address the community problem, the problem of the place as a whole, not the individuals.

Michael Klein
So going back to our discussion about globalization versus technology, I never quite understood why we had a trade adjustment act rather than just an adjustment act, because why should trade be different than technological change? If there's technological change in terms of steel mills, where most of the workers in steel mills now are either running a computer or custodians, so the number of workers per unit of steel is much lower. Why shouldn't they be compensated, but it has nothing to do with trade? So I'd like to propose that trade, in a way, gets a 'bad rap', and there are other sources of change in the economy. And just in your article, for example, you cited a World Bank study that only four out of 222 Appalachian coal counties remained economically viable, but as less a consequence of trade than of technological change, especially fracking, concerns about the climate, and shifts in mining coal from the Powder River base to the Powder River basin in Wyoming, which is easier and cheaper to mine than coal in Appalachia. So, Jeff, do you think trade is scapegoated? Does it get blamed for things that may be due to other factors such as technology, or concerns about the climate?

Jeffry Frieden
Sure. I think in some sense it goes back to your observation about pareto optimality, or pareto improvements. I think there are very few people who think the government should retard technological change, that recognize the cost of doing that, recognize the benefits of technological change more broadly, but I don't think people are as aware of the benefits of international trade, especially because they think of international trade – imports as something that helps other people, other countries, rather than themselves. So yes, it gets scapegoated, but I also think that it would be very difficult, and with some few exceptions, there have been very few movements or attempts to retard technological change. While there have been many attempts

to retard, or put barriers to international trade. To put it somewhat differently, technological change is not normally regarded as a policy instrument. Governments don't usually think about stepping in to stop technological change, but they do. I mean, since for time immemorial, they have stepped in to affect international trade. So yes, it's scapegoated, but I think it's scapegoated because it is a policy instrument, and because a lot of people think of it as being about them, and because it's something that people have questions about whether it's really good for the country to engage in as much international trade. I would say you could broaden it and say it's really about structural change, structural transformation. I'll go back to the agriculture example. European agriculture in the late 19th and early 20th century was decimated because there was this flood of cheap products from low wage or very productive countries like the United States and Canada and others that displaced 100 million farmers in Europe. That was a wrenching crisis. It was an agrarian crisis that really decimated the farming communities of many parts of Europe. 50 million of those 100 million people moved to the cities, and another 50 million moved largely to the new world, but it made Europe better off. People did not say, let's keep people in agriculture forever. Some people wanted to do that. They said, well, we accept. We're getting cheaper food. There's a cost. We're just going to have to deal with it. So I think it's a question of whether we want to encourage or allow structural transformation to take place and at what pace, and what we do about the people who are harmed by it.

Michael Klein
Your discussion reminds me of a story told by the MIT economist, Charles Kindleberger, who began his international trade class asking his students about the difference between trade within a country and international trade. He was expecting answers along the lines of countries having comparative advantage, but one of his students answered, trade within a country is between us and us, but international trade is between us and them. Jeff, is there an element of xenophobia or nativism in these narratives that blame trade for a country's economic ills?

Jeffry Frieden
Yes, I think there is. I think also related to that, one way we know that, I think, is that there have been some very good studies, including by my colleague in economics at Harvard, Stefanie Stantcheva, that really plumbed the depths of people's views about trade. There is a bit of xenophobia. One way of knowing is that people are more hostile to trade from some countries that they regard as more different, than they are trade with other countries. People are more hostile to trade with China, for example, than they are to trade with Canada or Western Europe. There's an element of xenophobia there. I would say also there's an element of what we might call zero-sum thinking. Many people have the view that if another country is gaining, we must be losing, and the basic principle of not only comparative advantage, but international trade more generally, is that it is positive sum. That both countries are better off by engaging in trade. That's a hard concept to get across to people. It's hard even to get across to the undergraduates as smart as they may be. So I think the notion that, which is promoted by a lot of politicians, a lot of politicians these days are saying, if we have a trade deficit with country X, it must be because they are gaining at the expense of us, not recognizing or not wanting people to recognize that the trade deficit means we are getting access to cheap goods from the country in question for our consumers. So there's all of that folded into it. I would say there's a further issue, which is more and more significant these days, to be fair, that there are countries, there are firms, there are industries that have taken advantage of the way international trade is managed to engage in

activities that we might regard as unfair, unfair trade practices. And there is also an increasing concern about the national security implications of international trade. We saw some of those concerns arise during the pandemic when a lot of countries around the world, including the US, found that we were reliant on foreign suppliers for goods that we regarded as essential. So I do think government has a reason to worry, to some extent, both about countries that engage in unfair trade practices, and about the national security implications. So those are perhaps somewhat more justifiable reasons for thinking about trade, but I think you're right that there are also xenophobic or nationalistic considerations that enter into it.

Michael Klein
In the introduction, I posed the question, "is politics then the proper form for working these things out?" But you're alluding to the fact that politics uses misinformation, and it relies on nativist or xenophobic thinking. So given that, is politics, in fact, Jeff, the proper form, or is it so base these days that we really can't rely on politics either to come about with an answer that would be fair, and distributionally more just?

Jeffry Frieden
Well, we're in a difficult time to make a case for the purity and sanctity of politics as a way of deciding important issues. But I guess I would invoke the famous quote from Churchill that "Democracy is the worst possible way to run a society except for all the other ways." I think that there are complicated, important, and controversial issues that we face. And the one that we've been talking about is one of them, which is, there are major benefits from trade, and there are costs from trade. How do we as a society weigh the benefits from trade to some of the social costs that we see in areas that have been affected by both trade and technological change? And, you know, there is no simple metric. There's no market-based mechanism that allows us to say how important the maintenance of a tight-knit community where your children can grow up, and stay in the community that they're raised in, where there are tight social ties, whether they're of a religious or an ethnic or a cultural nature, how important that is relative to the consumer and other benefits of openness to international trade. So when the political system is, if you will, asked how much do you value trade as opposed to the cohesion of communities that have been adversely affected, then the political system is being asked to resolve something which is not just an economic question. It's a social question. It's a cultural question. It's a question that is hard to put a price on, to go back to your Wilde quote.

And listen, you put me in a tough spot trying to defend politics in this day and age, but it is the only way I know of where people get to express an opinion in one way or the other about how important things are to them. We know, for example, that people think providing for the elderly and the poor is very important. It's hard to put a price on that. It's hard to put a price on the fact that people are insistent on maintaining Medicare, Medicaid, and Social Security. But our political system has said, I think, very loudly, that that's crucially important for social reasons, for cultural reasons, for ethical reasons. That's a hard thing to, as I say, put a price on, but it's something that the political system has insisted upon. And I think something we have learned is that the political system is also putting a great deal of importance on maintaining the health of our communities, even if that requires perhaps more compensation, perhaps some barriers to trade, perhaps some smoothing of the transition for those communities, technologically or trade related as it may be. So that's probably about as eloquent the defense as I can provide, not particularly eloquent, and certainly not that passionate. But I don't know another way for the people of the United States or another country to express how they would weigh these very different values, economic efficiency versus social cohesion, just to take an example.

Michael Klein
Well, you might as a political scientist not think it was very eloquent, but for economists, it’s really eloquent.

Jeffry Frieden
Okay, well, you know, the standards are low in economics, I think.

Michael Klein
Well, be glad you're on EconoFact.

Jeffry Frieden
Yeah, I should be, I should be nice to my hosts. No, I, as you well know, Michael, I have nothing but respect for economists.

Michael Klein
And Jeff, as you well know, I have nothing but respect for you, and the work you've done, and it's really helped inform myself, and a very, very wide range of economists to think more broadly about our topic. So Jeff, thank you very much for joining me once again on EconoFact chats.

Jeffry Frieden
It's been my pleasure, always nice to talk to you, Michael.

Michael Klein
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