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# The Fear of Free Trade

BY MARK W. HENDRICKSON

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It's hard to think of an issue that is more polarized than the one between free traders and protectionists. Those of us who favor free trade believe in the ethical principle that people should be free to buy from whomever they choose, and in the economic truth that wealth and efficiency increase as prices fall.

We sometimes forget, however, how unrealistic and even heartless those positions seem to people on the other side of the issue—nice-sounding theories that would work in a perfect world, but totally impractical and harmful in light of the allegedly unfair trade practices employed by foreign business competitors and the governments in their home countries.

Protectionists aren't interested in what they consider abstract intellectual notions. Their opposition to free trade is visceral and passionate. They are driven by two fears: that without government protection (tariffs, quotas, and the like) against unfair foreign competition, they may lose their jobs—their livelihood—and also that the country as a whole will go down the tubes. The first concern is justified, the second is not; however, both fears need to be addressed head on by the free-trade camp if we wish to allay suspicions that we don't care about our country and compatriots and that we are not interested in justice.

Let's tackle first the issue of lost jobs. It is an economic fact of life that in a competitive marketplace less efficient (higher cost) providers of goods and services are replaced by more efficient (lower cost) providers. Protectionists routinely concede this point. Their stan-

dard line is that they have nothing against competition, as long as it's fair competition. Indeed, "fairness" is the primary (and often the only) issue on which protectionists rest their case, so we need to examine the relative fairness of free trade and protectionism.

The first point that must be made is that American labor unions, which are some of the most vociferous advocates of protectionism, are being disingenuous at best if they pretend to welcome free and fair competition. By their very nature, unions today are anticompetitive and by law are often able to extract

above-market wages from employers. In effect, labor unions have been the beneficiaries of domestic protectionism—legal protection from other American workers—so naturally they feel they also should be protected from foreign workers. One of the tragic ironies of unionism is that if unions hadn't forced wages unnaturally high, then American businesses would be in a much more competitive position vis-à-vis foreign competition—that is, fewer American jobs

would be in danger of being displaced by foreigners. In fact, what some American industries need to survive against foreign competition isn't trade barriers, but simply for their own cost structure to be rationalized, such as by letting wages be determined by supply and demand and productivity, rather than by the monopoly bargaining power of unions.

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## Business Favored Protection

Of course, major business leaders in America favored protection from foreign competition throughout the nineteenth century, when unions had little influence.

Even if you agree that any clamor of labor unions for fair competition rings hollow, most American workers aren't unionized, so let's address their concerns about unfair foreign competition. Some Americans have a legitimate concern that they may lose their jobs as a result of such "unfair" trade practices as dumping or subsidies.

Dumping is one of those slippery concepts that is difficult to define and even more difficult to prove even when adjudicated by a panel of experts. The layman's definition of dumping is: "selling goods below their cost of production." This concept is problematical for several reasons. First, businesses do this all the time, and there is nothing inherently sinister about it. Think of loss-leaders and end-of-the-year clearance sales. In business there is a phenomenon known as "experience curve pricing" whereby a company will set prices low so as to accelerate sales and move down the learning curve as fast as possible. The issue is further complicated by uncertainty about how to calculate the cost of production. Should a business's long-term fixed costs be amortized over ten years, 20, 30? Yes, there are times when a firm sacrifices profits for market share in what some call "predatory pricing" and laymen call dumping (either way, consumers reap a windfall from the discounted prices), but so what? The theory is that this is how one firm will gain a monopoly. In practice, there are those who claim that no company has ever engaged in constant perennial dumping. I can't vouch for that assertion, but I challenge those who cite "dumping" as a bogeyman to name one industry now dominated by a monopoly as a result of dumping. Dumping is nothing more than a red herring used by protectionists to drum up support.

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## Foreign Subsidies to Industry

Unlike with dumping, the viability of some American businesses and jobs is undoubtedly jeopardized when foreign governments subsidize certain industries. Let's overlook the fact that Uncle Sam subsidizes many American businesses and assume that an American business about to be crushed by foreign competition isn't unionized, receives no subsidies, and would survive if it weren't being undersold by the subsidized foreign competitor. Clearly, this is an unfair situation. It isn't fair to the taxpayers of the foreign country whose government is conferring the subsidy on a favored enterprise, and it isn't fair to the innocent Americans whose lives will be disrupted by the subsidies.

But look at what happens if the U.S. government erects trade barriers to reduce or eliminate the importation of the subsidized products. Yes, this can help the domestic competitor and preserve those particular jobs, but is it fair for American consumers to have to pay more for things than foreigners pay? At this juncture, the protectionists argue that jobs come first and consumers second. The problem is, when Americans have to pay a higher price than necessary for something, they have less purchasing power

left to buy the product of other people's labor, and so employment elsewhere is less than it could be.

Protectionism may indeed preserve specific American jobs, but it often does so at the expense of other American jobs. This is particularly evident when the protected good is used as a factor of production here. For example, when the domestic steel industry received tariff protection from lower-priced imports in the 1980s and in 2002–03, many more American jobs were lost in steel-consuming industries than were saved in the steel-producing companies. (This is predictable from an economic standpoint: if an American automobile manufacturer has to pay more for steel than a German carmaker, then the Germans' lower costs will give them a competitive advantage over the Americans.) What is fair about the U.S. government saving the jobs

of some Americans, however innocent, by introducing policies that inflict job losses on other innocent Americans—especially when the protectionist policies result in more jobs being lost than the absence of such policies would produce?

Here is an analogy: a ship is about to sink; the only lifeboat is filled with 12 small passengers; then eight large passengers persuade the ship's officers to remove the 12 small passengers from the lifeboat—dooming them—so that the eight large passengers may have their places. That is the reality of protectionism. I'm not knocking the survival instinct, but let's drop the pretense that such actions restore "justice" or "fairness."

On a more elementary level, what is fair about protectionism in general when the U.S. government stands by and allows millions of jobs to disappear every year (outnumbered, thankfully, by newly created jobs) and then intervenes to save jobs for just certain Americans? Clearly, protectionist policies don't produce the "level playing field" that protectionists claim to favor. Protectionism, unlike free trade, is discriminatory and confers a privileged political status on a minority of workers, thereby violating the first principle of justice: equality before the law.

In sum, protectionism makes our country poorer, while free trade makes us richer; protectionism's inefficiencies reduce employment, while free trade's efficiencies increase employment; protectionism curtails individual liberty, while free trade is an expression of liberty; protectionism corrupts justice, while free trade enshrines equality before the law.

Ah, but will free trade ruin the United States of America? That is the other major reason why so many Americans are leery of it.

### Unlimited Work

The notion that free trade will gut any nation's economy could only be valid in a zero-sum world with

a fixed number of jobs, where one country's gain would be another's loss. In fact, though, the number of jobs, both at home and abroad, is locked into a clear uptrend. New businesses and industries continually emerge in the never-ending attempt to satisfy humankind's insatiable wants. We can never run out of jobs.

Free trade doesn't reduce employment, but rearranges it to more efficient applications, just as economic competition across town, across the state, or across the country causes some jobs to supplant others. This process is natural and healthy, not sinister or harmful. Yes, as counterintuitive or perverse as it may seem, a healthy economy is one that destroys jobs—by replacing them with new jobs. Just as a healthy human body undergoes a

constant process of renewal by shedding dead cells and replacing them with living cells, so a healthy economy is one in which more-efficient providers of goods and services displace less-efficient providers.

If that sounds cold and clinical, ask yourself if you would rather be part of the U.S. economy (as hampered as it is) or to have been a worker in the Soviet economy. The Soviet Union had the most protectionist system possible—the government guaranteed everyone's job so that there was never any unemployment. The price for guaranteed employment was an economy without flexibility or adaptability. With employment and the economy frozen in place, the Soviet planners in effect outlawed economic

progress, resulting in devastating stagnation and impoverishment in the so-called "workers' paradise."

By contrast the dynamic, relatively free U.S. economy has always pushed people out of old jobs and into new ones. While challenging for the individuals affected, these are the inevitable growing pains associated with progress for us all. Look at American agriculture, for example. Over the past 250 years, farm employment has shrunk from over 80 percent of the American population to less than 2 percent. We may sympathize with the anguish of millions of Americans

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who have had to abandon farming as their source of income, but our society is much richer today as a result of this shift. Because so few people are needed to produce agricultural commodities, tens of millions of other Americans are now free to provide countless other goods and services that wouldn't even exist if their providers were still back on the farm.

The slogan "Buy American" resonates within and appeals to our patriotism, but insofar as it means to shop for American-made products instead of the lowest-price, highest-quality products, it is a rejection of economic rationality. Economists going back to Adam Smith have understood that the true measure of "the wealth of nations" is how affordable is John Q. Public's cost of living. If the United States had been closed to foreign trade over the past 50 years, we might be paying \$40,000 for a Ford Pinto IV, \$15 for a gallon of gasoline, and \$5 for a quart of orange juice. We would all be a lot poorer.

### Richer Households

What actually has happened over the past 50 years is that protectionist barriers have been lowered. It is estimated that the average American household's income is \$10,000 a year higher as a result of tariff reductions in the past half-century ("A Case For Trade," *Investor's Business Daily* editorial, September 14, 2006).

In 1992, Reform Party presidential candidate Ross Perot warned of "a giant sucking sound" from U.S. jobs moving to Mexico if the North America Free Trade Agreement (NAFTA) were adopted. Since NAFTA took effect in 1994, the United States has enjoyed a net increase of nearly two million jobs per year, with compensation in three-fourths of the new jobs above the national medians (U.S. Department of Commerce, "A Profile of U.S. Exporting Companies, 2000-2001," February 2003).

What, then, in the face of all the evidence to the contrary, explains the persistent warnings about trade's alleged threat to the country? These cries are protests from those Americans whose jobs are most threatened by lower-cost foreign competitors. Those workers will need to reinvent their careers as American production continues to evolve in the direction of higher value-added, digital- and knowledge-based goods and services, and away from low-tech or semiskilled physical labor. Who can blame these Americans for being unhappy? But like generations of bankrupt farmers before them, the travail of some individuals necessarily

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accompanies general economic advancement. Moreover, the need to adjust to change inspires people to grow and excel. As one who has suffered unemployment, I sympathize with those who are forced to change their jobs, but the overarching fact is that as long as our economy keeps generating new jobs, the country's economic future is bright.

There are two major risks to this bright future. One would be if Americans have lost the will, energy, and can-do spirit that enabled earlier generations to sur-

mount prodigious challenges. The other is the "government disease"—the myriad government interventions, like burdensome taxation, hyper-regulation, business privileges, unfair labor laws, and more that are so many Lilliputian strings threatening to tie down the American Gulliver. We need free trade if we are not to become global laggards, but we also need government to get out of the way so we can compete (and cooperate) with the rest of the world without one arm tied behind our back. Great economic success awaits America's businesses and entrepreneurs unless the U.S. government, by meddling in the economy, snatches defeat from the jaws of victory.

