

Protectionism

Business



Protectionism and free trade contrast in that free trade entails a minimum movement of capital and government interference. With protectionism arise factors such as anti-globalization.

Anti-globalization has been closely aligned with protectionism which means the doctrines within which a country protects its workers and businesses through regulating their trade practices with foreign countries. 'I understand that principle of comparative advantage' and 'I advocate free trade.'

Protectionism in developed countries has typically been motivated by the desire to protect the livelihoods of its individuals and in trading in their domestic industries. Economic theories that were associated with protectionism historically were import substitution and mercantilism.

Mercantilism believed that it was of utter importance to maintain a positive trade balance. History of Protectionism Protectionism had existed way back in early America and still exists today.

There have existed Republicans and Democrats in the States for a long time and with protectionism the Republicans have dominated American politics up until the twentieth century. America has hence grown economically stronger in the world map through and because of trade barriers. These trade barriers arose due to protectionism. By taking the meaning of protectionism as a restrictive trade and economic policy restraining trade between states through methods such as restrictive quotas, tariffs (tax levied on exports and imports) and other regulations by the government it has discouraged imported goods and prevented taking over of domestic companies and markets by foreign companies. Protectionism and free trade contrast in that

in free trade, there is minimum movement of capital and government interference.

Anti-globalization has been closely aligned with protectionism which means the doctrines within a country that protect workers and businesses through regulating their trade practices with foreign countries. Economic theories that were associated with protectionism historically were import substitution and mercantilism. Mercantilism believed that it was of utter importance to maintain a positive trade balance. Most modern economists have agreed that protectionism is harmful because it not only impedes growth but also that its costs outweigh its benefits. Paul Krugman, trade theorist and an economics Nobel prize winner, said, “ if there were an economist’s creed it would surely contain the affirmations ‘ I understand the principle of comparative advantage’ and ‘ I advocate free trade.’ protectionism in developed countries has mostly been motivated by the desire to protect the livelihoods of its citizens in trade and in their domestic industries.

(Krugman, 2009 p 21) Protectionism as practiced in the United States
Protectionism and free trade have become regional issues in the United States. Protectionism is a manufacturing issue in the northern part whereas free trade is an economic policy in the American slave holding states. A part from slavery, trade differences between the two regions contributed to the civil war and remains an issue of national controversy even today. The southern holding states historically had little perceived need for mechanization, due to their low cost of manual labour and supported the right to purchase goods from any nation, hence called themselves free traders. Then the northern states on the other hand sought to come up with a
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manufacturing capacity and succeed in raising tariffs to allow northern manufacturers to compete with British competitors.

(Alexander Hamilton's 1791 p 3), "Report on Manufacturers", advocated tariffs that would help to protect the infant industries, including bounties that were in part derived from those tariffs which made the United States the leading nation opposed to the theory of "free trade". Republicans dominated over the Democrats when the North won the Civil War, and they continued dominating American politics until around the twentieth century. President William McKinley stated the United States' stance under the Republican Party as, "Under free trade the trader is the master and the producer the slave. Protection is but the law of nature, the law of self-preservation, the law of self-development and the law of securing the highest and best destiny of the race of man. [It is said] that protection is immoral....

Why? This is because if protection builds up and elevates up to 63,000,000 [the U. S. population] of people, the influence of those 63,000,000 people elevates the rest of the world. We cannot take a step in the pathway of progress without benefiting mankind everywhere. Well, they say, 'Buy where you can buy the cheapest'.... Of course, that applies to labor as to everything else.

Let me give you a maxim that is a thousand times better than that and it is the protection maxim: 'buy where you can pay the easiest.' And that spot of earth is where labor wins its highest rewards." (McKinley, 2007 p. 23) The infant industry argument This is an economic rationale for protectionism. The argument points out those emerging industries need to be protected since

they do not have economies of scale as compared to the older industries.

Alexander Hamilton, 1791, "Report on Manufacturers" first came up with this argument.

According to Stiglitz, almost all newly developed countries had adopted some form of infant industry promotion strategy when they were in catching up positions. (Stiglitz 2010 p. 22). In many countries, tariff protection was a key component of this strategy, but was neither the only nor even necessarily the most important component in the strategy" Infant industry protection is important as a policy recommendation. Even when the intention to protect infant industries is good, it is hard for governments to know which industries they should protect. This is because the adult foreign competitors may hinder the growth of the infant industries.

Some of the arguments for protectionism In order to protect a country's economy and the peoples standards of living, most protectionists believe that there is a legitimate need to restrict free trade by governments. According to protectionists, allowing foreign goods to enter domestic markets when they have not been subjected to tariffs and other forms of taxation which lead to some kind of reverse protectionism arises to a situation whereby domestic goods are at a disadvantage. By doing this most governments must continue relying on domestic taxation solely to generate revenue and this falls disproportionately on domestic manufacturing. Protectionists further argue that reverse protectionism is mostly experienced in those countries that don't participate in the Value Added Tax system(VAT), such as the U. S.

VAT is a system that is used to generate revenue from the taxation of goods and services, whether foreign or domestic. A country that does not participate in this system is at a distinct disadvantage than a country that does, as per the protectionists' argument. Protectionists believe that the governments must address this inequity by at least imposing compensating tariffs or taxes on imports or adopting a VAT tax. (Cowen, 2006 p. 36)

Arguments against Protectionism Mainstream economists support free trade and frequently criticize protectionism by saying that it harms the individuals it was meant to be helping. The economic theory shows that the gains from free trade outweigh any losses that may be incurred because free trade creates more jobs as it allows countries to specialize in production of goods and services in which they have a comparative advantage.

Protectionism leads to deadweight loss unlike in the free market that does not have such total loss. Most economists believe that free trade helps workers in the developing countries because of the jobs created by the new export sector. Protectionism has also been said to be a major cause of war for example, the war in the 17th and 18th centuries in the European countries whose governments were mostly mercantilist and protectionist. The American Revolution hence brought about British tariffs and taxes as well as the protective policies after World War 1 and World War 2. According to Frederic Bastiat, “ when goods cannot cross borders, armies will”.

Free trade leads to equal accesses to domestic resources foreign participants and domestic participants alike. Does Trade Protectionism Induce Growth?

The view that liberalization leads to economic growth is based on the example of the East Asian economies' rapid development and growth

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through export oriented policies. Trade liberalization was used to dilute the monopoly power by throwing the big fish into a very larger, global pool. It was argued that trade liberalization will boost exports and growth by allowing markets to work in an efficient manner. (MacDonald 2010 p. 34) The link between trade liberalization and economic growth is highly controversial.

The studies linking trade liberalization to economic prosperity ignore role of institutions, macroeconomic policies, geographical and social structures and economic ideologies that are critical for the creation of the dynamics of economic growth. Conclusion The above essay discusses protectionism and economy in the United States. Protectionism means a restrictive trade and economic policy restraining trade between states. It briefly highlights a brief economic history of the United States and some current economic trends. It also highlights about tariffs and regarding tariffs we can conclude that optimal tariffs cause losses in not only America but many countries in the world where they are imposed.

The pros and cons of protectionism have been discussed according to various economists and we can conclude to say protectionism has hugely helped the early American economy and still does today.