



WHAT'S  
WRONG  
WITH  
PROTECTIONISM?

ANSWERING COMMON OBJECTIONS  
TO FREE TRADE

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## Foreword

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*Donald J. Boudreaux and Daniel Griswold*

After more than seven decades of bipartisan commitment to trade liberalization, the US economy today is arguably more open to world trade and investment than at any other time in our history. Yet the policies that brought about that historic opening are being questioned by our political leaders at the highest levels. Almost daily, the news carries stories of threats of our own government to impose tariffs, terminate free trade agreements, and punish US companies for “shipping jobs overseas.”

In *What’s Wrong with Protectionism?*, Pierre Lemieux has written an essential book for our time and for decades to come. This book draws on more than two centuries of economic thinking and experience while marshaling the most current data and examples to illuminate the key trade issues of today, such as the trade deficit, free trade versus “fair” trade, and manufacturing in a global economy.

Americans who are concerned about the future of our economy and our place in the world should keep a copy of this book by their side whenever they watch TV or read a newspaper or scan their Twitter feed. Lemieux’s work is an antidote to the misunderstandings about trade that prevail in our public discourse.

Like a skillful attorney defending an innocent client, Lemieux states the prosecution's case and then demolishes it before the jury with facts, arguments, and illustrations. His book systematically and fairly addresses the most common criticisms we hear today from those who want to curb the freedom of Americans to engage in international commerce for mutual benefit.

Among the more common criticisms of trade is the story, told by certain political leaders and pundits, that imports subtract from the US gross domestic product and that the trade deficit is a drag on growth.

Lemieux drives a stake into heart of the argument that we can boost economic growth by reducing imports and ending the trade deficit. Imports, by definition, are not part of gross domestic product, since they are produced outside the country. Imports are subtracted from the final calculation of GDP merely because they were already counted as part of total consumption, investment, and government expenditures, but then they must be removed to make sure that something not included in GDP is not counted.

Contrary to what we are told, imports are a blessing to millions of American consumers and businesses. Imports benefit domestic producers that rely on global supply chains for raw materials, components, and capital machinery in order to compete in global markets.

Lemieux shows that the trade deficit is driven by a surplus of investment capital flowing into the United States. Far from being a symbol of failure and decline, this perennial investment surplus is actually a positive sign of the relative health of the US economy. "The American current-account deficit is in large part a reflection of the fact that foreigners want to invest in America," Lemieux writes, adding, "the current-account deficit is not a cause of American decline but, on the contrary, a consequence of America's growth and attractiveness to investors."

We are told by certain political leaders and pundits that free trade must be fair trade. Here again Lemieux patiently defines the terms of the argument to show that there is nothing unfair about allowing producers to compete across international borders to deliver better products at lower prices to consumers. What is unfair is government protection of a small minority of domestic industries at the expense of millions of consumers:

free trade is fair trade. The fair trade argument is usually an excuse for special interests or for state power. What is fair is to let each individual or private entity reach its own bargains. Even if domestic protectionism can favor some people in their own countries at the cost of harming foreigners, and especially poorer foreigners, it does not seem morally acceptable.

We are told by certain political leaders and pundits that America is losing its manufacturing base. Drawing on the most current data and research, Lemieux shows that jobs have disappeared in manufacturing not because we are making less stuff, but because we are making more advanced products more efficiently.

Americans have retained their comparative advantage in making more technologically sophisticated products, while lower-wage countries such as China produce more labor-intensive, low-tech goods such as shoes, clothing, and furniture. Meanwhile, supply chains have allowed workers in different nations to divide up tasks, with Americans supplying the higher-end components, software, and intellectual property for products assembled by workers in less-developed countries.

The predictable result of free trade is that Americans are producing more of those goods that play to our comparative advantage, while producing fewer goods that play to the advantages of other, less-developed countries. While US manufacturing companies have migrated up the value chain, they have also

become more productive, producing more value-added with fewer man hours. Critics of trade lament the decline in the number of manufacturing workers while ignoring the long-term rise in real manufacturing output. Lemieux rightly concludes, “American manufacturing has ‘declined’ mainly in the sense that it has become more productive.”

In a related argument, we are told trade destroys more jobs than it creates. Again, with a combination of argument and evidence, Lemieux demonstrates that trade is not about the number of jobs, but about the quality of the jobs available to American workers.

There is no evidence that trade reduces the total number of jobs in the economy. In fact, the number of jobs has grown over the decades in line with the working-age population. Trade does contribute to “churn” in the labor market, but the greatest source of job displacement by far is technology. As Lemieux notes, “Trade may resemble technological progress, which eliminates jobs in some sectors but creates an equivalent or higher number of jobs elsewhere in the economy.”

As well as creating new and better jobs, trade delivers more choices, quality, and affordable prices for workers as they spend their paychecks. Lower prices are especially important to low-income households, because, as Lemieux explains, “People with lower budgets spend proportionately more on internationally traded goods such as manufactured goods and agricultural goods.” For a working-class single mother shopping at a big-box retail supercenter, free trade is one of her best friends.

We are told by the same political leaders and pundits that the North American Free Trade Agreement (NAFTA) and other trade deals the US government has signed are “one-sided” and “disasters” that must be overhauled or terminated. While these agreements are not always perfectly executed and they typically contain compromises, they have generally restrained govern-



ments so that their citizens can enjoy greater freedom to engage in mutually beneficial trade across international borders.

As Lemieux wisely notes,

The rules of the World Trade Organization and those of specific free trade agreements like NAFTA are useful as ways to tie the hands of national governments and avoid trade wars, which benefit no one. Ulysses asked to be tied to his ship's mast in order to resist the temptation of the sirens. The WTO and free trade agreements can be seen as means to similarly render a national government incapable of yielding to the appeal of domestic rent-seekers and the sirens of protectionism.

Not only is the economic case for free trade far stronger than the economic case for protectionism, the ethical case for free trade is also far stronger than the ethical case for protectionism. Like the economics of protectionism, the ethics of protectionism are incoherent—a fact made clear by the economic understanding so ably conveyed by Lemieux's book.

Suppose, for example, that an American—call him Smith—spends some of his income on purchases of foreign-grown sugar. In the United States, Smith must effectively pay a hefty fine, in the form of a tariff, for doing so—a fine that Smith would not have to pay were there no tariff on sugar imported into the U.S. Because Smith pays a fine to government agents if he buys foreign-grown sugar, the implication is that Smith's use of his income to buy foreign-grown sugar is ethically wrong. (This fine, of course—this tariff—also raises the price of domestically produced sugar up to that of the world price of imported sugar plus the tariff.) Smith is presumed to harm others whenever he buys foreign-grown sugar. And because the purpose of inflicting this punishment on Smith is to persuade him to instead buy American-grown sugar, the specific ethical offense that Smith is presumed to commit when he buys

imported sugar is that his actions cause American sugar growers to suffer a fall in profits and some workers on American sugar farms to suffer losses of jobs. Protectionists insist, in effect, that import barriers are ethically justified in order to prevent domestic consumers from making economic decisions that, although peaceful, inflict economic harm on certain domestic producers.

Now change the example in just one small way. Suppose that Smith chooses not to buy foreign-grown sugar but, rather, to go on a strict no-sugar diet. In this case the reduction in Smith's expenditures on American-grown sugar is exactly the same as is the reduction in Smith's expenditures on American-grown sugar when he buys foreign-grown sugar. Yet the US government penalizes Smith only in the latter case (when he buys foreign-grown sugar) and not in the former case (when he switches to a diet free of sugar).

This differential treatment of Smith's different reasons for buying less American-grown sugar reveals protectionism's ethical incoherence. If it is truly wrong for Smith to conduct his economic affairs in ways that reduce the profits of particular domestic producers and destroy the jobs of particular fellow citizens—so wrong that the use of government force is justified to prevent the commission of this wrongdoing—then the details of how Smith inflicts this wrong on his fellow citizens should be irrelevant. If Smith's purchase of imported sugar is wrong because it harms domestic sugar producers, then it is also wrong for Smith to go on a sugar-free diet.

Yet very few Americans would agree with this last claim. Very few Americans would tolerate the government penalizing Smith for going on a diet. Most Americans understand that Smith is ethically entitled to conduct his dietary affairs as he likes, as long as he does so peacefully and with his own resources. The results—lower profits and fewer jobs in domestic sugar production—are no reason to penalize dieting.

As Lemieux's monograph makes clear, however, the economic effects of increased importing differ in no relevant way from those of increased dieting. In each case, resources are shifted from less-desired (or less-productive) uses into more-desired (or more-productive) uses. In each case, some jobs are destroyed while others are created. (The money that Smith saves by not buying sugar is spent or invested by Smith in other ways, all of which support other businesses and jobs.) In each case, producers' activities are justified only insofar as they satisfy the demands of consumers. And, therefore, if Smith by right should be left free to improve his life by changing his eating habits in the ways that he deems best, even when doing so inflicts some economic hardship on some fellow citizens, Smith by right should be left free to improve his life by changing his spending habits in ways that he deems best, even when doing so inflicts some economic hardship on some fellow citizens.

Protectionists will nevertheless protest that the two cases—importing and dieting—differ from each other. But the burden ought to be on protectionists to explain why. The burden ought to be on protectionists to successfully identify at least one relevant difference that justifies government intervention in the case of fellow citizens choosing to import but not in the case of fellow citizens choosing to diet (or to otherwise change the details of their economic activities). Lemieux's book shows why it is impossible for protectionists to meet this burden.

Now, more than ever, we need to remind ourselves of the economic as well as the ethical reasons why our nation has pursued a path of trade liberalization since the end of World War II. Pierre Lemieux's book is just the timely and pithy reminder that we need at this historic moment.

