

Unedited Event Transcript

Why, After 200 Years, Can't Economists Sell Free Trade?

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Adam Posen: Good afternoon ladies and gentlemen, please let me welcome all of you here and all of our friends on-line and in the future on-line to our third annual O. John Olcay Lecture on Ethics and Economics, which I am delighted, truly delighted to say is being given this year by the honorable and very distinguished Alan Blinder.

I'll return to introducing Professor Blinder in a moment. But I just wanted to say that it is a great, I guess it is a pleasure to be having a lecture series named for John Olcay. We'd much rather have the pleasure of his company. But given that that is no longer possible, we are very glad to have an embodiment of the insights and the spirit that he brought to his interactions with everyone professional and all of his friends and fans here at the Peterson Institute for International Economics. I'm very delighted to have Phebe Miller Olcay with us today and other friends of John's.

As I've said before, John in addition to being a personal friend of mine was a very passionate supporter of the Institute particularly our work on financial regulation on monetary policy. When I say supporter, usually, that's code for money giver among other things but in this case, it was supporter in a very broad sense that he stayed aware of our work, he interacted with our fellows, he brought our work to the attention of other people around the world, he spoke about the value of the Institute to other people and our debt to him is quite great.

John had a distinguished career with a number of leading financial firms including Fischer, Francis, Trees & Watts where he developed a boutique practice advising central banks on reserve management and broader monetary policy issues. Our visiting fellow, Daniel Heller from the Swiss National Bank knows this well where John had particularly deep longstanding relationships, also with the Monetary Authority of Singapore and the GIC in Singapore and the Bundesbank and many other places.

John really did believe in the ethical purpose of economic policy, which is why Phebe and I created the lecture series organized around that. And so, we have been very fortunate to have a series of distinguished speakers in the lectures.

Our first Olcay Lecture on Ethics and Economics was given by George Akerlof, the Nobel Laureate on his book with Robert Shiller, *Phishing for Phools* and really about the ethics of financial actors taking advantage of people, which of course is bad, but there's a little more to it than that as George explained.

Last year, the second lecture was given by Sheila Bair, the former head of the FDIC and obviously someone of great passion and purpose in financial regulation as well, and she gave a very forthright talk. The video is on our website and I commend it to all of you as stimulus even if you might not agree.

This year, I am indeed thrilled and I think we're all honored to have with us Alan Blinder to give this year's lecture on the incredibly perfect title and topic: *Why After 200 Years Can't Economists Sell Free Trade?*

We got Alan to cross the street from his occasional home at Brookings to give this lecture and of course, the topic could not be more timely and could not be more central to the work of our Institute to the public life in this country under President Trump. And to the kinds of combined ethics and economics of trying to do the right thing and trying to get just backing for doing the right thing that I think John Olcay cared very much about.

Alan Blinder of course is the Gordon S. Rentschler, the only place I know that name because I read about Alan so much, I see that name a lot, the Gordon S. Rentschler Memorial Professor of Economics and Public Affairs at Princeton University. Professor Blinder has been on the Princeton faculty since 1971. He's taken off time for very distinguished government service, first as a member of President Clinton's original Council of Economic Advisers where our colleague, our Director of Studies, Marcus Noland, actually worked with him I believe as Senior Staff Economist. And also of course, as Vice Chairman of the Board of Governors of the Federal Reserve System.

That is such an understatement of Alan's impact on public debate and discussion, and economic policy in this country in the narrow field of central banking and monetary policy where I have done work, there are a few little books published by MIT Press by Alan that have really set the standard including *Central Banking in Theory and Practice*. He has been an adviser to central banks around the world but of course, he's also been a public intellectual writing for years, reasonable columns that somehow got published in the *Wall Street Journal* Opinion Page, and the occasional best-seller also on *Hard Heads and Soft Hearts*, bringing together economics and ethics, and macroeconomic policy.

So I am delighted that Alan accepted our invitation and I look forward to his remarks on, *Why After 200 Years Can't Economists Sell Free Trade?* Alan Blinder.

Alan Blinder:

Well, thank you, Adam. It's a pleasure to be here to talk about the biggest failure in economic history. Some of the slides in this will be a kind of a face recognition test. All the economists in the room will recognize that man. David Ricardo, who exactly 200 years ago, 1817 hit upon what I think is one of the great pure achievements of thought in the history of humankind. When I say I, almost all of us economists think that, the principle of comparative advantage.

Unlike gravity and a few other things, 200 years later, it still has not had widespread acceptance in the population. Newton did better. Well, that's a hard guy to keep up with. Let's see if I can make this work.

So I want to start with a little quote. It's a quote, bibliographical note. I am writing a book across the street at Brookings that when finished will be titled *The Lamp Post Theory: Why Economic Policies So Often Comes Up Short?* This is about a piece of chapter eight, which is about trade in that book. The title, *The Lamp Post Theory* comes from this metaphor that you see under—this is a case where I won't ask for face recognition. I have no idea who this guy is but he's had one to many or six to many.

If you can't read it in the back—can you read this in the back by the--? Oh, you can, okay. So the notion is that politicians use economics for support for positions they already have, not for illumination. And, the principles of free trade I think are pretty good examples of that.

The second face recognition test is harder except that I think I put his name up on the slide. Yeah, I did. You wouldn't have got him I don't think. I wouldn't have. William Blake was a poet philosopher and a rough contemporary of Ricardo. I checked it yesterday actually. He lived much longer. He was born earlier and outlived Ricardo. So all of Ricardo's life was within the metric of William Blake's life.

And this is one of my favorite incorrect quotes. But it's quoted accurately but it's not true. So Blake said, the truth can never be told so as to be understood and not be believed. He was writing way before the era of alternative facts. And Murphy of Murphy's Law Firm knew that Blake was wrong.

So I want to ask, first start with a question, here is the next face recognition test. I'm having trouble with this. The economists in the room probably know this guy, right? Who knows who that is? Come on. George Stigler. George Stigler, the great University of Chicago economist. This is

one of my favorite quotes once said, and I don't remember the context, is this fact in fact a fact? So I want to ask first, is it really true that we have failed to sell the case for comparative advantage and trade?

You occasionally here no, that's not right. People aren't really hostile to international trade. I want to give you some evidence suggesting that they are and the people in this case would be Americans. This is US polling data. So, in case you want to check me, this all comes from a website called pollingreport.com where I picked off quite a few different, that's the important thing, different questions about the virtues or vices of trades.

So the system is in the upper left if you care is the source, in the lower right is my characterization of whether this is pro or anti-trade and the red, does it look red to you? The red number is the answer that economists would give. That will be true in all as all of these slides come by.

So the first one is the good news asking the abstract where the free trade has helped the United States or hurt a narrow majority of Americans polled by NBC, the Wall Street Journal got the right answer according to economists. That is good. Now it's pretty narrow, 43 and 34 is not exactly overwhelming.

But that is the kind of evidence that people who claim no, you're wrong when you say the public is against trade will give you, and there are some. So what you're going to see as we go through this is it depends really sensitively on how you ask the question.

Here's the next one. Oh, by the way, the dates of the polling is in the lower left, you probably notice that. Would you say that US trade with other countries creates more jobs? Notice the word "jobs" in this. You're going to see if you say jobs, trade, the grade for trade from the American public goes down.

And so, you can read it for yourself. And you see, the economist would answer no effect. Trade is not about creating jobs. Trade is about losing some jobs, gaining some jobs, no net job change, but an increase in efficiency and standards of living is what we teach our students, and what we believe. The public thinks that it loses more jobs than it creates by a significant margin and doesn't buy this neither answer.

Next question. Do you support or oppose renegotiating trade deals with other countries even if it means paying more for the products you buy? So, we economists think an important aspect of trade is American consumers get things cheaper and that's the main reason why we're in favor of trade.

Americans aren't too into that. Only 28% give the economists answer oppose renegotiating, 64% favored renegotiating. You notice the dates of

this, the presidential campaign had, let's see, just ended. It was just after a pretty non-illuminating presidential campaign.

Next question is generally speaking about trade. Do you think trade policy should have more restrictions on imported foreign goods to protect the American jobs? I highlighted the important or fewer. You get an overwhelming vote here for more restrictions to protect jobs, very few give the economist answer to enable American consumers to have the most choices and the lowest prices.

And the last one I want to show you, CBS New York Times, this uses the word globalization, none of the others did. Globalization blah, blah, blah, it says what globalization is. In general, has the US gained or lost from globalization? I think almost all economists would say the U.S. has gained from globalization probably more than almost any other country actually. But the public thinks that we have lost from globalization.

So it is true that the answer you get about trade depends on how you ask the question but I think it's also true that on balance, you get a lot more hostility than support for free trade and the public is miles away from where economists are on these issues.

So let me bring back David Ricardo and go to the question. So I think at least to my satisfaction, I've now established that this fact is in fact a fact. Let me now try to explain it.

So, the first and I think most obvious problem that David Ricardo and his followers have had is that comparative advantage is a counterintuitive notion. That's why it's such a great intellectual achievement. It is not obvious at all.

Paul Samuelson was once challenged by an MIT mathematician who said, everything in economics is obvious, to come up with one thing that wasn't obvious but was true. And Samuelson used comparative advantage as his example and that's the quotation from what, I think a letter. It wouldn't have been an email in those days. I think a letter from Samuelson to this mathematician at MIT.

You'll notice the end attested by the thousands of important and intelligent men, sorry, this was many years ago and people wrote like that, who have never been able to graph the doctrine for themselves or to believe it after it was explained to them.

I give an annual lecture in Economics 101 at Princeton on David Ricardo. I think the title of the lecture is David Ricardo's Genius. And I start the lecture by telling these kids, so these are kids in their first course in

economics that you're about to cross an intellectual line and become a member of a minority group that understands comparative advantage, the majority does not. And once you cross that line, you will never go back in the other direction.

And I think it's true. At least I've never had a student come back to me years later say, you know, I crossed back in the other direction. So I assume they haven't crossed back. So counterintuitive ideas, some go down hard.

Secondly, Adam Smith understood way before--Well Adam Smith was talking, by the way, about absolute advantage rather comparative advantage. And he wrote famously in the Wealth of Nations but the case from free trade is so very manifest that it could never have been called into question had not the interest of sophistry of merchants and manufacturers confounded the common sense of mankind. Sophister's continue to confound the common sense of mankind in 2017 just as they did in 1776.

Many years later, Upton Sinclair--come on--I didn't give a face test on Upton Sinclair. I wouldn't have recognized him either. Upton Sinclair understood this. It is difficult to get, again, a man, sorry, to understand something when his salary depends on his not understanding it. And there is a lot of that still going on in the world in general, and especially in the realm of trade. So that's the second reason, the interested sophistry.

Third reason and there'll be more under this general head is that trade always has winners and losers. Trade is not unique in that. Changing the tax code will create winners and losers. Changing regulation will create winners and losers. In fact, economists can pretty much never give you a policy that creates only winners and no losers. I certainly can't think of any.

So this is by no means unique to trade. Trade openings virtually always create winners and losers as does economic change in general. The key thing that David Ricardo taught us 200 years ago is that if you add it up across the society the wins exceed the losses and that makes compensation in principle possible. Now some of you are saying, well in principle but not in practice. Hold on one more slide, I'm going there.

But the important thing is it makes compensation in principle possible inviting governments to do something that they don't do, which is say tax away some of the wins and give them to the losers. Since they don't do that and even if they did, the losers can still try to use their political muscle if they have it and they usually do, to block trade openings.

The problem here is compounded by the fact that the gains from a specific trade opening, not from trade in general which are broad but takes something specific like let's lower the tariffs on Chinese toys coming into the United States.

The gains from something like that are diffuse, barely visible to the people that make the gains and for most people, very small. The losses on the other hand, so now, the counterpart of the example are the toy manufacturers in the United States and the people that work in those factories. The losses tend to be concentrated, very visible, and focus on well-defined groups who are willing to go to the mat to stop it. And the only question is, do they actually have the power to stop it?

This is a superb example of something that's a major theme of the book that I advertised. You can't advertise a book before it's available for sale, right?

Adam Posen: Many do.

Alan Blinder: Many do. It's a mistake because it doesn't do you any good. Anyway, it's a terrific example of the difference between economic calculus, otherwise known as arithmetic and political calculus. So if you appraise a change of this nature concentrated, highly visible, well-defined groups on the one hand say losing, and diffused groups winning on very small amounts, you add it all up, economists say, that's terrific.

Because millions and millions of people are better off and we sum up, this what Ricardo taught us, sum up the gains that exceeds the losses but politically it's a loser because the losing group will exercise their political power to stop it and the winning group who, you know, gained \$2.11 per year will find it not worth their effort to try to defend it. That's a theme that we hear time and time.

Again, it's only a slight variant on the theme of Mancur Olson. So I said there's more on the winners and losers. I mentioned that in fact we in the United States, probably more so than other countries, but generically governments around the world are pretty bad at compensating the losers from trade, and in the US mostly, we don't even try.

So, we have this program called Trade Adjustment Assistance, which is a paltry in size, complicated to use and not used very much at all. But the problem goes deeper than that. One of the sad things for economists like me who believe in Trade Adjustment Assistance is even organized labor doesn't support TAA.

If you've got a program for labor and labor doesn't support it, you might as well forget about it politically. They want the jobs not what is

sometimes derisively called burial, ensure, you know, we'll make your funeral more pleasant for you.

Now, I want to pause on this for a second because as it says here, this is a huge problem for economics. Think about how you would try to remedy this. You try to maintain every single person in his current incumbent job. We can't. First of all, nobody can do that and secondly, that's a recipe for worse than stagnation, for the collapse of an economy. So this is a real, real serious problem.

Oh yes, and it brings up an important tip to the economists in the room. I want to introduce--oh, I'm joking now. I want to introduce a resolution at the next meeting of the American Economic Association to ban the phrase transition costs. So please, if you're an economist and you're in the audience here, don't ever use that term. It's a belittling term. It's like there's a little dust but I can push it away and then it will be gone.

The truth is that transitions are the norm. Almost everyone is living in some kind of a transition almost all the time. And when we, as economists, belittle that and say, don't tell me about that. I only want to focus on equilibrium states, and David Ricardo assured me when I moved from this equilibrium state to that equilibrium state we'll be better off.

There's a reason why that doesn't cut it. In this case, it is not like the public is being foolish, it's that economists are being stupid. So please don't use that phrase.

Back to winners and losers. Mercantilism, Adam Smith back in that quotation that I showed you some slides back was talking against Mercantilism. And economists look at Mercantilism in the way characterized here, say now, let me see if I got this right.

You mean we should value the opportunity to work for other people and avoid letting them work for us, and we scratch our heads and say, does that make any sense at all? So we should want to export and not want to import. And we think it doesn't make any sense and yet Mercantilism lives on

Adam Smith, David Ricardo and literally thousands of economists that have followed them have not succeeded in banishing Mercantilism from popular belief. Its current extreme manifestation is in the current president of the United States, amazingly enough.

But the point I want to make about Mercantilism is that when Americans, and this is not just Americans, when proponents of trade try to get trade agreements, trade opening agreements, not trade closing agreements

through their legislatures, they typically need to go to find support to the business interest that want to open trade so they can export.

This is like Mercantilism. When we make the case politically, the people that are making, helping us make the case are acting mercantilists so to speak. That exporting is good, importing is bad. That's not so great intellectually but at least as important.

People on the political left therefore look at trade agreements as quote, the corporate agenda. NAFTA doesn't care about the ordinary people. A TPP wouldn't care about the ordinary people. It's all about the corporate agenda and so we have now lost the American left.

I was reading some archaic things for example in writing this about Trade Adjustment Assistance, which was started by Kennedy. At that time the Democratic Party was the free trade party and the Republican Party were the protectionists. That is completely reversed. And as everybody in this room knows, the Democratic Party is the protection party plus Donald Trump. And the Republican Party struggling with Donald Trump, has at least in recent years been the free trade party.

This is one of the reasons the way Mercantilism lives on and the way we supporters of free trade marshal political support for free trade. One more point on winners and losers. Here is a face recognition test. A lot of you should guess this.

Male Speaker: Charles Schultz.

Alan Blinder: Charlie Schultz, thank you. Charlie Schultz years ago enunciated the do no direct harm principle, which is that the governments get in trouble when they do something, which transparently causes harm to some people. Indirect harm is fine. Direct and obvious harm is not fine politically.

So if you think about trade, that's a natural thing. Adam Smith talks about the propensity of people to truck and barter. People will trade across national borders unless you stop them from doing it. See, I don't need laws to create trade.

And the US, China trade today is a great example. We don't have any trade agreements with China but we trade an enormous amount leaving aside the WTO, which covers almost everybody but we trade an enormous amount.

But trade agreements, NAFTA, TPP, the Korean agreement over a few years ago, you name it, are things that are identifiably made in Washington. People opposing trade can point to the legislators and the

people in the executive branch that push that to happen, and if it has a downside and they always have downside, there is somebody to blame.

So as it says here, the losses are seen as caused by actions taken here in Washington even if the trade would happen anyway. And that's another cross that free trade bears.

Seventh, so we're collecting a long list of answers to the question. Economists see international trade or even domestic trade, trade in general and technology as sort of in the same basket. And in fact, improving technology is a major enabler of trade as illustrated by this FedEx plane going wherever it's going.

Before that there were ships that facilitated trade. Now there's electric transmission of things, a new form of trade. Every improvement in transportation and communication facilitates trade. And so as it says here, the Luddites don't get much support these days.

If you polled Americans, say, should we stop technological progress? I'm pretty sure I know how the poll would come out even though we economists believe and I certainly believe it's true that technology is both killing and creating vastly more jobs every year than trade is.

Even if you think you can solve the interaction parts, some of it is the interaction of technology with trade, which you can put in either basket. But if you ignore that, there isn't any doubt I don't think that technology is a greater job killer and also a greater job creator than trade.

The problem here is while the Luddites don't get support, most people don't make this identification that we economists do between technology and trade. There are two separate baskets. So they think it's perfectly consistent to say, yes, I love technological improvement. It raises living standards. But no, I hate trade because it lowers living standards. Well I have a hard time making that argument but it does imperil some people's jobs as I said earlier.

So this juncture between these two concepts in the public's minds is a problem. And then, some of you are wondering why didn't I start with the most obvious but I did want to see this guy's face for a while. The damage from trade can be blamed on foreigners. That's great politically. You don't have to blame anybody.

Domestically, it's a quite a big difference from technology. So, I don't hear a lot of political demagoguery against Silicon Valley killing jobs in America which it does, of course. But foreigners are great scapegoats and

they have nobody standing up for them in Congress. Come on. What'd we say, technology. Okay.

Lastly, I want to emphasize, this is substantially for the economists in the room but not only. That economists--excuse me. Ice cube. It will melt. There's something in trade theory called Iceberg Theory but that's not what that was. Is that economists and non-economists have very different views on the fundamental purpose of an economy. What's an economy supposed to do?

To us economists it's to benefit consumers, give them more, and better, and greater variety of goods that they want rather than goods that they don't want at lower prices as we teach our students utility depends on consumption. If that sounded like gibberish to you, it is, so don't worry about it.

To non-economists however, the main progress of an economy is to provide a way to make a living. You might be a small business, you might be an employee of a large business but either way, you're a producer and you care about whether the world is good for producers, in particular for you, what you're producing, more than you care about the consumption goods that you enjoy. And I'm going to show you just one poll on that in a second.

But I want to finish the thought. In the economists' view of what an economy is all about, a key goal is greater economic efficiency leads to lower consumer prices. I didn't have room on the slide, relative to wages and that's what makes standards of living go up. But to most people, good jobs are the quintessence of what they want the economy to do.

Again, for those of you who aren't economists in the room, in economic models, work is a bad thing. It is. Some of you are laughing. It's true. We say consumers derive happiness from the goods they consume and unhappiness from the work they do.

That's about as wrong as wrong can be. There are some people of course for whom it's true. But that's about as wrong as wrong can be if you're trying to understand what is motivating actual people.

So the attitude that the economists view is that the key thing is consumer goods and getting them to be high quality and low cost leads you to want to expand trade of course. This was David Ricardo's argument and Adam Smith's argument before Ricardo.

To non-economists, the key thing is the preservation of jobs and I think you noticed on those public opinion slides that I put up that whenever you

put juxtaposed jobs against something, the something got annihilated. Jobs is what matters.

Here is another one, the last. I've saved this one. Are you willing to pay a little more? Notice the adjective a little. Imagine if it said a lot. Are you willing to pay a little more for merchandise that's made in the US or do you prefer the lowest possible price?

Economists go for the lowest possible price. We are 13% of the vote, 82% said, you know, I'll pay more if it's made in the US. According to David Ricardo and Adam Smith, you're not supposed to, and the teachings of all of us who teach elementary economists, you're not supposed to think that way but people do.

So summing up, the question is why haven't we made the sale for 200 years? A little bit of it, so the left-hand column is so to speak our ineptitude. We could do a lot better with TAA, Trade Adjustment Assistance, than we do and I believe we should.

We ought to stop saying transition cost, which I just urged everybody to do. And we should try to make a better case of identifying trade as an aspect of technology because you can sort of get under the cover of technology, which is a good thing. That's the easy part but it's a possibly solvable part.

Here's the parts that I think we can't solve. It's a counterintuitive, I'm going over some of the things I already did, it's a counterintuitive notion. There are demagogues like Trump who will take the opportunity to blame foreigners for things that should be blamed on domestic sources.

The political calculus that I went over about diffuse benefits and concentrated losses makes the political calculus always bad. It looks like a corporate agenda because we have to make mercantilist arguments to get anything through Congress.

Trade agreements are made in Washington even though trade isn't. And then there's this point I was reiterating several times that good jobs dominate cheap consumer goods in the minds of most ordinary people that have not studied economics and crossed over the intellectual line.

And last but definitely not least is the point I stopped on a few minutes but didn't emphasize, the notion that anybody can come up with a solution that prevents anybody from ever losing his or her job in that particular place is impossible, and yet, that's what many people want.

So the conclusion is, and this is face recognition again but everybody knows Tom Hanks, Houston or maybe I should say Washington, we have a problem. Thank you.

Adam Posen: Alan. Alan? Yes. Alan, thank you so much. That was terrific. It pulled together a lot of strands that we, at Peterson Institute and trade-oriented people in Washington confront everyday and it is a bit depressing.

So before we open it up to our audience for comment, let me ask you a sort of governance political economy question. You've written a lot in very nuanced ways about central bank independence and accountability issues, and transparency.

So we set monetary policy with not by any means total insulation from politics but a lot of insulation from politics. And if you take a poll, you know, often people will say, oh, I want the Fed to be independent or something. But if you ask them, do you want the Fed to be able to buy stuff or do you want the Fed to raise rates right now, they'll say no.

What's the difference between trade policy and monetary policy? Why can't we just sort of set up god forbid it should be the current government but anyway, current administration, but why can't we just set up sort of an independent trade authority that does this? I mean, what's the problem intellectually, ethically, politically, not so much could we do it?

Alan Blinder: Right. We can't do it.

Adam Posen: Right. Right. So just as the abstract.

Alan Blinder: I think intellectually, there are a couple of things. One is that changes in trade policy tend to be particularistic. There's particular groups that win and lose. Monetary policy at least operates on the patina of neutrality. It's not really neutral because basically, it hits housing positively or negatively much harder than anything else but it is conceptualized as being neutral about the economy as a whole. Whereas trade policy is never except by economists thought of that way.

Adam Posen: Right.

Alan Blinder: I mean, this is the problem we have. We think of it as this is good for the whole economy but people involved in the trenches do not. They want to know is this going to be good for the third district of Ohio or not and maybe it's not. So, there's this particularist.

Secondly, it is much more than monetary policy. Very intertwined with value judgments that is, is it a good thing if this group gets helped and this

group gets hurt, and there's a big asymmetry between help and hurt in political calculus.

And again, I guess I'm repeating in a different way. Monetary policy gets away with the belief that those kinds of value judgments aren't very relevant to monetary policy. For the same reason I just said, it's not quite true. You lose in monetary policy, it's great for housing. If you tighten monetary policy is horrible for housing. But somehow, that's not the image that's either in political minds or the minds of the public.

Trade is, I often put them in the same intellectual bucket. Trade in that respect is very much like tax policy. You start fiddling with the tax code, they're very obvious winners and losers. It's loaded with value judgments. And that stays in the political realm.

Adam Posen: Great. Thank you for exercising that intellectual comparison. Let me open up to the floor. Alan is kindly taking questions. This is all on the record. As ever, we have a microphone in front of Tanisha that can be brought to you, where there's a standing microphone for those of you sitting in back. When recognized, please identify yourself and please pretend you're asking Alan a question rather than giving him a lecture. Yes, first and then there in front.

Michael Calingaert: Michael Calingaert, Counselor for the US and Italy, and Brookings. Did the TAA ever have a chance? I mean, it sounded to me, my impression is it was always this is when it's going to take care of you losers and some of it couldn't work and that various administrations never really made a great effort with it, and now we're reap, in a sense, the results of that neglect.

Alan Blinder: I think if you ask the question as you seemed to and I answer it as a kind of a zero one answer, the answer is zero. The TAA was never going to work in the sense of eliminating the objections to the losers from trade even if you imagine that of course TAA never did this, that they got full dollar for dollar compensation as the way economists put it.

Suppose we gave you enough TAA to put you back on the same utility curve, it still would not have worked for some of the reasons that I said. That said, public policy issues are not usually zero one, yes no, but they operate in the gray area and I do think that we could have and in resentables have made a better job of TAA than we have in recent years and that would help, help take some of the edge off of the anti-trade sentiment. I think the best you hope for is a relatively minor palliative. But the truth is when you're fighting an uphill climb, minor palliatives are very welcome.

Adam Posen: Okay. Here, Jacob and then Joe, and then to the back mic.

Jacob Kirkegaard: Jacob Kirkegaard from the Peterson Institute. My question goes to this issue of maybe where their polling data is the best sort of way to capture how Americans or anybody actually feels about trade because I mean, going to the question you had where they said, are you willing to pay more for local produce? Well there are shops that try to do that and they tend to go bankrupt.

And, people shop vigorously on-line for the best deal no matter where it comes from. So isn't that a disconnect here between what they do? I mean, is it like watch what I do rather than what I say to the pollsters? And isn't the question that we should as economists be thinking about, well, how do we get people to actually vote more like how we act as opposed to what we say to the pollsters?

Alan Blinder: All right, so, a couple of answers to that, Jacob. First of all, when people vote with their feet by going to Walmart and buying Chinese toys, which they do in great volume, I don't believe they are balancing the job loss against the cheaper, better toys. They're going for the better bargains. They may not even turn over to the back and see where it's made. I don't turn over to the back, that's because we believe in trade. They may not make the connection.

Secondly, if trade policy was decided by dollar votes in the marketplace as you're suggesting, I think it would fair, a lot better than by political votes in the Congress. But I thought you were going to say but let me jump to what you didn't answer,

I think a better way to figure out public attitudes about trade better than these polling results is to watch the behavior of the Congress. Those people in Congress are pretty good generally at reflecting what their constituents want them to say and do. There are exceptions of course. But they're pretty good at it and we see what difficulty trade has in this representative democracy.

Adam Posen: Great. Over here and then we'll go to the back.

Joe Beaulieu: Joe Beaulieu from Breven Howard. How should I think about like, other social goals and issues that oftentimes get caught up in trade such as worker safety, environmental concerns to kind of like put it personally, should I lecture my very liberal wife that what would be a great idea to export all the real dangerous jobs in the United States and have them done in some other country because they obviously have different prices as far as valuing like worker safety?

Alan Blinder: Yup. Larry Summers tried to do that once at the World Bank, you may remember. I think the key thought there and it's not that difficult a thought, is that things like worker safety, cleaner environment, et cetera, et cetera, have a certainly positive and maybe high income elasticity. Sorry, I lapsed into jargon. People want more of this as they get richer. When you're poor and the question is, can you feed yourself until evening rather than collapse in hunger? You're going to be a lot less worried about cutting your finger on the job or breathing dirty air.

And so in the rich countries, it is perfectly rational to demand more of stuff like that but imposing those burdens on poor countries can often be dysfunctional. They don't need it or want it as much as we do. Hopefully, they'll get richer and that will change. You know, that's most of the idea, or it's much of the idea of trade. But unless and until they do, people like that are going to be caring a lot more about food, clothing and shelter.

Adam Posen: Okay. At the back mic and then over at the wall there, please.

Nicolas Véron: Yeah, Nicolas Véron here at the Institute. You made a very strong case that a big part of the problem is that comparative advantage is counterintuitive. Now there's another great counterintuitive reality in economics and finance and that's interest, and interest is difficult to understand for many people and that's a big reason why religions for example have long been hostile and some still are to the very principle of paying interest. So isn't that a sort of positive story?

Because in a way, interest is every bit as counterintuitive as comparative advantage. It seems that many people including many religions have sort of got over it and is it interesting to compare those two and does the story of the gradual acceptance, grudging of interest by most social systems if not all, does that give lessons to what may happen with comparative advantage? Thank you.

Alan Blinder: Well I hadn't really thought of that. Maybe. What's counterintuitive and what's not is obviously in the eye of the beholder. I never thought until you raised it that interest is counterintuitive. That, you know, I have money, you want the money, you should pay me to use the money. You're right what you said that in some religions, that's considered an immoral act but most of the part in the--

Nicolas Véron: The Catholic Church has done--

Alan Blinder: --Western civilization, it's not been considered.

Nicolas Véron: It has. In the Christian civilization, it has been considered sinful.

Adam Posen: Yeah. Usury laws.

Alan Blinder: Oh yeah.

Nicolas Véron: For most [inaudible 00:51:48]. The reason for that is exactly the one you gave is that interest is a way of getting rich without working. Money works 24/7 and for the church during the middle ages and modern times, it was unacceptable because that goes against organization principle of society is that reward comes when you work.

Adam Posen: I'm wondering, Nicolas though, I think it's really great you're broadening us in this way. I'm wondering if this is not so much about counterintuitive as what you just said adjoins what Alan said earlier about different perceptions of what work means. Just like in our tax code, we still have earned income and unearned income as concepts. I mean, it's still worth raising but I just--I'm wondering if you support that.

Nicolas Véron: The point and just to clarify is that not only the Catholic Church arguably still has a problem with interest, certainly has had a massive problem with it until reasonably recently in Western historic time. And actually, when you looked at Simon Schama, for example, on the Netherlands, even Calvinists had a big problem with interest during the golden age of the Netherlands, so it's not just a Catholic Protestants thing and obviously, Islam now.

Alan Blinder: No, it's a fair point. I hadn't thought about that. Thank you.

Dan Griswold: Dan Griswold with the Mercatus Center at George Mason University. Dr. Blinder, thank you. That was a brilliant talk. I hope the slides might be available.

Adam Posen: They will be posted on our website as will the transcript and the video, as is true of all our events, Dan, at www.piiie.com.

Dan Griswold: He didn't set me up for that. If I could just gently push back on the Trade Adjustment Assistance point and maybe even say a couple of your points on what we can do, our intention with each other, you think of Trade Adjustment Assistance, I don't think there's any moral obligation to compensate the losers.

For example, we had quotas on textiles for all those years, we got rid of those in 2005, I'm not sure if people who've made their living behind in a protected market extracting rents from their fellow citizens are necessarily deserving of any special treatment.

But to get at a more practical political point, if we want to get across the fact that job churn is a fact of life, that more people are put out of work by technology than trade, aren't we sending the wrong signal if we have a special program for people put out of work by trade? You know, every week 300,000 people line up for unemployment insurance. Most of them not put out of work by trade. And so my question is one, is there any credence to what I just said there?

And also, wouldn't a better approach be to design an overall system improving education, unemployment compensation, maybe wage insurance that they've talked about here at Peterson to help all workers that are put out of work for no reason of their own to train themselves to take advantage of the jobs of today and tomorrow, and not try to hold on to the jobs of the past?

Adam Posen: Dan, before Alan replies, Dan, give me a chance for a second to advertisement. Our colleagues, Chad Bown and Caroline Freund are working on just such a proposal and project motivated by many of the same things that Dan raised that both from an economics point of view and political point of view distinguishing particularly trade job loss may not be the right way to go. But anyway, but Alan.

Alan Blinder: So I agree with the thrust of what you said. And when I raise things like that to trade specialists, they say what you said, what's special about trade? There's all kinds of reasons for a job churn. My answer is that, in principle, I agree with that completely. I would rather see wage insurance and a thicker social safety net and one that was sure to Lyndon Johnson's original idea, which was a hand up rather than a hand out.

So for anybody in distress, I agree with all of that. That said, come back to one of my slides. Trade agreements are and are perceived of as made in Washington. Uber is not. And all the other job destroyers you can think of from technology and that is a crucial difference.

If we don't do something to ease the pain of trade openings, trade openings will be blocked politically. It's very unlikely that technological progress will be blocked politically even though as you correctly say, that is causing a lot, and as I said, that is causing a lot more job churn than trade is. So it's a political economy argument really.

Adam Posen: Interesting. The gentleman at the other end of this table first please and then at the back mic.

Ted Alden: Ted Alden from the Council on Foreign Relations. Thanks for a great presentation. I wanted to ask you about the congressional metric, which I think is not a bad one. If you go back to the congressional vote on the

Tokyo round in 1979, it passed by a vote of 395 to 7 in the House and 90 to 4 in the Senate.

A lot of the issues you raised about the difficulty of selling trade seemed to me to be longstanding ones, which are kind of inherent in trying to make the case for trade but if you look in this country at least between 1979 and today, something fairly dramatic changed I think. Do you have any idea what that might have been?

Alan Blinder: Yeah. I think most of the answer is relatively simple and the rest of it is a little more subtle. The simple part is it's just a much bigger deal. A much better fraction of the economy is either engaged in the exporting or importing or feels the spillovers through the competitive mechanism of exporting and importing. That was true at the time of the Kennedy round. And that's enough of an explanation right there.

On top of that and more recently is the fact that due to technology, trade competition has become and continues to be more of a threat to constituencies that never thought of it as a threat before. And so you're getting a broader and broader slice of the population saying, you know, that can happen to me. It's not just steelworkers. That can happen to university professors. We could be out.

First of all, we are being replaced by foreigners that come teach at the American universities. But in a longer run, we're going to be replaced by holograms or nukes or something like that. I often get a journalist on the phone asking me about off shoring and things like that and I said, your job might be replaced by foreign competition. They're not used to thinking of that. So, I think--

Adam Posen: I want to push back a second, Alan, on your reply. Because if you look at trade in isolation, and you look at the economic determinants of congressional votes, what you say makes perfect sense. But there's a whole lot of issues on which we used to have very large, maybe not that specific example, but very large bipartisan majorities in favor in which now become very close in contested votes.

Alan Blinder: Yeah.

Adam Posen: And, there are a lot of factors that have changed in the last 50 years that weren't just how many people feel their exposed to imports. So I think it's fair for you to raise that but I'd be a little careful and in econo-speak I don't think there's an identification problem here because there's a lot of other votes and issues that have gone the same way.

Alan Blinder: Yup. No, you're right. I would add to that. I guess I should have added to the explanation is that you used the word bipartisanship, which has pretty much disappeared. So if X is supported by Republicans or whatever Republican's in the White House and fought by Republicans when a Democrat is in the White House, you're always working on a small margin and you never get. What did you say, 90 to 4?

Adam Posen: Yeah.

Male Speaker: Yeah, [inaudible 01:00:12] that. Yeah.

Alan Blinder: What could you think the Pledge of Allegiance could pass by that? No, I don't think so.

Adam Posen: I would hope not. Sorry, it's not for me to speak but I just want to emphasize going back to something else you said. Maybe that's the way in which trade is distinctively difficult is that you've got at least one wing of the Republican Party and a larger wing of the Democratic Party both of whom are anti as opposed to many other issues where it's totally a partisan cleavage, but just something to think about. At the back mic, please.

Steve Weisman: Steve Weisman here at the Peterson Institute. Actually, following up on Ted's question and Adam's comments, I wonder if there isn't a clue to how this was debated in the late 19th century and early 20th century which was the last, or the previous great period of globalization and expanded trade. But if you look at the campaigns then, the whole Populist Party, the Democratic Party under William Jennings Bryan and even the unions where free traders because they saw trade barriers as helping the big trusts and corporations, and Americans did see themselves as consumers in that period.

I don't know that they would have subscribed to Ricardo but that's how they did see themselves if you look at the political campaigns. Have you studied that period and are there clues from that period to how we might be able to change the conversation today?

Alan Blinder: I'm not a great student of that period. Well my casual impression is a little different from what you just said that the support for allowing for example, greater agricultural exports was about farm jobs in America. Keep the farmers prosperous. So it was really more jobs I think even then than it was consumer goods. Now as I already said, I'm not a great historian of that period. Maybe that's wrong but that's my casual impression.

Adam Posen: I would plug. I mean, all of you are aware of this, but I would plug a non-PIIE colleagues work the economic historian Douglass Irwin who's done

some great work on these issues both in the UK and the US, and people should read him. Next at the back mic, please.

Nancy Donaldson: Hi, I'm Nancy Donaldson. I head the Washington office of the International Labor Organization. And one quick point, I think that actually we now have a lot of evidence and experience with the fact that workers around the world even if they're in very low income-producing jobs care about other things like safety and benefits, and child care. And, in fact, that used to be a big argument with the World Bank that any job is beneficial or any development is beneficial.

Now we're closer together saying the jobs have to be safe and that was partly after Rana Plaza in Bangladesh when so many people who had been in the same job with the same income for 10 years and then they lost their lives being in an unsafe building. And so that's an interesting dynamic. I think it's important.

I would want to say that we are coming up on our centennial year in 2019 and our director general has put us into a deep dive on the question of the future of work. And one of the things that we're learning, we've been at this for a couple years already is facing the fact that there are going to be fewer and fewer jobs and what to do about it. You know, Silicon Valley is talking about universal basic income.

But one of the things that's been a core for the ILO is fundamentally that a job is the best way out of poverty, that work is at the core of human dignity. And I actually believe that it's our culture and it's not just the US, other places that this relationship between a productive something, employment, livelihood and society is at the root of the problem that you've identified.

And all of us, we're going to need all of you economists, I'm not one of you that way. Need to help think about how to help society move towards creative contribution, a knowledge economy, a way of living that isn't dependent on working 40 hours a work or 50 or 60 in this time. And we're going to have a very interesting time the next 50 years because of this.

Alan Blinder: Well, I'm not sure if I heard a question there.

Adam Posen: So that's—yeah, no.

Nancy Donaldson: Sorry. I could ask--

Alan Blinder: I agree with almost everything you said and some of it was actually on my slide, and I didn't mention the dignity of work but you're absolutely right. I mean, that is why people care more about, or the main reason why

people care more about their role as producers than as consumers. I agree. And it's not the way economists think about it.

The one thing I think issue with you is I am not yet ready to jump to the conclusion that there'll be fewer jobs 50 years ago than there are now. That claim has been made throughout recorded history since the Industrial Revolution. It has always been wrong. Now maybe this will be the first time that it's right.

I like to tell the anecdote I've told in a number of speeches of the apocryphal Chairman of the Council of Economic Advisers under Thomas Jefferson who walks into President Jefferson and says, I looked at a crystal ball. Right now, 83% of Americans work on farms. In the year 2010, 1% of Americans will work on farms.

And Jefferson looks at him with great consternation and say, what will the other 82% do? And the only honest answer would have been, I have no idea. Because no one could have had any idea but we do not have 82% unemployment even though 1% of Americans work on farms.

Nancy Donaldson: We do have 200 million people around the world who were unemployed.

Alan Blinder: Oh, sure.

Nancy Donaldson: But just to say, I agree with you. Most of the economists in the ILO agree with what you just said. But we've got this issue that is going to, I think change our world, which is artificial intelligence.

Adam Posen: I think--

Alan Blinder: Yeah, I know. That's the question.

Nancy Donaldson: Yeah.

Alan Blinder: That is the question.

Adam Posen: I think we also have to be careful, Nancy, about something else, which is if we give into much to the rhetoric however well intended by whoever about dignity of work and identify it with formal outside the household jobs, we are being, A, very disrespectful to the vast numbers of people primarily women, people with disabilities, people with less education who contribute to society and have meaningful lives without having formal workplace employment.

I'm not saying that's an idea we need to maximize that. But it is a little bit dangerous to put too much and I think frankly unethical to put too much emphasis on sort of the male white ideal of I work in the steel mill and

therefore, I have purpose. And I know this isn't your intent but the kind of things you were saying gets us to that. And this isn't infinite ping-pong.

Nancy Donaldson: Yeah. No, I agree with you and also the informal economy is larger than the formal economy.

Adam Posen: Yes. And so I think it's as we move forward with the big issues that you've spoke about, one of the other long-term historical perspectives that is not the same but related to what Alan said is there have been vast shifts in the last 250 years back and forth about the borderline between what's formal and informal work, women's work, household work, part-time employment.

And so, again, I understand where you're coming from, at least I think I do, having read some of your ILO stuff. But I think we have to be very careful about feeding politics that fixate on this one very narrow definition of what's a job and what's dignity in that sense. I believe there was another in front and then we'll go to the back. Sorry. This gentleman here.

Frank Rybinski: Frank Rybinski with AEGON Asset Management. Just curious, given the stats you showed how the Populists or the majority are not in favor of free trade especially when it comes to the jobs, would you have expected more support than for the border tax adjustment?

Adam Posen: That's intriguing.

Alan Blinder: That's a good question. I think Paul Ryan did. Because on its face, it looks very protectionist to tax imports and exempt exports. It's not supposed to be because the exchange rate is supposed to adjust by exactly the right amount.

Adam Posen: Not going to happen.

Alan Blinder: No, I don't believe it's going to happen either. But it's a good example of what I was talking about earlier about the asymmetry politically. The losers, people who see themselves as losers from this because the exchange rate will not move the way they say have come out in great number and exercise their political cloud. Their politicians know that these firms that sell a lot of imports, retailers, Walmart, are dead set against this and we'll fight it tooth and nail.

And, at least a member of Congress is in a better position to see the information flow than I am. I'm not hearing a lot of gigantic support from the winners, from the people that say exporting is great and that's what I do and this will make it easier. Maybe I'm missing it but there is a generic asymmetry between losers and winners. The losers, the perceived losers

tend to fight harder than the perceived winners and I think some of that was going on.

Adam Posen: Well coming to the--

Alan Blinder: In addition, as Adam says, and I've said this on a number of occasions, I don't believe for a millisecond that the exchange rate is going to move as an exact offset for the border adjustment tax.

Adam Posen: We're about out of time. So the black haired gentleman at that table, if you could go to the back mic and then first, the lady at the black mic.

Jennifer Hillman: You want me to start.

Adam Posen: Yeah, if we could take the last two questions together and then I'll--

Jennifer Hillman: Sure. Jennifer Hillman at Georgetown Law Center. Sort of following up a little bit on Ted Alden's question in terms of the change if you will for the support for trade that used to happen. Two sort of points or questions. One is at least from the polling data that I've seen very much more recently, we have seen a big recent shift in sort of who supports trade. If you look particularly at the Pew data and some others, it would suggest that over the last couple years, there really has been a shift to the notion that Democrats are more supportive of trade and Republicans not. And that it very much breaks down also by age and by region with the bottom line being old white rural men are anti-trade. And hence, who supports the Republican Party and Donald Trump old white rural men. Okay. That's sort of out there in the data. So I'm questioning sort of how that fits into your story?

But second question sort of following up is to me, among the key data points that has changed so dramatically from the '70s when there was this very strong, very bipartisan support for trade is the distribution of the gains. I mean, if you look at within a corporation, I mean, you put on your chart producers slash workers on the assumption that their interests are necessarily aligned and yet you saw in the '70s if you will, the pay gap between the highest paid in a corporation and the average at sort of 20 to 1, and you now see it 3 to 400 to 1.

So it certainly seems as though one of the other big changes over time has been who actually is the winner even if trade is creating winners if all of it goes to the top 0.1%, is that changing, again, this political calculus of who supports trade over the long haul?

Adam Posen: Thank you. And before Alan responds, if we could take the last question, please.

Adam Sigal: This is a great lead into my question. I'll add education to your list as well. There's another big indicating factor. But I was just going to say, I wonder if--

Adam Posen: Sorry. Who are you?

Alan Blinder: Sorry. My name is Adam Sigal. I'm a reporter with MLex Market Insight. I was also going to say I'm wondering if maybe there's some significant economic changes that have gone on between the '70s and now that have changed how people view trade specifically with how people are viewing the economy, what it takes to repay student loans, get a house, things like that? And I'm wondering if maybe just trade is a scapegoat and not actually something that people really hate but people just misunderstand.

Adam Posen: Thank you both. Alan, you get the last word.

Alan Blinder: So let me go backwards from that. I think trade does make a very convenient scapegoat. Wages on average have grown much too slowly in recent decades and on top of that, they have spread out so that roughly speaking on wages, the only group that has done well in the last 30 years is the upper 1%.

Now this is your point about scapegoating incomes to questions before, how much of that is because of trade? That's been studied a lot by economists and you tend to come up with answers ballpark-ish 10%, 90% is not trade. A lot of that is technology, some of it is change in market structure, some of it is the return to education going up, so the haves have the education, the have nots don't have the education. But none of those things make good scapegoats and trade does. So I agree with that.

I was--gee, I'm sorry, I didn't quite get your name but I was cheered to learn that Democrats are moving more favorably to trade. My conversations with Democrats don't sound that way. I mean, they are with me, with me, with me on nine issues, then I come to trade and I'll say, oh God, you just don't understand. So I hope you are right.

The other thing working up in the other order is it can't just be old white rural men. I'm not rural myself but I'm all the others. There aren't enough of them to move the whole country up. That demographic is more hostile to trade and to change in general I don't doubt for a moment. But they are two small of a group to actually move the polity I think.

Adam Posen: I wish that were true.

Alan Blinder: Rural is the keyword in that.

Adam Posen: Yeah. Yeah. Yeah, here you go. That's--

Alan Blinder: Well people forget all the time that hardly any Americans live in rural communities anymore. Did you see the red blue maps? What it shows you is vacant land votes Republican.

Adam Posen: Right. Right. Well on that note, Alan, thank you very much for wading into what is obviously one of the most important, contentious, but also historically long-lived issues, Why Economists Can't Sell Free Trade. I think it made an excellent third annual John Olcay Lecture here at the Institute. Thank you very much.

Alan Blinder: Most welcome. Thank you.