# MANKIW'S PRINCIPLES OF ECONOMICS PART 5: TRADE CAN MAKE EVERYONE BETTER OFF

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Mankiw's fifth principle is: Trade Can Make Everyone Better Off. He says that that my family competes with other families for jobs, and when we shop, we compete with others to find the best prices. But if we cut ourselves off from the market, we would have to grow our own food, make our own clothes, and build our own houses. "Trade allows each person to specialize at what he or she does best, whether it's farming, sewing, or home building." In the same way, nations can specialize in what they do best. In both cases, people get a wider range of choices at lower prices.

It's obvious that there are too many humans for us to exist on this planet without the kind of trade Mankiw is talking about. There isn't enough arable land to support the huge number of tiny farms we would need to set this up, even if we wanted to, and I don't think that's what people want. And the way Mankiw explains it, it all seems so natural, probably because we've been hearing it all our lives. Everyone knows people like to trade for things. Our most ancient ancestors traveled to trade goods, and to party and marry across groups. Codification of this idea goes back at least as far as Adam Smith.

> It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy…What is prudence in the

> conduct of every private family, can scarce be folly in that of a great kingdom.
> The Wealth Of Nations, Book IV Chapter II, pp. 456-7, paras. 11-12.

As long as you have lots of money and better things to do, that makes sense. If you have spare time and the means, why not grow your own food and make your own cloth, and save your money for things you can't make? I assume that was the case for many Britons of Smith's day. As a maxim, I assume it has much older roots. It's easy to see why people who live in Whitby, England are specialists in making jet jewelry: the jet there is perhaps the finest in the world, and people have been working it into jewelry for centuries. In the same way, it's easy to understand that a small town in 18th C. England is better off with a professional blacksmith than with a forge in every home.

People in India have been making beautiful cotton textiles for centuries, as I learned from *Empire of Cotton* by Sven Beckert. Those textiles were shipped around the world for most of recorded history, until what Beckert calls War Capitalism began to take control of it in the 17th Century. For a very brief discussion of the role of cotton in Gandhi's India, see this.

What we now know is that owners of capital decide where investments are made. With low transportation costs globally, capitalists are able to locate businesses anywhere. The point is that when specialization reaches a certain level, the role of the craftsman comes to a bitter end, replaced by selling fast food or tending children. This is precisely what happened with cotton. Rich merchants stopped importing finished goods, and stopped using independent weavers in distant parts of the world, and built plants with capital intensive machines in Northern England. The price of cotton textiles went down, but millions of India's workers lost their incomes, and millions of Africans were sold into slavery to raise cheap cotton for shipment to England. Trade didn't make them better off.

Of course, it happens all the time. One excellent example is aircraft manufacture. Boeing's principle resource was once its amazing workers, especially its engineers and assembly line workers in northwestern Washington. But its executives wanted the big bucks, so when it came time to build the Dreamliner, they broke that system to replace those skilled workers with cheaper unskilled labor all around the world, and increased their own salaries. Then the entire system broke down. Here's a timeline of the known failures of the Dreamliner. Currently, Boeing estimates it is losing $23.2 million on each sold aircraft. Much of this can be blamed on stupid management decisions about production. Boeing CEO James McInerny got about $29 million in 2014 compensation, and the chief of commercial aircraft, Ray Connor, got $16 million. This is payment for abject failure. I guess they benefited from trade.

Maybe that's why Mankiw's fifth principle is couched in such weak language. Here's a better statement: trade can make some people better off, especially if we ignore all the people it makes worse off.

We also see how beautifully this principle supports Mirowski's Eighth Commandment of Neoliberalism: Thou Shalt Keep Thy Cronyism Cosmopolitan, which teaches the importance of free flows of capital. The capital needed to make aircraft and textiles can be sent wherever labor is cheapest, including South Carolina. That's neoliberal freedom. You will recall that most of the British assault on India was led by the East India Trading Company, an early corporation. These stories tell us that Mankiw's fifth principle works well with Mirowski's Tenth Commandment: Thou Shalt Not Blame Monopolies and Corporations. They are simply not responsible for any of the misery their trade policies hurt. And finally, see how Smith's maxim works with the average person's understanding of economics, that what is good for the household is good for the nation.