

## *(What's Left of) Our Economy: Free Trade Claims that Deserve Some Lumps*

All knowledgeable students of economics know that a big reason for rejecting most critiques of U.S. trade policy is their allegedly heavy reliance (explicitly or not) on the “lump of labor fallacy.”

As explained by economics Nobel-ist and *New York Times* columnist Paul Krugman, the fallacy holds that “there is a fixed amount of work to be done in the world, so any increase in the amount each worker can produce reduces the number of available jobs.” And it’s especially pernicious, Krugman explained, because it “feeds protectionism. If the public no longer believes that the economy can create new jobs, it will demand that we protect old jobs from new competitors in China and elsewhere.”

So it was interesting, to say the least, to see a leading economist this week make clear that this fallacy isn’t so fallacious, and that its existence strengthens the case for U.S. policies that depart from the free trade norm. Even more interesting: His name is Paul Krugman.

As explained by Krugman, Americans are living in a barely growing world that’s “awash with excess savings and inadequate demand, where interest rates can’t fall (or at any rate not much) because they’re already near zero. That is, we’re in a liquidity trap.”

In that world, Krugman continues, “it’s true both that trade deficits do indeed cost jobs and that there are basically no benefits to capital inflows — we already have more desired savings than we are managing to invest. “

And the clincher: In such a currently stagnant world, “and maybe for a long time to come, if secular stagnation theorists are right — mercantilism makes a fair bit of sense.”

To be sure, current U.S. trade policies have created major problems even when the world was less “lump-ish.” As I’ve pointed out, the rebound in the portion of the American trade deficit most strongly affected by trade deals and similar decisions has greatly slowed growth in this already weak recovery. Moreover, evidence is abundant that the immense global imbalances fueled by decades of poorly negotiated trade agreements helped set the stage for the last financial crisis.

And even when global and/or U.S. growth is adequate, ill-considered trade liberalization can still create win-lose results for American workers by eliminating more growth (and therefore employment) opportunities than they create.

But none of this reduces the importance of Krugman’s post. As a result, unless trade enthusiasts can credibly explain why American or global growth is going to pick up significantly any time soon, they’ll deserve to take major lumps whenever they belittle lump-of-labor-related trade policy critiques.