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# Why the Case for Economic Nationalism Fails

SAMUEL GREGG

American policymakers and citizens should acknowledge that the benefits promised by economic nationalism are illusory.

**A**RGUMENTS ABOUT THE RESPECTIVE MERITS OF FREE markets and free trade versus protectionism, industrial policy and economic nationalism more generally go back as far as Adam Smith's *Wealth of Nations* (1776) and the defense of a moderate mercantilism essayed by his fellow Scot, Sir James Steuart, in his *Inquiry into the Principles of Political Economy* (1767). Many propositions advanced by today's advocates of economic nationalism find nascent expression in Steuart's text. They also receive firm and, to my mind, convincing rebuttals in Smith's *magnum opus*.

In their respective responses to my [critique](#) of economic nationalism, [Oren Cass](#) and [Daniel McCarthy](#) express some of the long-standing reservations about the theory and practice of free trade abroad and free markets at home. Neither calls for economic autarchy. Instead, they insist upon the need for more realism in economic policy and suggest that specific measures conventionally associated with economic nationalism are necessary to address significant deficiencies in the present workings of domestic and international markets which, they maintain, have negative consequences for America. Let me explain why I think these arguments fail.

### **Comparative Advantage Isn't What Some People Think**

Cass correctly observes that the theory of comparative advantage is part of the underlying apparatus of the argument against economic nationalism. Cass, however, maintains that this theory is handicapped by what he calls its “endogenous” conception of the economy. By this, I take Cass to mean that economists assume that a nation's comparative advantages vis-à-vis other nations are somehow fixed, natural, and relatively unaffected by factors ranging from political circumstances to cultural changes. But this, Cass argues, plainly isn't true. And if it isn't true, there is presumably significant room for experts to use the state to shape proactively a nation's economy in ways that free traders would generally consider counterproductive.

But Cass's conception of comparative advantage isn't how economists understand comparative advantage. They have *always* recognized, as Donald J. Boudreaux [states](#), that comparative advantage isn't static. It can be affected by, for instance, political and institutional factors like the degree to which rule of law prevails in a given country. In more recent decades, some economists and economic historians have [stressed](#) the importance of values, expectations and culture in shaping a nation's comparative advantages.

The very fact, however, that a country's comparative advantages are constantly changing is, if anything, yet another reason to be wary about experts who think they can second-guess the workings of markets via some combination of industrial policy and tariffs. Such reservations are

neither an instance of “market fundamentalism” nor a reflection of excessive abstraction. Rather they flow from the deep realism about the human condition that is central to critiques of economic nationalism. For one thing, it is simply beyond the ability of any one ostensibly apolitical technocrat, team of experts, or government department to absorb all the information that they would need to design the optimal industrial policy for a sector of the economy—let alone an entire national economy such as Japan attempted between 1949 and 2001.

This isn't to suggest that individuals and companies who innovate and compete in the marketplace don't sometimes make costly mistakes. This happens all the time. Many businesses fail because they don't pay attention to, or try to insulate themselves from, shifts in comparative advantage. But over the long-term, the superior economic performance of nations that have generally moved in the direction of greater economic liberty and free trade compared to those which have adopted protectionist measures and various industrial policies is hard, as [scholars](#) like Douglas Irwin have comprehensively established, to dispute.

That owes a great deal to the fact that markets are simply much better at processing and conveying the information needed to make decisions about where to invest, what to buy and sell etc., than government officials. To the extent that economic nationalist policies distort this process of discovery, investment, risk-taking, and enterprise by millions of individuals, businesses and communities which unfolds on a daily basis literally every second of the day, they cannot help but degrade a nation's long-term ability to meet its citizens' economic needs in ever more efficient and effective ways.

### **Who's a Realist?**

This brings me to Daniel McCarthy's appeal to what he calls political realism as nations think about their most optimal economic arrangements. It is not that McCarthy fundamentally questions comparative advantage or denies the general economic prosperity brought about by trade. His point is one that surfaces frequently in critiques of free trade: that governments must live in the real world.

This means, McCarthy believes, that America cannot be passive as a powerful nation like China effectively seeks to rig the global economy in its favor. Hence, the argument goes, America must respond more proactively to China's particular blend of authoritarian-mercantilism. This presumably means some form of protectionism or selective applications of industrial policy to level a playing field that Beijing is hell-bent on distorting and corrupting as it pursues a distinct geopolitical agenda.

But the United States has numerous tools at its disposal to deal with China's geopolitical ambitions that don't involve walking away from a commitment to free trade. These range from diplomatic pressure to bolstering friends in the region, improving its own communications security, pressuring allied governments not to deal with Chinese technology companies like Huawei which will do whatever the Chinese Communist Party tells them to do, rigorously prosecuting Chinese nationals and businesses engaged in espionage and intellectual property theft, and relentlessly highlighting the regime's brutal repression of religious liberty and its willingness to try and oppress entire ethnic-religious groups like the Muslim Uighurs.

The other point to keep in mind is that free traders from Smith onwards have *always* paid attention to geopolitical and domestic political realities. In his *Wealth of Nations*, Smith commented, for instance, that "Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose [free trade]." Smith had no illusions on that score. Nor did Smith believe that free trade would lead to eternal peace or that the world would somehow irreversibly embrace free trade. He also accepted the modern nation-state as the basic-building block of international relations and understood that this has implications for trade.

But these facts were not, according to Smith, a reason to shrug our shoulders and succumb to mercantilist temptations. For Smith and others have also long stressed the well-documented damage that a country inflicts *upon itself* when it adopts such policies in response to similar measures implemented by other nations. The extent to which industrial policy and protectionist policies as a whole are extremely prone to capture

by special interests, crony capitalists, and their lobbyist enablers, for example, is one such cost. The evidence here is frankly [overwhelming](#), and the silence of advocates of industrial policy on this point is telling. More generally, economic nationalism amounts to choosing freely to embrace all the inefficiencies and misallocated investments facilitated by tariffs, subsidies, and industrial policies.

It is American consumers, after all, who will pay the costs of tariffs imposed on foreign imports as American companies pass on the higher price of doing business to their customers and/or decide to reduce their American workforces to cover higher import costs. Wealthier and better-educated Americans may be able to absorb the price increases and job losses more easily. But this isn't so easy for poorer, less-educated Americans. American taxpayers are the ones who will foot the bill for yet another failed industrial policy—not private investors who choose to put their own capital at risk.

Going down the economic nationalist path may provide some political leaders and many Americans with the sense that, finally, something is being done to strike back against countries that implement neo-mercantilist policies. But, as illustrated in my critique of economic nationalism, the cases of France, Japan, and now China underscore that such policies store up long-term economic and political problems for the nations which adopt them—a point recently [elaborated](#) upon by the economist Veronique de Rugy. If other nations want to pursue economic nationalist policies, there's only so much we can do to dissuade them. They, however, are paying—or will pay—a significant economic, political and social price for doing so. It is unclear to me why America should wish to emulate their self-inflicted failures.

### **Economic Nationalism Isn't the Path to Greatness**

Part of economic nationalism's attraction is that it is often presented as a concrete response to many of the social and cultural problems presently characterizing particular regions of America and specific demographic groups. In his contribution to this forum, however, Richard Reinsch [points out](#) that many economic nationalists have rather *econocentric*



explanations for challenges such as opioid abuse, family breakdown and intergenerational unemployment.

Yes, there is often an economic dimension to these difficulties. Having a job matters for more than just economic reasons. And yet these dysfunctionalities somehow persist despite the fact that unemployment is presently very low across virtually every demographic segment of America's working population.

This suggests that some non-economic causes (such as the decline of stigmas attached to a refusal to work or the degeneration of religious institutions from incubators of virtue into just another species of social justice warrior, to name just a few) must be at work. By definition, they can't somehow be fixed by an industrial policy or a new or expanded tariff. Here I would add that Amity Shlaes' book *Great Society* (2019) underscores just how much of this present dysfunctionality was enabled by quite clever, often well-intended experts using the Federal Government to try and engineer particular economic and social outcomes among selected parts of America's population in the 1960s and 1970s.

Rather than trying to find industrial policies which will somehow triumph over the reality of the knowledge problem, or attempting to discover tariffs that will by some magical means not have major negative effects upon American businesses and consumers, American policymakers and citizens should acknowledge that the benefits promised by economic nationalism are illusory. In the long-term, economic nationalism will not make America great again. On the contrary, it is likely to make the United States a less-economically disciplined, less productive, less adaptable, and less-competitive country. How any of this could be in America's economic and political interest escapes me.

## A RESPONSE TO

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## How Economic Nationalism Hurts Nations

SAMUEL GREGG

## VIEW FULL FORUM

Samuel Gregg is the Friedrich Hayek Chair in Economics and Economic History at the American Institute for Economic Research, and Contributing Editor at *Law & Liberty*. The author of 17 books—including *The Commercial Society* (Rowman & Littlefield), *Wilhelm Röpke's Political Economy* (Edward Elgar), *Becoming Europe* (Encounter), *Reason, Faith, and the Struggle for Western Civilization* (Regnery), and most recently, *The Next American Economy: Nation, State, and Markets in an Uncertain World* (Encounter), as well as over 700 essays, articles, reviews, and opinion-pieces—he writes regularly on political economy, finance, classical liberalism, American conservatism, Western civilization, and natural law theory. Two of his books have been listed for Conservative Book of the Year and one was short-listed for the 2023 Hayek Prize. He is also an Affiliate Scholar at the Acton Institute. In 2024, he was awarded the prestigious Bradley Prize by The Lynde and Harry Bradley Foundation. This Prize honors scholars and practitioners whose accomplishments reflect the Bradley Foundation's mission to restore, strengthen, and protect the principles and institutions of American exceptionalism. He can be followed on Twitter [@drsamuelgregg](https://twitter.com/drsamuelgregg).

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