



Jeffry Frieden:

Over the past 40 years, let's say, our economy has grown dramatically, maybe doubled in per capita GDP, and yet, the real median household earnings have only gone up by about 20%. And that leaves a lot of people in America saying, "What is all this thing about prosperity, about rapid economic growth? We're not feeling it."

Bruce Edwards:

Economic policies that are good for society generally, can have painful distributional effects, and at some point it's the politicians who are held accountable.

Jeffry Frieden:

So, I think there is a legitimate concern that the political system has not delivered the goods, and that, unfortunately, leads to a certain skepticism and cynicism about the value of democracy itself.

I'm Jeff Frieden. I'm a professor of government at Harvard University. I work on the intersection of international politics and international economics.

Bruce Edwards:

Jeffry Frieden is also the author of several books, including *Global Capitalism*, and *Currency Politics*. His latest article titled *A Place for Politics*, is published in the March edition of *Finance & Development Magazine*.

So, you spend a lot of your time looking at how economics and politics interact, and while we instinctively turn to economics to measure the value of things, your latest piece in *Finance & Development* talks about how politics helps us measure the things that we actually value. And as an example, you use the collapse of manufacturing and the coal industry to illustrate that. What do these depressed communities tell us about what we value as people?

Jeffry Frieden:

Well, I think one thing that we see directly and that economists can tell us a lot about is the loss of jobs, the loss of income, the loss of wages, of property values, things along those lines. All of which are monetary or pecuniary costs and are very, very important. I would not downplay their importance.

But what a lot of people, especially those living in these communities, in communities that have faced hard times, think of as perhaps, at least as important, and maybe in some instances, more important, is the loss of the community itself. Because people live in communities and value the fact that, for example, they belong to social organizations, they go to churches or other religious institutions. They value the fact, for example, that their children can aspire to live near them, their grandchildren can grow up near them. They value the social connections that are associated with the community.

A lot of these distressed areas are actually not the big cities we think of, Pittsburgh, or Chicago, or Detroit, but small cities and towns that have entered into distress with the loss of important factory or other kinds of jobs. And people often lament the fact that this used to be a thriving, close-knit intergenerational community. And that that sense of community has disintegrated as the community's economic lifeblood has also fallen apart.

Bruce Edwards:

Yeah. So, I mean, I guess the question here is if we value those things, why did the industry that supported those communities slip away? And, I guess, this is where economics and politics interact. Do you think there's



an alignment problem there? I mean, it seems that what's good for people is not necessarily good for government and vice versa.

Jeffrey Frieden:

I'm not sure I'd call it an alignment problem. I'd say that economics has its place. Economists can tell us what's good for society as a whole. And in the case of trade, virtually every economist in the world would say the optimal policy for virtually any country, with some minor exceptions, is free trade, unilateral free trade, opening your borders to the goods of the rest of the world. Keynes, I think, said it perhaps most eloquently when he said, "No country can make itself richer by artificially making the goods that it consumes more expensive. So, why not give everyone access to the cheapest goods of every country in the world?" And that's the economic view of things.

And I agree that that is a very, very important value. And I think most people agree that that's a very, very important value. The reality that, I think, again, most economists would recognize is that even if something is good for the country as a whole, it may not be good and probably isn't good for everyone in the country. So, even optimal economic policies create winners and losers. Trade is not only no exception, trade is a sterling example of a policy or trade liberalization, free trade is a sterling example of a policy that can make the economy and the country as a whole better off, while harming some members of the community.

You open your borders to the trade of the rest of the world, and consumers can buy goods much more cheaply, perhaps than they could before. But that also means that people who used to produce those goods inside your borders are now perhaps out of work. So, we get cheap clothing and cheap cars and cheap electronics and cheap furniture from the rest of the world, but that has meant the closing down of auto factories and steel factories and garment factories and furniture factories.

In aggregate, the country is better off as a result, but the workers and those around those factories have lost something. So, what economics doesn't tell us is how to weigh or weight the losers against the winners, so to speak, the benefits that accrue to those who are on the plus side of international trade against those who are harmed, perhaps, by international trade. They can tell us what wages are lost or gained, but they can't tell us about all of the values that might be affected by opening a country international trade, international investment.

Bruce Edwards:

And so, this winners and losers phenomenon, I mean, is it a universal thing or would you say that it's more pronounced under some forms of governments?

Jeffrey Frieden:

I think, virtually every economy faces choices about policies that are going to make the economy better off, but some people worse off. Any policy that only makes everyone better off is not going to be controversial. So, it's not political. Politics is all about a clash of interests, not all, but largely about a clash of interests. And so, I'll give you an example and then this may lead to what you have in mind about forms of government.

A simple way ... And simple is good, so I don't say that in a derogatory sense, but a simple way of thinking about winners and losers is if the policy in question makes the entire economy better off but creates some winners and some losers, then there is a simple way of resolving that problem. You can tax the winners in order to compensate the losers for their lost wages or lost income or whatever pecuniary, monetary losses



they've realized. Now, that, on paper, in the textbooks when we teach our students, that is very straightforward. You compensate people and everybody is made better off.

The reality is that no one, I think, will be surprised to know, that the winners don't typically enjoy being taxed to compensate the losers, so that there is often a political struggle over compensation. So, while in the abstract, in theory, in the textbooks, we could make everyone better off with trade by taxing the winners and compensating the losers, in reality, the political system is mediating that. And some political systems do a better job than others in operating that kind of compensatory or transitional mechanism.

I'll give you an example, an example that we often talk about in the world of political economy. There are countries in the world that have no choice but to be open. Very, very small open economies. So, among advanced countries, there's been a lot of work done on how countries like Belgium or the Netherlands or Sweden or Austria, that are very, very small and therefore, can't really be closed. They have to be open to the rest of the world. And what we know from many decades of scholarship is that starting in the 1920s, 1930s and the modern era, those countries have evolved mechanisms, quite deep and broad mechanisms, for providing a social safety net that protects people against the vagaries of the world economy.

So, Austria and Belgium don't really have the choice of raising barriers to trade. They have to be open to the rest of the world. They export half of what they produce, and they import half of what they consume, on average. So, their political systems have evolved to provide those kinds of social cushions. But big countries, like ours, the United States, or perhaps other continental economies like Brazil or Russia or others, have the choice of trying to protect themselves from international trade, and they often do.

So, political systems vary on many, many dimensions. Some are better than others at delivering the kinds of public goods or policies that we've talked about. To take a common observation, some political systems are more susceptible to special interests than others. A lot of what we think about when we think about politicians or politics not functioning on behalf of the general good or the public good, is that they are listening perhaps more than we might like, to powerful special interests that have their own concerns at heart and not the concerns of the country as a whole. And some political systems are particularly susceptible to those kinds of special interests and some are less susceptible.

Bruce Edwards:

And that's a perfect segue for my next question about the power of organizing. And you write about that in one of your older pieces, how people or groups, when they have the power to organize, they can increase their political influence- and when it comes to policymakers and policymaking, and use the US sugar lobby as one example of that. Maybe walk us through how these groups end up shaping policy to the benefit of their industry and not necessarily for the greater good.

Jeffrey Frieden:

Sure. Well, people organize on behalf of their interests. Obviously, they organize in many different dimensions. People organize themselves as members of a religion, the members of an ethnic group, as members of a region. But what I focus on primarily is groups, individuals, firms that organize themselves for economic reasons. And you can imagine that members of an industry, of course, they're competing with one another. The different firms in the auto industry are competing with one another, but they also have some interests in common. And as we well-know, it is very often the case that industries will organize themselves to be able to exert pressure on the political system to get what they want.



An example that I often use is that of the sugar producers of the United States. Now, United States is really not a country that should be producing very much sugar. We don't have a tropical climate, except in a few small areas, but there are 17 sugar plantations in South Florida and South Louisiana. And then, there are a few thousand sugar beet producers on the Great Plains. And so, there are some people who can produce sugar, they probably shouldn't from an economic standpoint, but they do. And they have organized themselves very, very well. So well that they're able to get the US government to provide subsidies and protection to sugar that, depending on the year, varies from year to year, makes sugar about twice as expensive in the US as it is in the rest of the world.

Now, that's something that most Americans probably don't even know about, and frankly, they probably don't really care about it, because you're talking about a couple of cents a day, let's say, in sugar consumption. But for those 17 sugar plantation owners and for those few thousand sugar beet owners, this is really, really important. And so, they are extremely well organized. They lobby Congress, they make major campaign contributions to members of Congress and senators. They are a political force, a political force well beyond their numbers. So, that's an example of a special interest.

Now, I want to say, there's been plenty of work on this, we know that the sugar lobby has outsized influence on American sugar policy. We would not have a sugar policy that raises the price of sugar above to twice the world market level if it weren't for the sugar lobby. But often, I have to argue with my students a little bit about whether this is really such a terrible thing. I happen to think it's not a great thing.

But on the other hand, these are people with jobs. And for them, maintaining the viability of the sugar industry, whether it's sugar beets or sugar canes, is a matter of not life or death, but it's a matter of economic subsistence, of continuing to work in the areas that they're working in. So, maybe some benevolent dictator might say, "We know that it's really not so great to make everybody pay an extra 3 cents a day for sugar, but the alternative is putting all these people out of work." And the way the political system mediates that is by allowing them to organize themselves.

So, from an analytical standpoint, we can say these special interests have a lot of power. From a normative or philosophical standpoint, it's a little more complicated than just saying special interests are bad, at least in my view.

Bruce Edwards:

Yeah, very interesting. I mean, that goes back to what you talked about at the beginning there. If industry falls apart and communities die because of it, we're losing something of value in the end. So, maybe the sugar lobby isn't so bad in the end.

Jeffrey Frieden:

Right. Well, we have a very prominent example of this that most Americans know about, which is farm subsidies. Depending on the year, a very, very, very substantial portion of what farmers earn comes from subsidies from the federal government. It can be as high as 35, 40, even 50% of what farmers earn being coming from essentially government subsidies. Farmers would not get those subsidies if they were not extremely well organized, which they are. It's not just sugar farmers, it's farmers in general.

But I think that most public opinion surveys and most of our voting behavior indicates that Americans tend to be relatively sympathetic to the plight of American farmers. And when asked, they say, "Well, we realize that this is raising the price of food, but we like the idea of trying to keep the family farm alive. We like the idea of trying to keep people in the rural areas, to keep those areas flourishing and going." It's seen as something



that's important perhaps culturally or sociologically from Americans. And this is true in many advanced societies.

If it were purely an economic consideration, I think that probably half, or more, of the farmers in the US and Europe would be out of business. But there's a lot of sympathy among voters for people who do the hard work of raising crops and animals. And so, that's a decision that the political system has made. It has made the decision that economic efficiency is not the only value when it comes to food, that there are other values. And one such value is maintaining something like a thriving rural sector.

Bruce Edwards:

And so, I'm thinking, maybe going back to your point about why we still have trade barriers when most economists would rather lose them, a lot of it is about political survival, right? I mean, if it takes 10 years, or more, to see the real benefits of freer trade and political cycles are four or five years. What's the answer to this problem of short-term politically motivated solutions to our longer-term problems?

Jeffrey Frieden:

Well, there are a number of possible ways of thinking about it. The first is political institutions that actually are capable of and have an incentive to think about the longer run. One such institution is political parties. Politicians have finite lifetimes, especially if they're running for election every two years as American members of Congress are. But political parties last for a long time and in many parts of the world, and many of my colleagues in political science would argue that this is an important consideration, in many countries, parties that get reputations for pursuing policies that are bad in the long run, don't last that long. And conversely, parties that get reputations for doing things even that don't benefit them immediately, but that have good long-term consequences, get rewarded by the voters. And so, parties can extend the time horizon that we associate with policy.

And then, there are political institutions that we can use. We create independent political institutions that aren't quite so subject to the vagaries of electoral politics. We have a central bank, for example. Almost all countries have independent central banks. And I wouldn't say the central banks are apolitical, they obviously pay attention to what's going on politically. But central bankers typically don't have to worry about losing an election six months down the road, so they can think longer term about the policies that might be desirable from the standpoint of monetary and financial policy. So, independent agencies would be another way.

And then I have to say, since after all, I am an educator, that educating the public may play a role. I think that many Americans are confused about, don't have a lot of information about things like international trade, international investment, the international economy more broadly. And I persist in believing, perhaps against some evidence, but persist in believing that if Americans were better informed about the economic and international economic policy problems that we face, that they would be more favorably inclined to finding better solutions to them. So, I guess, I suppose, I have to believe that education can play a role as well in trying to lead to a greater understanding of the kinds of policies that will make a difference in people's lives.

Bruce Edwards:

Well, I'm 100% with you on that one. And so, finally, I mean, we've talked here about economics and politics and how they play off each other, sometimes to our benefit, sometimes not so much. But what do you think is the real value of democratic politics? I mean, people can get pretty cynical, like you were just saying, about government these days.



Jeffry Frieden:

Yes, they are. And I think people get cynical when they feel that government hasn't delivered the goods. And one of the problems we face in our societies today is that there is a very large segment of our populations that feels, I think, legitimately, that they have been left behind and that government has made them promises and then not kept them. An example of that is the fact, in the American context, that over the past 40 years, let's say, our economy has grown dramatically, maybe doubled in per capita GDP, a little bit less, but about almost doubled in per capita GDP. And yet, the real median household earnings, that is the real earnings of the middle class family in America, have only gone up by about 20%.

So, while the economy has grown rapidly, most of the benefits of that growth have accrued to the top 25 or 30%. And that leaves a lot of people in America saying, "What is all this thing about prosperity, about rapid economic growth? We're not feeling it." So, I think there is a legitimate concern that the political system has not delivered the goods, and that, unfortunately, leads to a certain skepticism and cynicism about the value of democracy itself. If our democratic systems aren't delivering the goods, then what good are they? In some sense.

I think, I'm not that cynical and pessimistic. I think that ... There's the famous quote from Churchill that, "Democracy is the worst possible way of running a country, except for all the other ways." What democratic political institutions do is at some level, and with many flaws, give people the opportunity to pass judgment on their representatives and on what their representatives are doing.

Now, it's not a perfect system. It has many flaws. It has failed in many instances. But I would much rather be a subject to a system in which people had a regular opportunity to pass judgment on their representatives and on the behavior of their representatives than be subject to a dictator or a bunch of dictators who thought they knew what was best for society. Because unless those dictators were me, I would undoubtedly disagree with their vision of what was best for society. And I have no intention of being a dictator, even if the job were available.

So, I think that the value of democracy is that it gives the people who are subject to the effects of economic and other policies, an opportunity to say what they think about those who have made those policies, put them into place and implemented them.

Bruce Edwards:

Jeffry Frieden, professor of government at Harvard, thank you so much.

Jeffry Frieden:

My great pleasure.

Bruce Edwards:

Look for Jeffrey Frieden's article, A Place for Politics, in the March edition of Finance & Development Magazine. Go to imf.org/fandd.

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I'm Bruce Edwards. Thanks for listening.