

Free Trade Has Been Refuted?

It Just Ain't So!

Perhaps the most settled of all economic propositions is that coercive interference with peaceful exchange is detrimental. Yet we often hear groups that want to stifle trade for their own benefit claim that some statistic or argument proves that free trade is a bad policy in general and that protectionism is good for the country.

A case in point is an organization called Crafted With Pride (www.craftedwithpride.org) and its magazine ad titled "Free Trade's Hidden Price." Crafted With Pride has opposed free international trade in textiles and apparel since 1984. It recently expanded its scope to all manufacturing.

The ad's first sentence throws down the gauntlet: "The debate as to whether 'free trade' or 'protectionism' most benefits the people of the United States is resolved." Well, yes—that debate was resolved about two centuries ago, in favor of freedom. The Crafted With Pride people, however, want readers to believe that the question has just been settled in favor of protectionism. Have centuries of economic analysis on the effects of trade interference been swept away? Hardly.

"During the nearly two centuries that the United States defended its industries against predatory foreign trade practices and its workers against penny-wage foreign labor competition, the American economy grew vigorously, workers' income rose steadily, and the US produced virtually everything needed for our national defense." Thus begins the case that protectionism is good. We used to practice it, and the economy grew wonderfully while we did. Therefore it's a good policy.

It's true that the United States had relatively high tariffs on many items of commerce during the nineteenth century. It's also true that the economy grew rapidly throughout most of that century. It does not, however, follow that the economic growth was *caused by* the high tariffs. Drawing that conclusion is to commit the logical fallacy known as *post hoc ergo propter hoc* ("after that, therefore because of that").

The great success of the American economy in the nineteenth century is attributable to several factors. Except for the tariffs, taxes were very low. Furthermore, government kept its hands off business and commerce, in contrast with Europe where governments propped up numerous monopolies and guilds that interfered with market processes. The *laissez-faire* conditions in America lured great amounts of European capital and labor. Investors provided the financing for factories and railroads, while millions of people immigrated to America for the far greater opportunities for self-improvement to be found here.

Moreover, the tariffs didn't stop foreign trade. They merely made goods manufactured abroad more costly to Americans. As high as they were, the early tariffs weren't primarily intended as protective, competition-killing measures, but merely as revenue producers. They were by far the largest source of federal revenue during that era, which means trade was robust. (There were some exceptions from 1824 to 1833.)

Thus the economy grew not because of high tariffs, but *in spite of them*.

The ad goes on to state that the supposed "good old days" of protective tariffs have been replaced with the horror of free trade. Consequently, we have been witnessing "the liquidation of the American economy." That statement is preposterous hyperbole. A few hopelessly uncompetitive firms have gone out of business, such as old-line steel mills around Pittsburgh, but in our current regime of relatively free trade, the U.S. economy has

grown dramatically. Crafted With Pride laments the “loss of our best jobs,” but why cry over the elimination of some \$50,000-per-year steel mill jobs when new \$75,000-per-year jobs are being created in many new industries?

There is an answer to that question, though. Someone might complain about the loss of old jobs due to “predatory” competition if he feared that his own job or company might be next. Crafted With Pride’s talk about pursuing the policy that’s “best for America” is a smokescreen for its supporters’ manufacturing interests. When such groups rail against free trade, they mean that they don’t want it *in markets in which they sell*. But business and labor groups don’t want to give up the benefits of free trade in markets in which they *buy*. A textile maker who favors restrictions on his foreign competition *opposes* them on the foreign-made machines he needs in his business. Likewise, steelmakers seek high tariffs to keep out imported steel, but want competitive markets for the materials they need in their business. Textile and steel workers harangue against foreign competition, but often drive cars and watch televisions made in other nations. They wouldn’t want the high prices and lower quality that would come from shutting down foreign trade in those markets.

But what about the fearsome “trade deficit”? The Crafted With Pride ad tells us that “the arithmetic of U.S. trade is brutal.” Last year, “we” had a trade deficit of almost one-half trillion dollars!

Useless Statistics

Trade statistics are among the most useless and misleading of all government statistics. That is because “the United States” doesn’t trade at all. What is called “our” trade deficit (or surplus) is a composite of millions of individual exchanges between Americans and people in other countries.

Each of those exchanges has a willing buyer and a willing seller. According to the protectionists, it’s a grave national problem if the value of goods coming into the United States exceeds the value of goods shipped out during some period of time. They refer to it as “our” trade deficit and make it sound ominous. It isn’t.

Perhaps an example will clarify the point. Let’s say that we have two towns, Smithville and Jonesville. Sometimes Smithvillers drive to Jonesville to make purchases there; sometimes the reverse happens. Each time the parties to the exchanges are happy. Then an official on the Smithville Town Council, deciding that it needs data on all trade between the towns’ residents, requires all local merchants to record all sales to Jonesville residents. Likewise, Smithville residents are required to report all purchases they make in Jonesville. After a year, the Council does the arithmetic and discovers that “the town” had a trade deficit with Jonesville: “Smithville” only sold \$100,000 worth of goods to “Jonesville,” but purchased \$150,000.

Smithville has a trade deficit with Jonesville. But so what? No one is hurt by it. What *would* hurt would be any kind of governmental measure to bring trade into “balance” by interfering with the preferred shopping arrangements of the people.

Most Americans, if confronted with the fact that “they” (meaning the towns, counties, or states they live in) have trade deficits with other places in America, would shrug and say, “Who cares?” The protectionists bank on people not having that good sense when the “deficits” are with other countries. But whether products cross town lines or international lines is irrelevant. The only balance anyone needs to worry about is the balance in his own checkbook.

—GEORGE C. LEEF
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Ideas on Liberty

The Scapegoat Utility Vehicle

by Sam Kazman

First sin, then treason, and finally, reckless idiocy.

For owners of sports utility vehicles (SUVs), that pretty much sums up the last holiday season. They went into Thanksgiving under fire from the “What Would Jesus Drive?” campaign. Then the New Year started with Arianna Huffington’s charge that they were aiding Osama bin Laden. To top it off, in late January the head of the National Highway Traffic Safety Administration (NHTSA) declared that SUVs were simply too deadly for his children.

The media, of course, ate it up. In part, that was a healthy sign that there was nothing *really* important to report. But beyond their amusement value, these campaigns had some very real objectives: raising the federal government’s fuel-economy standards, encouraging congressional legislation, and sticking some new voodoo pins into the demonized doll of automobility.

Attacks on the SUV are nothing new. Prior to last fall, environmentalist organizations regularly decried their gas-guzzling nature and their contribution to the alleged threat of global warming. Self-proclaimed consumer-safety groups claimed they were dangerous to those who rode in them and to those who rode near them, citing rollovers

and the Firestone-tire fiasco. Photos of sub-compacts demolished by intact SUVs became a news favorite, despite the relative rarity of such occurrences. In September a book by *New York Times* reporter Keith Bradsher, *High and Mighty*, labeled them “the world’s most dangerous vehicles.”

But the attacks seemed to change in November, when the “What Would Jesus Drive?” (WWJD) campaign hit the big time. The Evangelical Environmental Network brought a convoy of electric hybrid cars to Detroit, where its spokesmen met with top Ford and GM executives to urge increased production of more fuel-efficient vehicles. The Network claimed that “the Risen Lord Jesus is concerned about the kinds of cars we drive because they affect his people and his creation.” The industry responded that it preferred to leave its purchasing decisions to consumers. That, apparently, was not a satisfactory answer.

The WWJD event was widely covered, though its most noteworthy impact was to stimulate jokes. But the campaign’s attempt to inject theology into the SUV debate created a curious paradox. Here were people concerned with issues of morality and ethics, and yet they were absolutely mum about the fact that the program they wanted to tighten had already been found lethal.

The program is CAFE, shorthand for Corporate Average Fuel Economy. CAFE was enacted in 1975 in response to the Middle East oil shocks and was aimed at increasing

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