Economic Nationalism: Elitism in Populist Clothing

My old friend and former *American Conservative* editor Dan McCarthy gets it all wrong about Donald Trump's "national security" tariffs on aluminum and steel.

I won't discuss Dan's strictly economic case for the tariffs — I've already discussed this— but I want to draw attention to a few other things, beginning with his lament — which is embraced by many other conservatives and progressives — that the American economy has become a "service economy." In fact, all economies are service economies, as Bastiat well understood. There is nothing intrinsically better about heavy industry. People grow richer when they produce things that other people value. We have no grounds to disparage "services."

Dan shows he's not keeping up when he writes, "[A] middle class is hard to imagine in a postindustrial economy consisting of a tiny capital-controlling elite and a vast population of Amazon warehouse workers." While I oppose all government measures that have created and fostered the capital-controlling elite, Dan is wrong to disparage service workers as mere warehouse drones. (Not that this sort of work is per se deserving of disparagement.) Paul Thanos writes:

> *The services sector is wide and diverse and covers a wide array of sectors including retail, financial services, digital services, real estate, hospitality, education, health, social work, computer services, recreation, media, communications, and electricity, gas and water supply.*

While employment in manufacturing has indeed declined — beginning before the demonized NAFTA, WTO, and Chinese membership in the latter — manufacturing output has done the opposite. As Mark Perry points out:

> *In inflation-adjusted constant 2014 dollars, US manufacturing output has increased more than five-fold over the last 67 years, from $410 billion in 1947 to a record-setting level of output last year of $2.09 trillion…. Although we frequently hear claims that the US manufacturing sector is dying or in a state of decline, manufacturing output in the US, except during and following periods of economic*

> *contraction like the Great Recession, has continued to increase over time, and reached the highest level of output ever recorded in 2014.*

It is mainly technology, not trade, that has done away with old-style factory jobs, so there aren't so many jobs for Trump's tariffs to save. Dan says little about the many people who could lose jobs — in export and steel- and aluminum-using industries — because of the tariffs. How is that good for "the country" or the middle class?

But doesn't the elimination of jobs create hardship for those who have to find new work? Of course. Life is change and adjustment. Instead of trying to thwart that inexorable process, the government should remove its special-interest impediments to adjustment, such as barriers to economic and geographical mobility, among them occupational licensing and land-use restrictions. (See my "How the Government and Special Interests Thwart Economic Mobility.")

Nor need we worry that manufacturing is down as a percentage of GDP. Perry again:

> *The decline in manufacturing's share of U.S. GDP over the last forty years is nearly identical to the decline in world manufacturing as a share of world GDP, which fell from 26.6% in 1970 to 16.2% in 2010. Therefore, we can conclude that the declining share of manufacturing's contribution to GDP is not unique to America, but reflects a global trend as the world moves from a traditional manufacturing-intensive "Machine Age" economy to more a services-intensive "Information Age" economy. [Emphasis added.]*

These developments, of course, have come in an economic order that is far from free. Corporatist government intervention has certainly distorted development here and abroad. But we can be confident a truly free market would also have seen the emergence of a "services-intensive 'Information Age' economy." The big difference, I surmise, is that without government privileges, capital would be more widely owned and, as earlier libertarians predicted, bosses would be hunting up workers rather than vice versa.

Be that as it may, Dan is wrong to believe the "service economy" imperils the middle class. Yes, it's shrinking, but that's because people are moving up and out of it. Donald Boudreaux writes: "The American middle class, if it is disappearing, is disappearing – contrary to Mr. McCarthy's implication – not into the lower class, but into the upper class."

That calls for emphasis. So let's turn to Scott Sumner (pay attention to the graph Sumner displays): "The main reason that the middle income group has shrunk is that more and more Americans have incomes above the (arbitrary) cut-off point, and fewer and fewer are either "middle income" or poor."

Dan also buys the national-security argument for the tariffs, something Trump's own secretary of defense [sic] does not:

> *[T]he US military requirements for steel and aluminum each only represent about three percent of US production. Therefore, DoD does not believe that the finds in the [Commerce Department] reports impact the ability of DoD programs to acquire the steel or aluminum necessary to meet national defense requirements.*

Moreover, if the U.S. government were not policing the world, its demand for resources and labor would shrink considerably, leaving them available for more and better consumer goods. (For more on the national security canard, see this and this and this.)

Dan warns that if the government does not support strategic industries, the country won't have the capacity to fight and win wars. He has the Civil War and World War II in mind. This requires further examination. One may reasonably attribute many evils to Lincoln's violent crusade to preserve the Union, including the emergence of a continental, then hemispheric, then global empire that has wreaked havoc for generations. (Secession would have cut the distance of the Underground Railroad dramatically, shortening the escape route for self-liberated slaves, who would no longer be subject to the federal fugitive-slave law.) About World War II, may I point out that this horror could not have taken place had the U.S. government not had the resources to enter the Great War in 1917? Let's please do a full accounting. World War II gave a big boost to the Soviet Union and the Chinese communists: aren't those also to be chalked up as products of the U.S. government's access to awesome industrial power?

I also want to highlight Dan's mischaracterization of those he calls "free-trade ideologues" and "extreme free-traders." He writes:

> *Free-traders are not indifferent to national security nor blind to the benefits a nation derives from having a middle class. But the priority of goods is different: Free-traders tend to believe that only by making economic efficiency the supreme goal of public policy can those other*

> *ends be achieved. Division of labor produces greater wealth, and so free trade makes everyone better off, with the harm to those whose manufacturing jobs are lost outweighed by the good that comes from, say cheaper flat-screen televisions. Dollars decide. The figures are the outward and visible signs of the fundamental economic truth. [Emphasis added.]*

The economics discipline certainly has had many practitioners who appear to hold efficiency as the supreme goal of public policy. But radical free-traders never put their main case in those terms. From Adam Smith to Richard Cobden and John Bright to Frédéric Bastiat to Lysander Spooner to Henry George to Herbert Spencer to William Graham Sumner to Benjamin Tucker — and right on through to Ludwig von Mises, Milton Friedman, and Murray Rothbard, free trade was a primarily matter of individual freedom and the peaceful social cooperation it spawns. Dollars don't decide. People do.

Yes, the "system of natural liberty" has the invisible-hand effect of enabling people to get the most value at the lowest cost, but "efficiency" was not to be the goal of government policymaking. (See Rothbard's "The Myth of Efficiency.") Let's not confuse principled free-traders with the technocratic professors who spend their time scribbling equations, drawing curves, and describing one-dimensional "economic man's" pursuit of material wealth. The free-trade *movement*, which coincided with the antiwar movement, aimed to liberate people so they could make better lives. (To see why economics is not essentially about wealth and efficiency, see my "The Ubiquity of Economic Phenomena.")

Earlier Dan writes,

> *Economic nationalists do not accept the blame made by extreme free-traders that any degree of industrial protection must inevitably lead to less national wealth. But so what if it does? If the price of national security and a durable free middle class is a modest reduction in gross domestic product, the economic nationalist is willing to pay it.*

Evidently the economic nationalist is not only willing to pay that price himself; he's also willing to force it on everyone else. What Dan calls "a modest reduction in gross domestic product" may mean a great deal to the poor who struggle to make ends meet, not to mention advance. At any rate, that price isn't required for a durable and growing (upper) middle class (and beyond) or security. It's all cost and no benefit.

An indication of the flaw in Dan’s analysis can be found in this sentence: “For 25 years, free-trade orthodoxy has been a bipartisan consensus among America’s policy elite.” Really? Free-trade rhetoric and a lowering of tariffs (mostly in other countries because U.S tariffs were already low) — yes. But the so-called free-trade consensus has produced government-to-government trade agreements that, while moving tariffs in the right direction, have also included carve-outs for American cronies, such as sugar producers, and imposed rigid freedom-infringing intellectual-property regimes on developing countries. Alas, Dan has allowed himself to be fooled by labels.

Dan’s preference for economic nationalism misses something essential: it is elitism in populist clothing. Politicians, bureaucrats, and their “experts” — that is, an elite — would make life-altering decisions for the rest of us. He mocks free-traders for thinking that the “middle class … must take care of itself.” Who does he think should take care of it? Why, better “leaders in Washington” of course.

“Economic nationalism,” he writes, “requires constant balancing and adjustment if it is to be pursued correctly.” And just who is qualified for that delicate job (and why would the voters recognize him)? Dan ought to reread F. A. Hayek’s Nobel address, “The Pretence of Knowledge.” He should also reacquaint himself with the incentive problems elaborated by James Buchanan, Gordon Tullock, and the public choice school.

“Economic nationalists,” Dan writes, “are intent upon protecting not only certain industries but also a multilayered *free-market* political and economic order that is anchored by a healthy middle class” (emphasis added). Right, and George W. Bush “abandoned free market principles to save the free market system.”

Economic nationalism, obviously, is a kind of nationalism. Thus it’s tribalism, and tribes have a central leadership that demands sacrifice in the name of collective welfare and security. Another nationalist, John F. Kennedy, said, “Ask not what your country can do for you. Ask what you can do for your country.”

“Neither half of the statement,” Milton Friedman wrote in 1962, “expresses a relation between the citizen and his government that is worthy of the ideals of free men in a free society.”

Radical free-traders recognize the glaring category mistake in Kennedy’s admonition: a *country* can neither do things for you nor have things done for it.

What free traders oppose and economic nationalists embrace is the presence of rulers who do things *to* you.