Countries Are Not Companies

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One of the most persistent false beliefs held by American voters is that someone with “business experience” would do a better job “running the economy” than politicians have. Let’s put aside the idea that an economy is something that needs to be, or can be, “run” and explore whether a CEO of a major company as president really would be better for the economy.

Of course we have precisely this situation in front of us as Donald Trump prepares to take the oath of office. There are dozens of theories about why so many voted for Trump, but surely one part of his appeal was that his apparently successful business career made him more qualified to fix the US economy. In his runs at the presidency in the 1990s, Ross Perot had a similar appeal.

The problem is that business experience does not automatically translate into good economic policy.

The world of the CEO appears to be a zero-sum game.

The businessperson’s knowledge is of a very different sort than that of the economist. Being successful in the business world doesn’t require any knowledge of what causes economic growth. Instead, one needs to know much about a particular market, the consumers you might serve, how best to acquire inputs at a profitable price, and how to hire good people to help you produce.

All Trees, No Forest

Historically, many businesspeople have been poor judges of good economic policy. One reason is that their perspective comes from being embedded in the thick of competition rather than being able to see the market process from a bird’s-eye view as an economist attempts to. This is clear in Trump’s emphasis on how America doesn’t “win” anymore and that he’ll negotiate better trade deals that enable “us” to “win.”

From the perspective of a CEO, markets are very much about winning. The goal of economic competition for the participants is certainly to win, at least in the sense of making more profit than others and, ideally, running them out of business. More specifically, the world of the CEO appears to be a zero-sum game: my firm winning means your firm loses.

This also helps explain why Trump cannot seem to see a difference between cronyism or rent-seeking and true market competition. If the goal is to win by profiting, it will not matter whether the profit comes from outdoing the competition or getting government to use eminent domain to reduce your costs or to give you a direct subsidy for your new project. Markets are about winning and winning is about profit, and your win is someone else's loss.

The other aspect of the CEO's perspective is that they are running an organization with a specific purpose: to make profit. The firm is structured to achieve that goal, so the quality of decisions made by the CEO and others is judged by their contributions to the bottom line. Thus, for Trump the CEO, getting a "good deal" is a form of winning. If he can bargain hard with a supplier and reduce his costs, his profits go up and he wins.

International trade is not like a sports event where one "team" wins and the other loses.

We Always Win

Unfortunately, the perspective of the businessperson is not helpful for understanding economies as a whole.

First, the whole justification for market competition is that it is not a zero-sum game. It seems to be zero-sum for those engaged in the actual competition, but for the rest of society, the process whereby some firms profit and others lose is one that benefits all of us over time. Firms that go out of business lose in some sense, but the reallocation of their resources to higher valued uses is a "win" for everyone else.

When we discovered through competition that Borders books no longer had a value-creating business model, that enabled us to stop destroying value and use those resources in new ways that would create value. To the CEO of Borders, this was "losing," but his perspective is not the same as that of the economist judging the social benefits or costs of market competition.

So when Trump talks about how America doesn't win anymore, presumably because other countries have, say, more manufacturing jobs, or because our trade deals have enriched our trading partners, he's speaking from a CEO's perspective, not an economist's.

That China and Mexico have become richer by trading with the US does not mean they have won and we have lost. It means we all have won: they are richer for being able to sell us the things they make most cheaply (as we do for them), and we are richer for being able to acquire those goods at lower prices and have income left over to buy other goods and services and create new jobs in those industries.

Countries are Not Teams

International trade is not like a sports event where one “team” wins and the other loses. Once we stop thinking in terms of countries being like teams and start thinking about the individuals and organizations who are engaging in mutually beneficial trade, we can understand how the CEO’s perspective misses the point.

Moving away from the “country as team” view also enables us to see the problem with Trump’s emphasis on getting “better deals.” The US economy is not an organization with a single purpose as is one of Trump’s firms.

As Hayek reminded us, markets are “means-connected” institutions, while firms are “ends-connected.” What he meant by that is that a market is defined by agreeing to use certain means to pursue whatever ends we desire. We use the rules of property, contract, and exchange to achieve our own individual or organizational ends.

We will not make America great by trying to ensure that we are winning in international trade.

The US economy does not have a specific goal or end or purpose other than to serve as a means for the multitude of projects we are all pursuing.

Inside of a firm (or a sports team), there is a singular end to be pursued: profit (or winning for the team). Most, if not all, of the organization’s activities are aimed at that end, so it can be treated as a unified whole for which winning, getting a better deal, etc all might make sense. The CEO knows “a better deal” because it enhances profits, which is the singular end. That conceptualization isn’t relevant for a means-connected institution like a whole economy.

There are other reasons why we might be suspicious that a CEO is properly equipped to know what constitutes good economic policy. However, in the case of Trump, the problem is clearly that he brings the mentality of someone inside of the competitive process to the activity of trying to understand that process from the outside, which is the task of the economist.

We will not make America great by President Trump cutting better deals or trying to ensure that we are winning in international trade. Treating the spontaneous order of the means-connected economy as if it were the hierarchical constructed order of the ends-connected firm is a recipe for economic disaster.

American consumers have “won” thanks to genuine market competition, including the globalization of the division of labor through international trade. We don’t need a president who will negotiate better deals so that we can beat other countries. We need a president who understands that real competition, both domestically and internationally, is good because it means everyone, whether Chinese, Mexican, or American wins.

Originally published at FEE.org