The Journal of Private Enterprise 32(4), 2017, 109–119

Trade and Our "Habits of the Lip"

Donald J. Boudreaux
George Mason University

Abstract
Deirdre McCloskey has convinced me that the words we use, our "habits of the lip," matter mightily. I argue here—in a McCloskeyan spirit—that the words we typically use when discussing international trade are highly misleading. We economists need a better approach to persuading the public to improve their understanding of trade and to showing that national boundaries are economically meaningless. The habits of our lips must change.

JEL Codes: A11, F10
Keywords: Deirdre McCloskey, free trade, trade deficits, tariffs, national savings rate

I. Introduction

Deirdre McCloskey has convinced me that how we talk—the words we use, our "habits of the lip"[1]—matter mightily. Words are not merely nominal. Words are real, as are their consequences. With this reality in mind, I argue here—in a McCloskeyan spirit—that the words we typically use when discussing international trade are highly misleading. We economists need a better approach to persuading the public to improve their understanding of trade. The habits of our lips must change.

It's not that we didn't get off to an excellent start. The core of Adam Smith's still-relevant 1776 volume, *An Inquiry into the Nature and Causes of the Wealth of Nations*, is an exhaustive and brilliant analysis of the mercantilist case for protectionism. Smith famously found it to be deeply flawed. He showed that mercantilism is built on questionable premises, that it employs flawed logic, and that it corresponds poorly with political and economic reality. And the words that Smith used to make his case were muscular—as in "Nothing, for example, can be more absurd than this whole doctrine of the balance of trade" (1776, book V, chap. 3, para. 31).

---

[1] This phrase, which McCloskey adapts from Tocqueville's "habits of the mind," appears throughout her *Bourgeois* trilogy.

In the more than 240 years since the publication of this great book launched the modern discipline of economics, economists have pondered and researched no topic more thoroughly than the economics of international trade. It is, therefore, futile for me to pretend to offer any new or unique insights on this subject: there are none left—at least not ones that a pedestrian economist like me can offer. And yet, despite massive research on trade—and even though this research has led economists, regardless of their disagreements on other policy issues, to overwhelmingly support free trade[2]—the general public still does not get it. The public—and, hence, the typical politician who inevitably and unquestioningly *follows* public opinion—remains deeply and distressingly confused about trade.

Judging from the pronouncements made during the most recent US political campaign by Donald Trump, Hillary Clinton, Bernie Sanders, and any number of randomly selected candidates for seats in Congress, the public understanding of trade today is no better than it was in that long-ago year of 1776.

Why does the public remain ignorant of the most basic economics of trade? And how might economists improve the public's understanding of trade?

II. The Economics of Trade

The economics of trade are straightforward. Mike values Molly's car more than he values whatever else he would have bought with the money he spends on it, and Molly values whatever it is she will buy with the money she receives from Mike more than she values the car that she sells to him. In short, Mike values Molly's car more than she does. So Mike and Molly trade. Each is made better off. In this simple example, no one is made worse off. The world is a richer place because ownership rights to existing goods are transferred from those who value those goods less to those who value them more.

Of course, human well-being can be improved only so much if we do nothing more than rearrange ownership rights to existing goods.[3] Substantial economic growth—the sort that consistently and significantly raises the living standards not just of the elite but of the masses—requires that more and better goods and services be produced per capita. And such increases in output per capita require improvements in production techniques and resource reallocations.

---

2 An excellent summary is provided in Irwin (2015).

3 It's simultaneously interesting and frustrating that, as McCloskey and many others point out, champions of income and wealth redistribution typically miss this point.

One of Adam Smith's key insights is that a main driver of improved production techniques is specialization, or what he called "the division of labour." As workers become more specialized, not only does each of them become better and faster at what he or she does, this specialization encourages the invention and use of machinery to replace human labor. And when an uncreative (but usually stronger, faster, and more durable) machine takes over a task once done by a creative human, that human becomes free to creatively perform other tasks that would be too costly to perform were the machine not available to perform the tasks once done by that worker.

A larger quantity and variety of goods and services are produced. The economic pie grows.[4]

Free trade is, as Smith correctly saw, an important driver of specialization. Here's the great Scot: "As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market" (Smith 1776, book 1, chap. 3, opening sentence). The more people in the trading network, the greater the specialization. This reality is why large cities such as Atlanta and New York have highly specialized physicians, while small rural towns do not. (My favorite such specialist is a pediatric gastroenterologist, because one near New York City saved my young son's life many year ago.) Therefore, to artificially confine the extent of the market to the residents of a political unit is to artificially prevent specialization from deepening and, hence, to artificially prevent people from growing more prosperous.

The year 2017 marks the bicentenary of David Ricardo's extension of Smith's case for free trade—namely, Ricardo's explanation of the principle of comparative advantage (1817, chap. 7). Yet while comparative advantage is an ingenious and important insight—and while it unquestionably bolsters the case for free trade—the case for free trade remains powerful even without understanding this principle. Indeed, the case for free trade would remain powerful even if the principle of comparative advantage did not apply in reality.

---

[4] McCloskey argues that while free trade unquestionably improves the economic well-being of the masses, it is not the chief source of modern prosperity. The chief source of that prosperity is innovation tested in and guided by markets. See McCloskey (2010). I believe that McCloskey is here correct.

III. Political Borders Are Economically Meaningless

That case—let's call it the foundational economic case for free trade—is that political borders are economically meaningless. Put differently: political borders become economically meaningful only because people—and, hence, governments—treat them as having an economic significance that they lack.

We think nothing of buying bread from the local bakery, fueling our automobiles at the local gasoline station, hiring neighborhood teenagers to mow our lawns, and having local dry cleaners freshen our woolen suits and silk blouses. These exchanges are trade. We understand that we'd be poorer if we did these tasks ourselves, within our own households. We know that we could buy the appropriate chemicals and spend time dry cleaning our own clothing. Yet because the dry-cleaning establishment specializes in this task, it can perform it at lower cost than we can. So we each specialize in our own jobs and then trade with the dry-cleaning specialist.

None of us wants to be self-sufficient at the level of the individual or family. Nor is there any clamor among Americans for government to protect merchants within our city's boundaries from the competition of merchants outside of those boundaries. Ditto for merchants who are in-state versus those who are out-of-state. We understand that trade across household boundaries, town boundaries, county boundaries, and state boundaries is natural and beneficial. Nothing about crossing those boundaries changes the nature of trade. Bostonians understand that buying a steak that comes from a steer slaughtered in eastern Nebraska is as legitimate and productive an economic act as is buying a steak that comes from a steer slaughtered in western Massachusetts.

But introduce national political boundaries into the discussion and people lose their wits. Attitudes toward trade with foreigners are often the reverse of attitudes toward trade with fellow citizens. While we celebrate getting more for our money when we buy clothing or furniture from fellow citizens, when we buy these and other goods from foreigners, we *complain* about getting more for our money. What, after all, is meant by the many laments about being "flooded by low-cost imports," about foreigners selling their goods to us at excessively low prices, and about foreigners refusing to take more of our exports in exchange for their exports?

The continuing and seemingly growing misunderstanding of international trade should embarrass my fellow economists and me. A truth known and prominent among scholars for nearly two-and-ahalf centuries—and one that isn't difficult to grasp—continues to elude popular understanding. Why?

IV. Why Are Economists Aloof about Educating the Public?

Before suggesting an answer to this question, let me note, with much regret, that almost none of my fellow economists *are* embarrassed by this widespread misunderstanding of trade. They should be embarrassed also by their nonembarrassment. While there continues to be among economists a strong consensus in favor of free trade,[5] most economists do not see themselves as responsible for helping the general public to better understand trade.

I believe, although I cannot prove, that at least three reasons explain this attitude of aloofness among far too many economists. First, economists increasingly are expert mathematicians and statisticians. While they absorb at a superficial level economists' longstanding admiration of free trade, these economists don't understand the case deeply. Nor do they care about it with any passion.

Second, even many economists who understand deeply and care about the case for free trade regard themselves as violating a professional norm by publicly advocating for free trade. These economists believe that such advocacy compromises their credentials as scientists.

Third, most economists are poor communicators. This sad reality partly stems from the emphasis on learning and doing mathematics, and partly stems from a professional—and quite unMcCloskeyan—ethos that no longer values good, clear writing. So a substantial proportion of those few economists who try to teach the public the economics of trade are incapable. These economists then become discouraged about any such communication efforts.

Whatever the cause, economists have utterly failed to teach more than the tiniest portion of the general public the economic case for free trade. International trade has become more liberalized over the past 80 years thanks not to economists but to a happy invisible-hand feature of world politics: governments seeking to open foreign markets so that their domestic producers can export more are willing, in exchange, to open up their home markets to more imports. Trade barriers are bargained down, despite each government believing that

[5] For one of many examples of evidence of this consensus, see the October 2016 import duties survey from Chicago Booth's IGM Forum.

its own agreement to lower its barriers imposes a cost on its citizens—a cost the incurrence of which is justified only because, in return, other governments agree to inflict similar costs on their citizens.

This bizarre rationale for trade deals reveals the danger of the public's ignorance of trade: with imports considered to be costs, and exports considered to be benefits, politically powerful producer groups at home, and their political agents, have an easy time conning ordinary people into sacrificing their purchasing power (in the form of import restrictions) and their tax dollars (in the form of export subsidies).

While I don't have a complete answer to the question, "Why does the general public continue to thoroughly misunderstand the economics of trade?", I have some suggestions for why this sorry state of affairs persists. These suggestions fall under the heading "Misleading Language."

V. Persuading the Public

What's the most effective way to persuade the general public of the soundness of the case for free trade? An assistant professor of economics today is likely to answer, "Show policy-makers and the public empirical studies that reveal a statistically significant positive correlation between freedom to trade and rates of economic growth or median household incomes. The data *are* there!" Indeed they are. They're dense, mountainous, and quite compelling to those who understand the economics of trade. Yet someone more seasoned will smile knowingly at this assistant professor's answer. The more-seasoned person understands that the public (and, hence, the typical politician) approaches questions about trade with far more mistaken prejudices and priors than they approach questions about astronomy or about the Peloponnesian War. Therefore, disputes about trade are almost never settled by parades of raw facts and statistics.

Few people will take the time to listen attentively to the economist's theoretical analysis of trade. Those who do can, in an hour or two, learn enough about comparative advantage, economies of scale and the extent of the market, the importance of competition, the fact that capital accounts are the flip side of current accounts, and some other economic points to better grasp, if not in all cases fully embrace, the standard case for free trade. But the vast majority of people will never learn even these rudiments.

So, what to do? My answer: encourage the *talk* about trade to take on more of a free-trade cast—or, at least, less of an economic-nationalism cast.

Imagine, for example, if the term "trade deficit" were replaced with "capital surplus" (or, more technically accurate if not as punchy, "capital-account surplus").[6] Imagine if every time news reporters, editorialists, politicians, bloggers, and television talking heads started to say "trade deficit" they instead actually said "capital surplus." The latter term means exactly the same thing as the former. Yet "capital surplus" not only doesn't convey the sense of ominousness that "trade deficit" does, it sounds downright encouraging! A protectionist politician who bellows, "Our capital surplus gets bigger every month!" would not elicit as much dread in his audiences as he does when he says the same thing by bellowing, "Our trade deficit gets bigger every month!" Even audience members with no more than average curiosity would ask themselves—and perhaps ask the bellowing politician—"What's wrong with a capital surplus?"

The politician would have to pause from his bellowing to supply an answer. If he supplies the correct answer— "Probably nothing is wrong with a capital surplus, as it means that foreigners are investing more in our country and thereby increasing our stock of capital"—the game is over: the trade deficit (or capital surplus) can no longer be used to confuse those audience members into believing that a trade deficit justifies trade restrictions. If instead (and as is much more likely) the politician supplies an incorrect answer, he is at least more exposed to being corrected by a rival or a talk-show host than he is when he bellows about "our trade deficit" in ways that suggest it to be calamitous.

Speaking of the so-called trade deficit, another helpful change would be to stop speaking of it as an addition to debt. It's not. All or part of a trade deficit can *become* debt, but it need not and often does not. It is an error to talk of a trade deficit as necessarily casting the domestic population further into debt.

Consider a simple example. Americans increase by $1 million their cash purchases of Chinese-made electronics. The Chinese seller

[6] The term "trade deficit" is the popular shorthand for "current-account deficit." And each country that has a current-account deficit necessarily has a capital-account *surplus* of exactly the same absolute value. See, for example, Stein (1993). (It's true that there is a definition of "trade deficit" that makes it something that is not identical to a current-account deficit. But this nuance does nothing even to dilute, much less to overturn, the validity of my argument.)

of these goods then uses the entire $1 million to buy shares of Microsoft stock. Because the $1 million increase in American imports is not offset by a $1 million increase in American exports, the result of this set of transactions is a $1 million increase in America's trade deficit. And yet not one cent of additional American debt is created. No American is made indebted, or made further indebted, to any foreigner as a result of these transactions. The American buyers of the Chinese-made goods owe no additional debt to anyone as a consequence of these transactions. The American sellers of the Microsoft stock owe no additional debt to anyone as a result of these transactions. Microsoft's shareholders owe no additional debt to anyone as result of these transactions. And no other American owes any additional debt to anyone as a result of these transactions. American consumers bought, using cash, $1 million worth of Chinese-made goods, and the Chinese, in turn, used this $1 million to buy outright $1 million worth of equity in an American corporation.

QED, an increase in America's trade deficit does not necessarily increase Americans' indebtedness. Yet how much scarier are reports of rising US trade deficits in their typical discussion as casting Americans further into debt?

Regrettably, even some otherwise sensible economists mistakenly insist that a domestic trade deficit is necessarily an addition to citizens' indebtedness to foreigners—an indebtedness that, of course, eventually must be overcome by having the alleged debt repaid. A prominent example is Harvard's Martin Feldstein. He argues that "America will need trade surpluses" to repay today's trade deficits (2008). Yet as the example above makes clear, this claim is simply untrue.

A closely related confusion in language is the frequent observation that a trade deficit—or, here more precisely, a current-account deficit—reflects the difference between a country's savings and its investments. This accounting reality is definitionally true. But it too easily suggests, wrongly, that the people of a country that runs a current-account deficit aren't saving enough.

The people of a country are not a family, a firm, or a club. Just as there is no one "correct" savings rate for all red-headed people, or for all people whose last names end with *Z*, there is no one correct savings rate for US citizens. Further, just as red-headed individual Sally can today save a great deal and then later enjoy the fruits of her saving even if red-headed person Jenny today saves nothing, the American Sally can today choose to save a great deal and then later enjoy the fruits of her saving even if the American Jenny today saves nothing. In neither case—despite being able, according to some criterion, to be placed in the same group as Jenny—is Sally's economic fate affected by Jenny's economic decisions any more than her fate is affected by the economic decisions of any other individual anywhere in the global economy.

What matters for economic growth is the total savings available to finance what McCloskey calls "market-tested betterment"—firms competing against each other for consumers' patronage in reasonably free markets. What does *not* matter is where this savings comes from. Just as the identities and nationalities of sellers of soap, steel, and sailboats are economically irrelevant, so too are the identities and nationalities of savers. It should make no more difference to Mr. Jones of Jacksonville whether the factory he works in is financed by Mr. Smith of Birmingham, Alabama, or by Ms. Smith of Birmingham, England. In each case the savings of Smith improve the economic opportunities open to Mr. Jones in Jacksonville.

Put differently, the only savings rate that matters for a country that keeps its borders open to goods, services, and capital is the global savings rate. Yet discussions of "the national" savings rate give the false impression to each American that if his or her fellow Americans are saving too little, then public policy must encourage them to save more. And when this false belief is combined with the affiliated error that a rise in a country's trade deficit is necessarily a rise in the indebtedness of that country's citizens—that a domestic trade deficit necessarily means the accumulation of debt for the nation's citizens—the path is well-paved for protectionists to win higher tariffs on the grounds that such tariffs will discourage imports and, thereby, protect us from irresponsible indebtedness.[7]

VI. Other Beneficial Changes to Trade Talk

Other simple but accurate changes in the way we talk about trade would be salubrious if they became routine.

Rather than describe tariffs and import quotas as actions taken against foreigners or against the inanimate objects that are imports, describe them instead as actions taken against fellow citizens. Call

[7] What is particularly misleading about talking about a domestic trade deficit as a drain on savings is the fact that the flip side of a trade deficit is a capital-account surplus—that is, an inflow of invested funds (global savings) into the domestic economy. Far from being a capital drain from the domestic economy, a trade deficit implies a capital *infusion*.

that tariff, not a penalty imposed "on Chinese tire makers" or "on Chinese-made tires" but, instead, a tax—or, better, a *penalty*—imposed on fellow citizens who buy Chinese-made tires. If the news announcer reports that "President Jones today raised the penalties inflicted on Americans who choose to spend their money on tires made in China," more people would get a clearer sense of the unvarnished nature of tariffs. More people would see vividly that tariffs are not simply actions taken against foreigners, but are also restrictions on the peaceful actions of fellow citizens.

And stop calling foreigners' (alleged) practice of occasionally selling us goods at prices below cost "dumping." The word "dumping" gives the impression that we are involuntarily smothered and crushed under an avalanche of goods we don't want. But, of course, it's not that at all. So called "dumped" goods are goods that we voluntarily purchase at prices that are (allegedly) so low that they fail to cover the sellers' costs. But access to such stupendous bargains is not a problem; it's a blessing.

I suggest that, instead of calling alleged below-cost pricing of imports "dumping," we call this practice "gifting."[8] After all, when you voluntarily pay for a valuable good or service to be enjoyed by someone else, it's called a gift. Why shouldn't we apply the same term to goods and services bestowed on us in the same way by foreigners?

Here's yet another change in rhetoric that would be salutary: instead of saying "low-wage foreign workers" say "low-*productivity* foreign workers." Economics tells us that the two terms describe the same reality, if from different perspectives. Foreign workers whose wages are on average lower than the wages of domestic workers are on average less productive than are domestic workers. (If those low-wage workers were not less productive, then capital would pour into those low-wage countries in order to profit from employing workers at wages below the value of those workers' marginal products. Low-wage China rather than high-wage America would consistently run trade deficits—or, said better, capital surpluses.)

Calling workers in China, Mexico, Malaysia, and Bangladesh "low-*wage* workers" is to describe them by what they are paid; calling them "low-*productivity* workers" is to describe them by the value of what they produce in order to earn their pay. Each term is accurate, but the former is more misleading to an economically untutored

---

[8] I ignore here the reality that nearly all instances of so-called "dumping" are not really instances of imports being sold below cost.

general public because it conveys the mistaken impression that these workers have an absolute advantage over all workers in high-wage countries. Not so with the term "low-productivity foreign workers." A US politician trying to drum up votes, or an industry lobbyist attempting to stir up support for higher tariffs, would not get far if she warned that American workers cannot compete successfully against all those low-*productivity* foreign workers. In addition to sounding alarmingly unpatriotic, such a warning would be recognized—even by the economically untutored—as economically questionable.

VII. Conclusion

I conclude with an even more radical proposal for changing the way we talk about trade: stop using the pronoun "us" in contrast to "them"; stop saying "we" in contrast to "they"; avoid "our" as a contrast to "theirs." If the economic lesson on trade of Adam Smith and his intellectual progeny were summarized in as few words as possible, it would read something like this: "There is no 'us' and 'them.' There's just us, all of us on earth."

Changes in our "habits of the lip" will not create a nation of Bastiats. But they will, for reasons emphasized by Deirdre McCloskey, move the world closer toward being one of free, open, and peaceful commerce.

References

Feldstein, Martin. 2008. "Thinking about the Dollar." *New York Sun*, July 28.

Irwin, Douglas A. 2015. *Free Trade under Fire*, 4th ed. Princeton, NJ: Princeton University Press.

McCloskey, Deirdre N. 2010. *Bourgeois Dignity*. Chicago: University of Chicago Press.

Ricardo, David. 1817. *Principles of Political Economy and Taxation*. City: Publisher.

Smith, Adam. 1776. *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: Methuen & Co., Ltd.

Stein, Herbert. 1993. "Balance of Payments." *Concise Encyclopedia of Economics* (online). University Park, IL: Liberty Fund.

The Association of Private Enterprise Education
2017–18 Officers