Protectionism vs free trade

Part I – The World’s Economic Debate

Today people throughout the world are aware that they depend for their daily bread on something called “ the economy,” and they are aware that they are vulnerable because “ the economy” is vulnerable. People are aware that their local economies are somehow inserted in international trading patterns, and that what happens to them personally in their daily lives is affected by distant commerce. However, the importance of the global market for contemporary society is often underestimated and the distant trade is actually not so distant.

The idea that international trade can facilitate economic growth by expanding the size of the market is as old as the economics profession itself, tracing back to Adam Smith’s 1776 discourse on the gains from specialization of trade. Nevertheless, along with the idea of international trade, another concept of commerce runs called protectionism. A century and a half ago French economist and statesman Frederic Bastiat presented the practical case for free trade: “ It is always beneficial,” he said, “ for a nation to specialize in what it can produce best and then trade with others to acquire goods at costs lower than it would take to produce them at home” (Berdell 2).

A case for protectionism must also be remembered when 1977 AFL-CIO President, George Meany said, “ Free trade is a myth. Foreign countries subsidize their manufacturers, which enables them to undercut United States companies and take the jobs of American workers This is not competition – it is a stacked deck, stacked against the American worker If we pursue the policies that have gone on for the last few years, we're going to be a completely service nation" (Freshman 383).

Part II – Protectionism

Many advocators of protectionism, including Patrick J. Buchanan, are always willing to claim that free trade is a myth. Buchanan goes on to say, " It envisions a future that will never exist and assumes an ideal world that does not exist" (Freshman 383). Those who see these and other fallacies of free trade often turn to the economic theory of protectionism for answers. In short, protectionism can be defined as a system of policies and devices created by governments in order to develop or preserve domestic industries by protecting them from foreign competition, usually through duties imposed on importations. The theory of protectionism, similarly to that of free trade, has many strengths and weaknesses that must be examined and weighed carefully in order to determine the best economic trade policy.

Pat Buchanan states one of the main points of protectionism clearly when he said, " No superpower can rely on foreign trade for the necessities of national survival – and remain a superpower" (Freshman 384). If the United States wishes to preserve its status of world power, it must keep its money at home in domestic industries instead of supporting foreign firms. Trading with countries that are socialist or violate human rights will only strengthen and support their industries.

They must instead support domestic firms to keep the money and power in their own country. However, this concept can hurt the national economy also. If a country does not spend money on imports, they will not be able to export goods to countries that would otherwise patronize the merchandise. Also, through buying imports, a country or industry will give up an intangible asset (money) in order to gain tangible assets (imported goods) that they can use and profit from (Frum 22).

Another argument for protectionism is that this economic system will not only protect key industries but more-so safeguard developing infant industries. Protectionism is especially strategically effective today for many developing countries. Buchanan again supports this idea for protectionism saying, “ Had infant America followed free trade, our legendary industrial expansion would never have taken place, and America would never have dominated the twentieth century” (Freshman 391). The key to national power is manufacturing. When industries are in developmental stages of production, their prices may be higher due to additional costs for initial investment.

Protectionism will give these firms an equal field instead of trying to compete with already developed companies. Soon the infant industries will be able to raise their productivity rate so they can lower their prices but they must have protection until they can get off the ground. On the other hand, this case cannot always be used to support protectionism. Adam Smith argued that, although this case is the only valid argument for tariffs, a more efficient way to take care of this problem is through government subsidies. This way the infant industries will be put on a level trading field with large foreign companies and will still allow free trade to flourish in the global economy.

One final argument to support protectionism is it can save American jobs. Whenever a cutback in production for an industry is made, some workers must lose their job and unemployment increases. According to the general supply and demand theory of economics, cutbacks in production occur when the product made is not in as great of demand. If consumers buy foreign goods because their prices are lower to due government subsidies, American companies will suffer which eventually leads to the rise of unemployment in America.

Economist Mehrene Larudee reminds us that, “ In a primitive system, perhaps people would spread the work and enjoy more free time. But not in the contemporary world of the 9-to-5 job” (Freshman 366). Unfortunately, every U. S. job saved by protectionism costs $160, 000 in higher prices due to tariffs (Glance 5). In addition, placing tariffs on foreign goods cause foreigners to put their own tariffs on American goods so net exports are not profitable.

Part III – Free Trade

In the past decade, free trade has become more and more an integral concept with globalization and world trade. Free trade can be defined as international trade free from governmental restrictions or protective duties and subject only to such tariffs as are needed for revenue. Economist Mehrene Larudee summarizes the basic concept of free trade saying, “ Classical economic theory favors free trade among nations. Each country specializes in what it makes most efficiently, so that everyone can buy goods as cheaply as possible” (Freshman 366). The world free trade allows producers to put their product on the market in direct competition with other producers and allows consumers to buy any product they so choose.

Supporters of free trade argue that protectionism is especially inappropriate in the late 1990’s. The American economy is booming with unemployment around 5 percent since late 1996 (Samuelson 9). Much of this current economic flourish has been a benefit of free trade. Also, in the end protectionism does not attract many voters, because not many Americans would benefit from import restrictions, especially if they resulted in retaliation against American exports.

The raw numbers seem to confirm this. In 1997, for example, imports equaled only 13 percent of the economy’s output, Gross Domestic Product, and this was nearly offset by exports, 12 percent of GDP (Samuelson 13). Such figures suggest that protectionism has only a tiny constituency. Polls also find Americans to be strong advocators of trade. A CBS survey in late 1996 asked whether trade was good or bad for the country.

The response was that 69 percent said it was good and only 17 percent said it was bad. However, a Los Angeles Times poll a few months earlier asked whether imports should be restricted to “ protect American industry and jobs” or rejected “ to permit the widest choices and lowest prices.” The response: 63 percent favored restrictions, only 28 percent didn’t (Berdell 2).

Free trade benefits include increased domestic competition and thus lower domestic product prices. In a free market, consumers can buy the best product at the lowest price, which puts the burden of true competition on each industry. Buchanan treats the free trade process mainly as a zero-sum game: one country’s gain is another country’s loss. If this were true, there would not be much global trade and investment.

When losers recognized their losses, they would withdraw from the market. What is true, of course, is that individual companies or individual workers can lose in trade. But what is bad for a company or an industry is not necessarily bad for a country. Mehrene Larudee reiterates this idea saying, “ It is no longer nations, but companies that trade” (Freshman 368). Many countries now make and trade the same things. Japan makes and trades cars, computer chips, and telephone switching centers; and so do the United States and Germany.

The result is bigger markets that enable efficient producers to achieve greater economies of scale by spreading costs across more buyers. This allows prices to consumers to drop. Boeing, Microsoft, and Caterpillar all have lower unit costs because they are selling to a world market (Berdell 4). Domestic competition also intensifies because imports compel domestic rivals to improve. Chevrolets and Chryslers are now better and more efficiently made because Americans can buy Toyotas and Hondas. In many industries American firms and workers have had to adapt to the best foreign practices and technologies.

Part IV – A Humble Assessment

After careful examination of the advantages and shortcomings of both protectionism and free trade, my analysis has led me to believe the advantages of free trade greatly outweigh both the disadvantages to the free market and the benefits of protectionism. Although patriotism can be an important aspect to the success of any nation, the world is becoming more globally aware so a modern economic system must comply with this sense of globalization.

The United States has strove to uphold democracy in countries throughout the world so our fellow global citizens can live as free citizens. These free peoples deserve an economic market where they have the choices of free consumers. In a modern-day world society, government-run economics are out of date and old-fashioned. The consumer should be free to patronize and buy any product they choose, whether it is for reasons of price, quality, or national pride.

In a free market, consumers are still able to turn away from one industry to another in order to support their own domestic firms but there should not be restrictive laws eradicating other consumers’ rights to buy a product at the lowest price. In the end, free trade gives consumers the greatest consumption possibilities with lower product prices, a greater product variety, and increased industrial competition. Free trade puts the burden of economic competition where it belongs, on the industries, not on the patrons of the world.