The Illusion of Conflict in International Trade

In the summer of 1993 the managing editor of *Foreign Affairs* — a very intelligent, well-educated individual for whom I have a great deal of respect — made a remark that only a few months before would have startled me. I had proposed an article about international economic relations, the article that was later to become “Competitiveness: A Dangerous Obsession” (published in *Foreign Affairs* the next March). And he said: “The conventional wisdom is that the military competition of the Cold War has now been replaced by economic competition among the market economies. Are you going to challenge that view?”

What was so startling about that remark? Well, to a trained economist, the idea that international trade is a competition that bears any serious resemblance to military rivalry sounds very strange. Admittedly, there are many discussions of trade conflict and sophisticated concepts of “strategic trade policy,” but all efforts to actually put numbers to these issues reach the conclusion that the stakes involved are very small, on the order of a few tenths of one percent of national income — certainly nothing like the life-and-death stakes involved in military competition.

So how could it be that an analogy between international trade and the Cold War could be described as the "conventional wisdom"? In this paper I want to offer three observations inspired by that question.

First, my editor was not ill-informed: the view of trade as a quasi-military competition is indeed the conventional wisdom among policymakers, business leaders, and influential intellectuals—that is, among the people who matter. It's not just that economists have lost control of the discourse; the kinds of ideas that are offered in a standard economics textbook do not enter into that discourse at all.

Second, the rejection of the conventional economic wisdom about the generally benign nature of international trade is not, as one might suppose, based on a justified skepticism about the realism of standard economic models. On the contrary, one gets nowhere in making sense of the debate on international "competitiveness," among people who regard themselves and are regarded by others as sophisticated, unless one realizes that their views are based on a failure to understand even the simplest economic facts and concepts.

Finally, because most of the discussion of international trade issues among those who matter is marked by deep ignorance—all the deeper because it often poses as sophistication—one must understand the risks of international economic confrontation as arising not from real conflicts of interest among nations, but from shadows and mirages. It is the illusion of economic conflict, which bears virtually no resemblance to the reality, that poses the real threat.

1 A Reading List

Perhaps the best way to illustrate the current state of discourse on international economics is to imagine the position of an intellectually-minded American—someone who watches McNei-Lehrer, who reads The Atlantic, The New Republic, and The New York Review of Books, but is not a trained economist and not anxious to become one—who decides to educate himself or herself about the world economy. The natural thing to do would, of course, be to assemble a reading list of books that have been well-reviewed, by people whose names are familiar and whose faces he or she has seen on public television. What would such a reading list contain?

Well, here's a sample list:

(1) Head to Head: The Coming Battle Among America, Japan, and Europe by Lester Thurow: This book was, of course, a huge best-seller; it has also received respectful attention and endorsements from many influential people from President Clinton on down.

(2) The Work of Nations by Robert Reich: While not quite as large a seller as Head to Head, this book received many rapturous reviews; and Reich is, of course, not only Secretary of Labor but a key adviser to the President.

(3) A Cold Peace: America, Japan, Germany and the Struggle for Supremacy by Jeffrey Garten: Not a best-seller, but a book that has been praised by many powerful people; and on the strength of that book Garten was named to the key position of Undersecretary of Commerce for International Trade.

(4) Trading Places by Clyde Prestowitz: Prestowitz is a former trade official who now heads the Economic Strategy Institute, a very influential think tank; this book on how Japan has outwitted the United States received wide attention. Prestowitz is frequently quoted by leading columnists, and is a familiar face on television and in Congressional hearings.

(5) The Endangered American Dream by Edward Luttwak: Luttwak's reputation rests on his writings on politics and military
affairs, but this new tract on "geo-economics", which explicitly applies the parallel with strategic competition to international trade, attracted a great deal of notice.

(6) The Silent War by Ira Magaziner and Mark Patinkin: This book was not a mass seller, but it was well received among liberal leaders, and helped to cement Magaziner's reputation as a policy guru, which led to his role as architect of the Clinton health plan.

(7) The World Competitiveness Report 1994: The annual competitiveness reports by the World Economic Forum (which hosts the famous Davos conferences) invariably attract much favorable press attention. This latest report offers a grim assessment of the competitive pressures facing Western nations.

It's an impressive lineup; all of the authors of these books are men of very considerable influence and visibility. What do their books have in common?

One thing they have in common is a view of the world economy as a place of difficult struggle: a struggle for markets, for capital, in which countries that do not play the game as well as the world leaders are going to be in deep trouble. The books differ somewhat in how they describe the competition—Reich portrays it largely as a struggle to attract a highly mobile pool of capital, while Throow seems more concerned with a list of strategic industries. They also differ in their policy emphasis: Reich wants education and training, Throow wants industrial policy, Prestowitz wants a tougher trade policy. But the theme of struggle, of "win-lose" competition, is common to all. Indeed, military metaphors abound; the martial tone is there in the titles or subtitles of Throow, Garten, and Magaziner, and equally explicit in Luttwa's text.

The other thing these books have in common is a complete absence of anything that looks like the kind of international trade theory that academic economists teach. I don't mean that these authors challenge the economist's view. I mean that they write as if it does not exist.

It is important to be clear about the completeness with which academic economics is ignored. It is not a matter of a lack of familiarity with the latest wriggles in research. Rather, nothing of international trade theory as economists know it—from Ricardo on—is in these books. Indeed, only Luttwa's book even mentions Ricardo or the concept of comparative advantage (the words occur in some of the other books, but used in a way that makes "comparative advantage" synonymous with "competitive advantage"); he grants Ricardo two sentences before dismissing the whole concept as irrelevant. The frameworks that are used to discuss international trade are either the author's own inventions, or, more often, derived from business and military strategy.

In other words, as far as the public discussion of international trade is concerned, economic analysis as it is done in the universities might as well not exist.

Surely, the reader must be about to argue, this goes too far. Aren't we making too much of a few authors? Don't economists have much more influence with the people who really matter?

Well, consider first just how impressive this author list is. Three of the authors are or were top officials in the Clinton Administration, and Throow is arguably the world's best-known economist—certainly the best-selling economist. And the World Economic Forum would be surprised to be dismissed as consisting of people who don't really matter.

Moreover, are there any influential books or authors who do not share this lack of interest in standard economic analysis? To my knowledge, there has been no best-selling American book on economics in the past decade that made any reference at all
to the conventional analysis of international trade—not even a hostile one.

Or perhaps we should not call the academic view "conventional." If by the conventional wisdom we mean the view that most important people hold, the view that people repeat to each other because they read it in the newspapers, and the view which the newspapers print because so many people repeat it, then the vision of international trade as a competition with winners and losers, a competition America had better win, is the conventional wisdom. The stuff that is in the college textbooks is a contrarian view, with hardly any real influence.