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Doomsters, Evil I's, and Tunnel-Vision Economics

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Economics is grounded in the proposition that people, individually and collectively, cannot command sufficient productive resources to satisfy unlimited consumption desires. Virtually all scholarship in economics involves explaining how alternative human arrangements direct productive resources among competing consumption objectives.¹

The shortfall between consumption objectives and productive resources means that societies' economic ladders always have higher rungs, but how many rungs the societies climb—their overall living standards—is not arbitrary. It varies *inversely* with the amount of productive resources tied up in providing for each consumption objective. Thus, tying up *fewer* resources—including jobs—in each objective makes *more* rungs attainable. A case of less being more? You bet.²

Evil I's

This simple logic often gets thrown out the window when foreigners enable consumption objectives to be realized with fewer resources. The past few years have witnessed an upsurge of such defenestration. Media and political entrepreneurs have had a field

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1. Religious leaders and philosophers often urge individuals to “forsake materialism” as a way of coping with the basic economic problem.

2. University of California at Irvine economist Richard McKenzie wrote an illustrative op-ed in the *Wall Street Journal* a number of years ago titled “Help the Economy, Destroy Some Jobs.”

day peddling sky-is-falling tales about eroding U.S. living standards caused by imports coming into the country and by immigrants forcing Americans out of “good” jobs into “bad” jobs. It is no overstatement to say that imports and immigrants have been so demonized that *Evil I’s* is now an apt label.³

Some tales cleverly link the Evil I’s to long-held anxieties about new technologies that allegedly eliminate jobs and reduce living standards. For example, software engineers and radiologists in China and India can now sell their services to Americans via the Internet. In other words, the Internet has turned foreign software engineers and radiologists into de facto immigrants who “ship” their services to the United States at virtually zero cost. Foreigners and technology combine to push Americans to lower rungs on their income ladders, or so say the doomsters.⁴

Doomsters have an easy sell to those who see the marketplace in adversarial terms, as a place where people vie for a fixed economic pie. What could be more obvious, they say, than the fact that foreigners’ gains and Americans’ losses are two sides of the same coin? Ostensibly in-depth media coverage promotes this vision. Scenes of shuttered U.S. factories are commonly juxtaposed with scenes of foreign factories at peak production. The clear implication is that foreign sellers gain what their American competitors lose.

I readily admit that this notion has an attractive simplicity. Both propositions—foreigners gain by selling in the United States, even at bargain-basement prices, and these same prices undermine American competitors—are true. Foreigners do not sell unless they gain by doing so, and new competition always has adverse effects on established producers.

Money Trails

Notwithstanding these undeniable truths, it is a mistake to suggest that a “money trail” leads from American producers to foreign producers, or that foreigners cut themselves a piece of the U.S. economic pie that otherwise would have gone to Americans. The only money trail foreigners initiate leads from American producers to American consumers.

To see the matter more clearly, suppose foreigners start to sell computer software to Americans at a bargain-basement price. Per unit of software, the foreigners’ gains equal that price less their costs. Foreigners’ costs correspond to what they would have earned had they *not* sold software to Americans. Costs always represent the value of sacrificed alternatives. For example, foreigners might have sold software

3. That the United States is a “nation of immigrants” must give pause to some. Asking people to specify when immigrants began to undermine the U.S. economy frequently provokes answers laced with racial or ethnic animus. One of my close relatives told me that immigrants went “bad” after “our” people arrived.

4. Mainstream economists would label this use of the Internet a transportation innovation (like the wheel) that makes the world smaller. Doomsters tend to see the latest examples of such activities as “different” and hence a threat. Their high-sounding mantra is that “new problems require new paradigms.”

to people in other countries, including their own, or they might have produced and sold something else. In any event, foreigners' costs are beyond Americans' reach. The Americans' involvement in the foreigners' gains is limited to that bargain-basement price—not to the difference between the old and new prices, mind you, but only to the price paid to the foreigners.

This observation in no way denies that the lower price of software causes U.S. software producers' woes. Those with alternatives that are superior to meeting the foreign price lose, but they lose *less* per unit of software than the drop in price. The availability of alternatives cushions but does not eliminate economic adversity. Those lacking such alternatives lose the full amount of the price drop. Note that those who leave the industry lose *less* per unit of software than those who stay. Nevertheless, pundits always seem to rue the fate of leavers more than that of the stayers.

What happens to these losses? As tempting as it might be to think that they end up in foreigners' pockets, the chief beneficiaries are necessarily those who formerly paid a higher price—that is, American software buyers. Alternatively, Americans who were initially producing something other than software *and also buying software* experience an increase in the purchasing power of their money incomes. Such jobs, however “good” they were to begin with, become “better.” The notion that the declining fortunes of American software producers, both those leaving and those staying in the industry, is a microcosm of the rest of the economy is bogus.

A Bigger Economic Pie

The bargain-basement price of foreign software does more than reslice the pie, however. It makes the pie bigger! This bigger-pie argument is best understood by first examining software's contribution to the U.S. economic pie *prior* to the foreigners' entry into the U.S. market.

If the United States were self-sufficient in software, software's contribution to national living standards would equal its consumption value less what its producers could earn in their most lucrative alternative employments. In accounting terms, software's consumption value is a credit entry in the living-standard ledger, and forgone production is a debit entry. The difference between the entries is the increment to living standards attributable to software production. Jobs and the income they generate are not the benefit of economic activity. Rather, they are by-products of the process that generates *net* consumption value.⁵

Opening the United States to low-priced foreign software increases overall American living standards for two reasons. One involves the software formerly produced by the now-displaced U.S. software workers—that is, those Americans

5. The software's *net* consumption value accrues to its buyers and sellers. Buyers receive the difference between the software's *gross* consumption value and what buyers spend. Sellers receive the difference between what buyers spend and what sellers would earn in their forgone employment alternatives.

with options superior to matching the foreign price. The displaced software producers' employment alternatives tell us what Americans in general had to forgo when these Americans in particular produced software.

That it now costs less to obtain this same software from foreigners means that its consumption value can be met with a smaller debit entry in the living-standard ledger. In other words, substituting cheap foreign software for more expensive American software means that Americans can have more of other things along with this software. Sacrificing less to achieve given objectives is how individuals and nations climb their economic ladders. Is it a free lunch? No, just bigger helpings.

The second reason overall living standards increase is that the decline in software prices converts some potential uses of software from uneconomic to economic. Some uses whose consumption value did not justify paying the high price become worthwhile when the price falls. Hence, Americans buy more software. So not only do Americans satisfy existing uses of software at a smaller sacrifice, but *more* uses become advantageous for buyers. In other words, software buyers get a *larger* piece from a *larger* pie, and domestic software producers get a *smaller* piece from that same *larger* pie.⁶

Tunnel-Vision Economics

Is the doomsters' demonization of imports and immigrants surprising? No. If you exclude Americans who get a larger piece of pie, and, more important, if you ignore the greater size of the pie itself, you reach that gloomy conclusion. Unfortunately, the best that can be said for doomsters' media and political opponents is that they offer up "light" versions of this tunnel-vision economics.

Indeed, one group of opponents begins by accepting the doomsters' claim that imports and immigrants harm the economy. The more important question, they say, is whether the losses are significant when measured against a large economy such as the U.S. economy. Concluding that the losses pale to insignificance when viewed through this macroeconomic lens, these opponents argue that imports and immigrants are a minor economic irritant, certainly unworthy of an *Evil I's* label.

But economic quackery, regardless of its measuring rod, is still quackery. In truth, imports and immigrants *increase* the size of the nation's economic pie. Whether the *positive* increment to the pie is large or small, relatively or absolutely, is a serious issue, but one about which both the doomsters and their opponents are clueless.⁷

6. Some doomsters assert that economists have a "rising tide lifts all ships" perspective on immigrants and imports—namely, that *all* Americans gain from the influx of imports and immigrants. The assertion is unfounded, though; not one of the many international economics and economic-principles textbooks on my shelves makes this argument.

7. Even if we ignore this cluelessness, these opponents' position is a sure loser in the public arena. In a debate charged with nationalistic and ethnic fervor, countenancing the looting of the American economy by foreigners because their booty is within "manageable proportions" cedes the debate's higher ground to the doomsters before debate begins.

A second group of opponents imagines that other ways of counting jobs rebuts the doomsters' claims. For example, the increase in U.S. employment by approximately 17 million persons in the ten years following the ratification of the North American Free Trade Agreement (NAFTA) blows a hole in the doomsters' claims, say these critics. Economic interaction with foreigners must be beneficial if employment can increase so much when trade restrictions lessen, they emphasize.

The accuracy of various job counts is economically meaningless, however. As noted at the outset, all societies have more jobs for people to do than people to do them. So what if more people are employed after NAFTA as compared to before? Availability of things to do is not at issue. These critics of the doomsters manage to say that imports and immigrants are beneficial, but they are as clueless about economic fundamentals as the doomsters and their other critics.

Final Comment

An interesting experiment would be to examine the extent to which doomsters apply their analysis of the national household to their personal households. After all, homeowners continually face the implications of the scarcity of productive resources. As any homeowner can tell you, there are always more chores to do around the house than time and other resources to do them.

When a doomster's roof leaks, for example, does he shun the services of the roofer who can repair the roof for less than it would cost the doomster to fix the roof himself? Note that hiring a roofer means the doomster will "lose a job." I would bet the doomster hires the roofer anyway. That "lost job" is a positive for the doomster, not a negative. In fact, the cost differential measures how much better off the doomster is by contracting with the roofer. Why is the situation any different for the national household when foreign software is cheaper?

Likewise, would a doomster with a leaking roof welcome additions to his to-do list of chores because more chores mean "more jobs"? Suppose the refrigerator breaks down soon after the roof starts leaking. "More jobs," even valuable ones such as making a refrigerator operate properly, represent hurdles between the doomsters and their having homes that are more livable and aesthetically pleasing. Fewer, not more, hurdles make for a more enjoyable home. National households are no different. As Adam Smith famously observed in *The Wealth of Nations*, that which "is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom."