Trade and why it makes us uncomfortable: Addressing some common concerns in embracing free trade

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According to a poll conducted by the Pew Research Center in April of 2009, only 44% of Americans openly support free trade. What about the other 56%? In this paper, I explore sociological reasons for why people are hesitant to embrace free trade. Why do people have such perceptions of the costs of free trade?

1. INTRODUCTION

I grew up in a household where my father was very interested in politics and economics; my brother followed in his footsteps and is now pursuing a Ph.D. in economics. My whole life I was told that everyone unquestionably benefits from voluntary trade and that trade can be viewed as one of the primary ways by which people increase their happiness. It might sound strange to view trade as such a central component of the economy, but I think of free trade as simply any voluntary, peaceful agreement between two or more entities. In this sense, almost any social interaction is a trade. When I get together with my friends, I am trading the enjoyment of my company in exchange for the enjoyment of their company. When I travel to a new country, I am trading with individuals in the country I am visiting; I trade my money for the ability to see their country, to eat there, to stay overnight there, etc.

Since I grew up learning about the mutually beneficial nature of trade, I was surprised when I came to college only to discover that many of my peers think about trade differently. They view trade as a direct exchange of goods and services, where money is almost always involved. There are significant barriers to their acceptance of free trade, and these barriers span many different categories. Some believe that these barriers ought to intervene in sovereign choices; many think that we ought to give preferential treatment to trading with developing countries and that we must make sure this trade occurs at a fair price. Some think that we ought to look out first for our fellow Americans before trading with people in other countries. Several others believe that voluntary trade can be coercive, especially if one party benefits more than another party. The people of this school of thought simply have too narrow a definition of trade, and don’t realize that almost anything involving more than one person is a trade.

Having grown up learning the benefits of free trade from my family and from my economics classes, I became strongly interested in reading about what the “other side” has to say. I had never researched arguments for protectionism, buy-local, or any of the other movements I will discuss; I think that studying these ideas can help me solidify my own ideas about trade. Regardless of whether or not I agree with the barriers people have in accepting trade, it is obvious that trade is too costly for some people. For this reason, I will attempt to approach my analysis of this topic in an objective way and make as factual and accurate a cost benefit assessment as possible. Preferences can often be meddlesome and not essential to economic analysis, so a proper treatment and understanding of these preferences could prove enlightening. I will attempt to determine how consistent people are in these preferences, and evaluate whether or not we should do anything about it.

My aim is to explore how people think, or where people draw the line on free trade. By approaching this question from a sociological and psychological standpoint, I will be able to evaluate whether or not these behaviors can be viewed as “rational” from an economic standpoint. I think a lot of the problems people have with trade boil down to a perception of impersonality. People do not know much about who is involved in the process of consuming and producing goods. This can be a source of discomfort for many people. There are a few reasons for this discomfort that I would like to explore, ranging from concerns over the ethicality of the way their goods are produced to the aversion to, or misunderstanding of, other races and cultures.

Another issue people might have with trade is that few people are producing goods for self-consumption. Some argue that if the people who produce goods do not consume them, then the producers might have less of an incentive to make the best product possible and would instead opt for the cheapest production possible.

Another cause of discomfort about trade is that, since the production of one good involves the input of many different people, no one in the end knows how to make the good in its entirety. People are fearful of the dependence that trade creates;
they tend to value production that aims at self-reliance. They also do not realize that this dependence on one another, and even that trade itself, is not necessarily a bad thing. It is human nature to trade; there is no danger of it collapsing beneath our feet.

Lastly, people might not even realize what the scope of free trade is. After all, is not any social interaction a form of trade? Thinking of trade only in terms of money, or the direct exchange of goods and services, might color our perception of trade in a biased way.

I will discuss some popular trade movements in a targeted way. The reasons I give for why people subscribe to these movements are tailored to the subject of my paper, and I recognize that there are reasons for why people participate in these movements for which I cannot comment on.

2. HOW HAS TRADE EVOLVED? ARE ETHICS IMPORTANT IN TRADE?

“Commerce is the name for free, mutual, and voluntary exchange among peoples. It is the normal activity by which interdependence is realized and the common good for all served. It is an activity typically more unifying than politics, nationalist, religion, or conquest. Its nature is social, as is its function, and as are the virtues it inculcates.” – Michael Novak, 1989

In The Rational Optimist, Matt Ridley takes the reader through a survey of human history and shows how trade has always been at the center of its progress. He explains that progress is the direct result of exchange and specialization, and everybody working for the common good. He argues that the resulting codependence is beautiful, amazing, and a source of hope, not despair. Ridley manages to invert the feelings most people have about capitalism and modernism from lamentation to praise.

In The Bourgeois Virtues, Deidre McCloskey explains how lives centered on trade do not have to be devoid of ethics. McCloskey argues that you can be virtuous and supportive of trade, and that markets can actually improve ethics while also making us richer. She argues that the “greediness” people associate with capitalism is not the result of a recent change for the worse in manufacturing, but that humans have always felt the need to be greedy. This desire is even mentioned as early as 29 BCE in The Aeneid. These historical examples demonstrate that we can concurrently be “commercial” and virtuous. McCloskey lists seven commonly cited Western virtues. She shows how the market inculcates people with every single one of these virtues. Take justice, for example. “A third [virtue] is the Justice to insist on private property honestly acquired. But it is also the justice to pay willingly for good work, to honor labor, to break down privilege, to value people for what they can do rather than for who they are, to view success without envy, making capitalism work since 1776.”

Ridley and McCloskey demonstrate that trade is nothing new to humans, and the way that people associate consumerism entirely with modernism is misguided. Any discomfort that people feel about trade today must have been felt before throughout the ages. The authors also explain how the constant growth of trade is actually a great thing, and does not abandon the virtues we value. Yet people feel that the market does not instill these virtues. So what is the source of this discomfort?

3. THE IMPERSONAL NATURE OF TRADE

3.1 Evolution of Impersonality in Trade

Trade has changed dramatically over time. Centuries ago, two people would simply get together and trade spices for fabrics. As societies developed, people started using goods with inherent value (i.e. precious metals like gold) to trade with one another. Using money to purchase goods and services takes away the requirement of trading one final good or service for another. In this case, gold serves to extend the number of parties involved in and benefitted by the trade. It also allows two people to trade without directly swapping the goods they desire. The necessary downside of evolving to our system of modern money is that this trading process becomes ever more impersonal.

3.2 How has the Introduction of Modern Money Affected This Impersonality?

In “Money is Always Personal and Impersonal,” anthropologist Keith Hart explains how many feel that money, and consequently the trading that takes place with this money, “stands for alienation, detachment, impersonal society, the outside,” and that its “origins lie beyond our control.” It is important to note this can be true of any good that is used as a medium of exchange, whether it is gold or salt. Karl Marx popularized this sentiment through his ideas about the “cash nexus” and the dehumanization of money. Hart goes on to hypothesize that peoples’ desire to return to more personal methods of exchange evolve out of their inherent need to exercise more control over their own lives.

Hart concludes that money is both personal and impersonal. On the one hand, money can be viewed as very personal since it has a way of “connecting” two people or groups who would never have previously known one another. It decreases our self-reliance, which naturally makes us more communal. Additionally, money and other mediums of exchange allow us to disregard information about the previous behavior of the person(s) with whom we are trading. We do not have to know anything about who they are or where they come from; all we need to know is the price for the good or service in question.

In “The Coordination Value of Monetary Exchange,” Gabriele Camera and Marco Casari set forth a very different theory. They model impersonal exchange in a large-scale economy using only four players. All the players remain anonymous, and they only exchange information directly related to the trade they are trying to make. Two players are matched up and subjects can either give or receive a good (only one player in the set is given a good). Camera and Casari design the model so that the player without the good values the good more than the player with the good. Therefore, making a series of inter-temporal trades is the only way to maximize efficiency and utility for the community. Once a trade is made, each player is immediately re-matched with another player.

Camera and Casari conclude that even in a four-person economy with indefinite interaction, it is impossible to reach efficiency without allowing for relational contracts and direct reciprocity. This means people in the model do not end up at the optimal level of trading because they are not allowed to make
contracts based on trust (i.e. if you give me the good now, I will give up the good in my next trade), and they are not allowed to give explicit agreement to favor cooperation in all future trades (i.e. they were not allowed to confer to determine the ‘optimal’ level of cooperation). People are of course unlikely to give up the good they have to give to an anonymous player without having any sense that the player would ever return the favor. Once tickets (with no inherent value) are introduced into the system, players were more compelled to intertemporally give and receive goods. Essentially, the tickets allow for people to give out IOU’s without their trading partner having to trust, in the most personal sense of the word, that they would pay them back. Instead of players A and B directly exchanging goods, player A could give player B an IOU in the form of a ticket, and player B could cash in his IOU by trading his ticket with player C. In this case, money clearly facilitates cooperation by allowing for contracts in which each player who agrees to cooperate and give up the good he or she owns is assured she could get the good back at a later trade if she chose to.

The model shows the relationship between money and impersonality in an entirely new way—money might not cause alienation and detachment, but rather it can facilitate cooperation in a society that is already large and impersonal. Modern money helps us to maximize utility in such a society. Additionally, the introduction of the tickets dramatically increased the probability that an exchange would occur. Since trust plays such an important role in making contracts, the players were inclined to support this system of tickets because it simulates the phenomenon of trust. They greatly lowered transaction costs and allowed the simulated society to reach its maximum level of utility. In this case, the tickets allowed the participants to feel an increased trust in their trading partner—people knew they would receive a ticket if they cooperated.

### 3.3 People Think of Modern-Day Trade as Impersonal. How Dramatically Do People Change Their Behavior to Avoid This Impersonality?

**3.3.1 Buying Local**

Buying locally produced goods can be viewed as a way for people to take trade to a more personal level. By examining how likely people are to prefer locally produced goods, and by noting the price increases they are willing to incur to buy local goods, we could shed light on how averse people are to buying goods from unknown origins. According to a March 2009 article from Adweek, “Buying local” remains more a niche phenomenon than a mass movement, according to a Mintel report released this month, based on November polling. Just 17 percent of the respondents said they buy local products and services “as often as possible.” Thirty percent are “aspirational locals”—people who say they’d like to buy local goods but don’t know where to find them. Fruits and vegetables are the categories in which respondents make local purchases most often.

According to a 2006 article from the Journal of Food Distribution and Research, “Concern about the cost of food significantly decreases the probability of buying local.” Chowhound, a popular online food discussion board, shows that non-locally produced blueberries cost an average of $2.25 for a small container while a similarly sized package of blueberries from a local farm costs around $3.50. Since locally grown food tends to cost more than food from distant lands, consumers tend to avoid these products.

Yet this movement has garnered a lot of support despite higher prices. In “Lowdown on Buying Local,” Desmond O’Rourke cites a study done by Dawn Thilmany, a prominent agriculture and resource economist, on consumers’ willingness to pay for locally grown foods. She found the average consumer was willing to pay a seemingly large 38.6% premium for a melon that was advertised as locally grown and produced.

The Long Island Farm Bureau states the “Safe & Abundant Food and Plant Supply” is the number one reason to buy local goods. They claim, “When you buy local, you know where your food comes from! You also know that strict regulations and policies are put into place to keep your food safe for you and your family.” Based on the data, it seems that regardless of whether or not these claims about buying local are true or consistent, people do act on the impulse to buy local.

On the one hand, I could see how buying local is a rational behavior since people tend to trust and trade with people from their own communities more than outsiders. However, as we explored above, requiring too much trust could result in too few trades. The market has a way of simulating trust where it might not naturally exist. Supermarket rankings are readily available, and rating and reviews sections on supermarket websites are increasing in popularity.

**3.3.2 Protectionism and Xenophobia**

I would like to start this section on protectionism with a discussion about what it means to be a protectionist or a xenophobe. Since foreign workers would be prevented from working for United States employers, United States workers should then be prevented from working for foreign employers. Should foreign businesses be prevented from investing in and working with American businesses? In "More Sex is Safer Sex", Steven Landsburg tackles what for him is the morally compelling issue regarding protectionism—that protectionism is racism. He writes, “Politicians demanded tax incentives to reward firms for hiring whites instead of blacks. Those same politicians endorsed ‘Right to Know’ legislation, to alert consumers when products were produced by the ‘wrong kind of workers.’ They embraced slogans like ‘Buy White.’” Typically the debate around protectionism has nothing to do with this moral issue, but rather with problems that people have with globalization and their perceptions about how foreigners affect the American economy.

Some people are averse to the impersonality that accompanies globalization. As regional economies started to get larger and more developed, and as technological growth started to boom, smaller economies began integrating and forming larger global economies. In "Globalization and Backlash: Polanyi's Revenge,” Brian Burgoon claims that “globalization might well spark demands for national autonomy—not only economic protection, but also broader xenophobia and anti-democratic nationalist traditionalism.” This is not a new phenomenon. Since globalization conjures up such negative feelings in some people, it is worth exploring some reasons why this might be the case.
One reason people might fear globalization is that they are worried foreign goods might not be as safe as goods produced in the United States. In "Total Recall on Chinese Imports: Pursuing an End to Unsafe Health and Safety Standards Through Article XX of GATT," Elvira Cortez calls attention to the imposition of all out bans on Chinese imports, particularly toys, after the recalls of 2007. Cortez mentions how after the recalls, people began to "raise questions as to the safety of all Chinese-made toys and to stress the need for China to improve its health and safety standards so that it does not risk becoming subject to harsh counter measurements from the United States." While this might not look like an outright manifestation of xenophobia since it is a matter of simply buying safe goods regardless of origin, people tend to pay more attention to recalls of foreign goods than to recalls of U.S. produced goods. Looking briefly at the website for the US Consumer Product Safety Commission, there were over 45 recalls in March 2011 alone, yet the public is not alarmed by this. According to a poll conducted by The Gallup Organization, 94% of people polled said they would prefer to buy food grown in the United States than food grown in China, even if the U.S. grown food costs twice as much. Eighty-two percent of those polled had similar feelings about toys produced in the United States.

Some are uncomfortable buying goods from certain countries because they have negative perceptions of their government or people. We placed trade embargos on Cuba in the 1960s because many disagreed with their Communist government. Obtaining oil from the Middle East is an often-contested practice because of social and religious practices specific to those countries. Another often protested source of goods are countries like India, which are known to use child labor. When people do not know about the political and social climate that their goods were created in, they are often hesitant to readily buy these goods and openly support trade.

The main issue that most people have with foreign goods is that when they are produced out of this country, they are less able to exercise control over the methods of production. Many feel that goods produced in the United States are safer and produced more ethically than goods from other nations, so they have a preference for American goods. This may or may not be a correct assumption; regardless, people do not know much about the climate that American goods are created in so it is inconsistent to have a blind preference for American goods. Generally, people tend to overestimate how much we spend on foreign goods.

Many people fear the thought of goods produced in other countries, and they overestimate the extent to which we even import these goods, causing United States politicians to rally for a substantial amount of protectionist legislation. We have tariffs, import quotas, anti-dumping legislation, and subsidies directly given to American companies to help them compete with foreign businesses. All of this protectionist legislation is driven by the influence of American producers. When an American company feels threatened by a foreign company selling substitute goods, it is in their interest to use their votes and wallets as leverage against politicians. According to an article from the BBC, Michigan has given Ford millions of dollars in subsidies over the years. In 2007 alone, the state gave Ford over $300,000,000. National tariffs on foreign cars are around 2.5% and are hovering around 25% on pick-up trucks. When John Kerry ran for president in 2004, he was applauded for wanting to alter the tax code so that companies had less of an incentive to set up shop abroad. Our current administration is no stranger to protectionist policies. Just a couple of years ago, President Obama placed a 35% tariff on low cost tires from China. The effects of this tariff have been significant. Since the tariff made Chinese tires so expensive, American tire companies were able to increase the price of their own tires dramatically and still beat out their Chinese competitors. "Goodyear, for example, raised prices by 6 percent starting in December. The company said the price rise was to cover an increased cost of raw materials. Bridgestone Americas Tire Operations notified its dealers in October of a price increase of up to 15 percent on certain passenger and light truck tire patterns because of the tariff, according to a written statement provided by Don Darden, a Nashville-based spokesman for the tire manufacturer." The pervasiveness of all of these protectionist policies demonstrates how much support they receive from Americans.

While support for these protectionist policies could come from more than a fear of foreigners, xenophobia no doubt plays a role. We are one of the most diverse countries in the world, yet this “us” versus “them” mentality remains as an omnipresent force. The effect of American producers on facilitating this sentiment is clear; their attempts to influence the public to support protectionist legislation certainly serve to “fan the fear flames.” We naturally fear what is different from us as well as what we do not understand; producers take advantage of and cater to this fear.

3.3.3 Preferences for Smaller Trading Circles

In "Personal Versus Impersonal Trade: The Size of Trading Groups and Contract Law," Robert Cooter and Janet Landa set forth a theory about the way the size of trading parties affects willingness to enter into contracts and the number of contracts that will result from various sized groups. As the size of the trading groups increases, so does the diversity of possible trades. People are more willing to enter into contracts if there are more options available. As the number of possible contracts increases, the probability that an “ideal” contract will arise also increases. Yet as the groups expand, personal ties between group members become more and more estranged. This compels people to make their contracts more formal, so their contracts are more likely to be enforced. Without trust, people would feel more pressured to make the stipulations of their contract more precise and to have the agreement about the trade written down officially. Formalizing contracts increases the price of making these contracts, so the number of contracts made would predictably decrease. There is a tradeoff between the increase in number of contracts from diversity and the decrease in number of contracts resulting from the increased cost to making more formal contracts.

We shall define group size as the number of members of a community that trade with one another. Cooter and Landa argue that when a representative individual makes a private profit-maximizing decision, he will choose a group size that is too small. His mistrust of other people and resulting increase in
price is too high from a societal standpoint. Additionally, people should not be given free entry into one's trading group since then, "new entrants treat the pool of trust as a free resource" and do not give enough value to trust in making contracts. This implies that there exists a price greater than zero for admission into a trading society that balances the cost of less trust and the benefit of diversity. This price can be thought of as the correct level of "credentials" necessary to be a worthy trading partner; this can range from having a personal relationship with the person you are trading with to having conclusive evidence that you will be able to hold up your end of the bargain.

So what does this mean? Perhaps people are too skeptical of the impersonal nature of trade. People tend to be too mistrustful of others to maintain an optimal level of trade. Conversely, people could just as easily overestimate the level of trustworthiness of others they know. These ideas that Cooter and Landa discuss in their paper could be extended to trade between various group sizes. Many might think that an individual trading with a large group, say a worker trying to formalize his working contract with his employers, should be mistrusting of the contract and worried of coercion. Assuming that the employers act in a generally trustworthy way, social utility might be higher if we learn to extend this trust when trust is due.

4. UNFAIR TRADE

The fair trade movement has grown dramatically in the past decade. In 1998, UK residents spent about 17m pounds on goods carrying the Fairtrade label; this number spiked to 712.6m pounds in 2008. The same article claims that "ethical consumption" is a growing market. It conjectures that the wealthier we become, the more we are able to care about the nature of our consumption and the more we can choose to consume more ethically. The author recognizes that the higher prices of these goods still have an effect on how prolifically they are bought, but he concludes that most consumers do have a commitment to "being good."

How did this desire to "be good" play out statistically? In "Do Ethical Consumers Care About Price? A Revealed Preference Analysis of Fair Trade Coffee Purchases," the authors rigorously explore how much "ethical consumers" respond to price by calculating their willingness to pay for goods labeled as fair trade, specifically for coffee. The authors set up an econometric model to determine how responsive consumers are to changes in the price of fair trade coffee. They use medium roast and dark coffee as controls. They found that the decision to buy fair trade coffee was not as price sensitive as the decision to buy either medium or dark roast coffees. While price and consumption of fair trade coffee were negatively correlated, they were not nearly as negatively correlated as the other varieties. These results were statistically significant. The price elasticity for the demand of fair trade coffee was -0.4217, which is classified as moderately inelastic. At -1.5582, the price elasticity for the demand for other varieties of Columbian coffee was much more elastic.

In “Knowledge Map of the Virtual Economy,” Drs. Lehdonvirta and Ernkvist explain how out of $70 million in gross revenues from coffee sales, only $5.5 go to developing nations. These numbers demonstrate that the economic value of coffee production is not in these developing nations, and distorting supply and demand to make it seem like that is the case is only more harmful in the long run.

Many are skeptical about engaging in trade that they think is generally unfair. Why should someone from Africa get paid 1 cent to do work that Americans are paid 10 dollars for? What about when one party seems to benefit much more from a trade than the other party does? Even if everyone is in agreement that both parties entered into the trade without being coerced, it still makes some people uncomfortable. This could be due to a misunderstanding about the nature of trade. Without understanding how trade works or how it benefits everyone involved, it is easy to think that certain parties are getting coerced, but people have to remember that trade is not a zero-sum game.

I think it is important to conclude this section with an economic analysis of fair trade. The idea behind the fair trade movement is that farmers would be guaranteed a higher price for coffee than they are currently getting. This would establish a price floor, which would cause supply to exceed demand. The farmers would naturally over produce, and middlemen would need to arise to siphon out the extra demand. At the same time, observable prices for fair trade coffee would increase, causing an even greater increase in supply. This would cause great distortion in the market, and the creation of 'deadweight loss' by inserting the middlemen. The problem with all of this is that a reason why people think coffee prices are too low is because there is so much excess supply, and a price floor makes this problem even worse.

5. FEW PRODUCE GOODS THEY ACTUALLY USE OR KNOW HOW TO MAKE ENTIRELY

"Here is an astounding fact: Neither the worker in the oil field nor the chemist nor the digger of graphite or clay nor any who makes or makes the ships or trains or trucks nor the one who runs the machine that does the knotting on my bit of metal nor the president of the company performs his singular task because he wants me [a pencil]. Each one wants me less, perhaps, than does a child in the first grade. Indeed, there are among this vast multitude who never saw a pencil nor would they know how to use one. Their motivation is other than mine. Perhaps it is something like this: Each of these millions sees that he can thus exchange his tiny know-how for the goods and services he needs or wants. I may or may not be among these items." — Leonard Read, “I, Pencil”

Who knew the story of a simple pencil could shed so much light on the miraculous nature of trade? It is mind-boggling for people to think of the amount of work and specialization required to make even the most simple of objects. It seems that people think of motivation as too directly related to the cause and effect. If I put it in a certain amount of work in order to do something, it is because I want to reap some direct reward from that work. I am motivated to take out the garbage because I don't want to smell rot. Trade and specialization work in such a different way that it is hard to reconcile these distinct types of motivation. Motivation to work comes from the desire to use the rewards of your labor to purchase other goods and services that you desire. The haziness of this cause and effect relationship has
become ever more complicated by the introduction of money and increased specialization of our society; in order for people to fully understand where their ability to purchase a good at the supermarket came from, they would have to understand how their money came into their hands and all of the jobs of all of the different people that have contributed to the production of that good—and that’s just a start. Certainly no single mind could understand all of this, so it is a reasonable source of discomfort.

This sense of discomfort could relate to why people feel that fair trade coffee is more ethical—they do not understand why African farmers are paid 1 cent for the same work American farmers earn $10 for. Wage is not a “choice”; it is a direct function of marginal product of labor.

6. TRADE MUST NEED A MASTER DESIGNER TO BE SO GREAT… RIGHT?

One of the main reasons people feel unsettled about trade is that they don’t understand how a system of trading could evolve. Without knowledge about how prices allocate goods, it is easy to understand where this confusion comes from. Frederick Hayek addresses this in “The Trend of Economic Thinking” stating, “we still refuse to recognize that the spontaneous interplay of the actions of individuals may produce something which is not the deliberate object of their actions but an organism in which every part performs a necessary function for the continuance of the whole.” It is counterintuitive to think something so spontaneous could be better than anything the human mind could ever come up with.

While people tend to have too little trust in other individuals, they seem to place too much faith in the hands of designers. People think that if they cannot understand something, an expert would be more suited to understand and design it. This intuition is particularly untrue in regards to trade. Since all trading is contingent upon the preferences of both parties, no designer or expert could possibly attempt to understand, much less hypothesize, about the preferences of different parties.

7. WHAT IS TRADE?

One of the main issues with leading a discussion about trade is that trade means different things to so many people. What is often a limiting factor in a discussion about trade is that most people think of trade as the direct exchange of goods and services for money or other goods. This definition does not include nearly enough we can think of almost anything voluntary as trade. When I offer to take out the trash in my apartment it is because I assume that my roommates will take out the trash on another day, or just that the happiness they feel when I take out the garbage makes it all worth it for me. When people maintain this limited definition of trade, it often skews how they evaluate trade.

The reason why trade works is not intuitive. It is difficult to understand that if one country is the most efficient at producing every single possible good, it still makes sense to trade. It is not readily clear that trade is not a zero-sum game, but it really is possible for everyone to win. Leonard Read concludes “I, pencil” with some words of wisdom that could help quiet these discomforts that people have: “Have faith that free men and women will respond to the Invisible Hand. This faith will be confirmed.”

8. CONCLUSION

There were a few recurrent psychological ideas that help explain why people are hesitant to accept free trade:

- People do not like to give up the sense of being self-sufficient
- Many do not accept social mechanisms that they don’t understand
- Most are too cautious about the size of the group that they trade with
- People are naturally xenophobic
- People like to feel like they are acting in an ethical way
- Many are concerned about knowing the origins of their goods
- People are skeptical that trade could sustain itself without intervention
- Some details about how trade works are not intuitive

Underlying all of these issues is a concept that Friedrich Hayek focuses on in “The Trend of Economic Thinking”: people are generally hesitant to accept economic ideas. Hayek argues that people think that since economics is a social science, the results should be intuitive and easily understood. Many do not realize that the scientific method could be applied to social problems. The reason why I started this essay with such basic examples about trade, in which the mutually beneficial nature is readily apparent, is that most would agree that individual and private trade is beneficial. Yet for the reasons listed above, people do not extend these ideas to trade in the larger sense. Hayek comments, “the task of the theoretical economist… consists essentially in the demonstration of the inconsistencies in a kind of ordinary reasoning which everybody employs and the validity of which no one could ever doubt were it applied to simple cases where it could easily be understood.”

Throughout the process of doing research for this paper, I have realized that there is an economic tool that other people are hesitant to understand and evaluate—looking at large scale issues in a simplified way with some assumptions about the nature of the problem. Ceteris paribus, in other words. People seem to be very resistant to apply this tool to try to understand economic ideas. As Adam Smith once said: “The propensity to truck, barter and exchange one thing for another is common to all men, and to be found in no other race of animals.” And that is a valuable thing.

REFERENCES