

The New York Times, March 16, 2008

ECONOMIC VIEW

Beyond the Noise on Free Trade

By N. GREGORY MANKIW

NO issue divides economists and mere Muggles more than the debate over globalization and international trade. Where the high priests of the dismal science see opportunity through the magic of the market's invisible hand, Joe Sixpack sees a threat to his livelihood. This gap in perspective grows especially wide whenever the economy experiences short-run difficulties, as it is now. By all indications, the issue could come to dominate the presidential campaign.

Economists are, overwhelmingly, free traders. A 2006 poll of Ph.D. members of the American Economic Association found that 87.5 percent agreed that "the U.S. should eliminate remaining tariffs and other barriers to trade."

The benefits from an open world trading system are standard fare in introductory economics courses. In my freshman course at Harvard, we start studying the topic in the second week, and we return to issues of globalization throughout the year. The basic lessons can be traced back to Adam Smith of the 18th century and David Ricardo of the 19th century: Trade between two countries creates winners and losers, but it leaves both nations with greater overall prosperity.

The general public, however, is less likely to take its cue from Adam Smith than from Lou Dobbs. In December, an NBC News/Wall Street Journal poll asked Americans, "Do you think the fact that the American economy has become increasingly global is good because it has opened up new markets for American products and resulted in more jobs, or bad because it has subjected American companies and employees to unfair competition and cheap labor?"

When this question was asked a decade ago, the public was almost evenly split. In the recent poll, however, only 28 percent endorsed globalization, while 58 percent opposed it. As the economy continues to weaken from problems in the housing and credit markets, you can expect to hear more about foreigners stealing American jobs, regardless of the true merits of the case.

This shift of public opinion toward economic isolationism may well become a political problem for John McCain. Compared with those of either of his possible Democratic rivals, his track record shows him to be a more unequivocal free trader. Here are some examples:

- In 2002, Mr. McCain voted to give the president “trade promotion authority,” under which trade agreements were no longer subject to amendment by Congress. Barack Obama was not yet in the Senate at that time, but Hillary Rodham Clinton voted against the measure.
- In April 2005, Mr. McCain voted to table a bill proposed by Senators Charles E. Schumer, Democrat of New York, and Lindsey Graham, Republican of South Carolina, that would have authorized a 27.5 percent tariff on Chinese imports if China failed to revalue its currency. Mrs. Clinton and Mr. Obama voted in support of the tariff proposal.
- Also in April 2005, when 58 senators asked President Bush not to offer large cuts in farm subsidies as part of the Doha trade negotiations, Mr. McCain declined to put his name on the letter. Mrs. Clinton and Mr. Obama were among the signatories defending the subsidies.
- In June 2005, Mr. McCain voted to ratify the Dominican Republic-Central America Free Trade Agreement, which lowered trade barriers with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. Mrs. Clinton and Mr. Obama voted against the treaty (although, in his most recent book, Mr. Obama wrote, “over all, Cafta was probably a net plus for the U.S. economy”).

- In recent months Mr. McCain has expressed support for the pending free-trade agreement with South Korea, the world's 12th-largest economy and the seventh-largest trading partner of the United States. Mrs. Clinton and Mr. Obama oppose it.

The most prominent recent flare-up in this debate is over the North American Free Trade Agreement. Negotiations for Nafta began under the first President Bush, and the treaty was eventually passed under (the first?) President Clinton.

Al Gore famously debated Ross Perot about the measure on "Larry King Live" on CNN. While Mr. Perot warned of a "giant sucking sound" sending American jobs south of the border, Mr. Gore gave Mr. Perot a framed portrait of Reed Smoot and Willis C. Hawley, the congressmen responsible for the tariffs that in the 1930s helped make the Depression great. It was a fine moment, both for political theater and mainstream economics.

Today, Nafta could be hailed as a successful example of the bipartisanship that Mr. Obama promises. Most economists agree with Lawrence H. Summers, a Treasury secretary in the Clinton administration, who has said that Nafta "was really a watershed as to whether America was going to stand for larger markets, was going to stand for forward defense of our interests by trying to have a more integrated global economy."

"It contributed to the strength of our economy," he added, "both because of more exports and because imports helped to reduce inflation."

Instead of becoming a beacon of bipartisanship, however, Nafta is the latest whipping boy for the anti-globalization crowd. During their last debate, Mrs. Clinton and Mr. Obama said they would withdraw from the treaty unless Canada and Mexico agreed to further concessions. Canadian authorities were quick to respond that if negotiations were reopened, they would ask for some concessions of their own. True to form, Mr. McCain offered his unconditional support for the landmark agreement.

With the two political parties apparently divided on trade policy, you might expect those free-trade-loving economists to be predominantly Republicans. But that's not the case. One reason is that economists are not single-issue voters. Like everyone else, they are divided over contentious issues like health policy, the Bush tax cuts and the war in Iraq.

BUT another reason is that many economists don't really believe the populist rhetoric coming from the Clinton and Obama campaigns. They expect that once in office, either candidate would pursue a policy more like that of Mr. Clinton, who relied heavily on the advice of economic moderates like Mr. Summers and Robert E. Rubin, another former Treasury secretary. When reports surfaced recently of an Obama economic adviser telling the Canadian government to ignore his candidate's anti-Nafta rhetoric, some people were appalled, but many Democratic economists I know were secretly relieved.

It is hard to be confident, however, that on issues of trade policy either Democratic candidate would act like the last Democratic president. Maybe the candidates' records as legislators are not good indicators of what their policies might be as president. Maybe campaign rhetoric about Nafta is nothing more than that. But counting on it requires, one might say, the audacity of hope.