

THE LURE OF PROTECTIONISM

The arguments for so-called "protectionism" (called "fair trade" by some) may at first sound appealing. Supporters of "protectionist" laws claim that keeping out foreign goods will save jobs, give ailing domestic industries a chance to recover and prosper, and reduce trade deficits. Are these claims valid?

PROTECTIONISM: WHAT IT COSTS YOU

Classical Liberal philosopher John Stuart Mill astutely observed in the last century that "Trade barriers are chiefly injurious to the countries imposing them." It is as true today as it was then, for the following reasons:

LOST JOBS: Protectionist laws raise taxes (tariffs) on imported goods and/or impose limits (quotas) on the amount of goods governments permit to enter into a country. They are laws that not only restrict your choice of consumer goods but also contribute greatly to both the cost of goods and the cost of doing business. So under "protectionism" you end up poorer, with less money for buying other things you want and need. Protectionist laws that reduce consumer spending power actually end up *destroying* jobs. In the U.S.A., for example, according to the U.S. Department of Labor's own statistics, "protectionism" destroys 8 jobs in the general economy for every 1 it saves in a protected industry.

HIGHER PRICES: Japanese consumers pay 5 times the world price for rice because of import restrictions protecting Japanese farmers. European consumers pay dearly for EEC restrictions on food imports, and heavy taxes for domestic farm subsidies. American consumers also suffer from the same double burden, paying 6 times the world price for sugar because of trade restrictions (to give but one example). The Semiconductor Trade Pact, which pressured Japanese producers to cut back production of 256K computer memory chips, caused an acute worldwide shortage of these widely used parts. Prices quadrupled and domestic companies using these items in production of electronic consumer goods were badly hurt.

HIGHER TAXES: Protectionist laws not only force you to pay more taxes on imported goods, but also raise your general taxes as well. This is because governments invariably expend their Customs Department bureaucracies to force compliance with their new rounds of trade restrictions. These bureaucrats must be paid. There is also the expense of *more* red tape and paperwork for trading companies and more harassment of individual travellers passing through the borders.

THE DEBT CRISIS: Western banks are owed hundreds of billions of dollars by Third World countries. Trade restrictions by Western governments, however, have cut off Western markets for these countries, making it virtually impossible for them to earn the hard currencies necessary to repay their loans. This increases the very real possibility of a collapse of the world banking system.

PROTECTIONISM: WHO GAINS?

In spite of evidence of damage caused by trade restrictions, pressure for more "protectionist" laws persists. Who is behind this, and why?

Those who gain from "protectionist" laws are special-interest groups, such as some big corporations, unions, and farmers' groups—all of whom would like to get away with charging higher prices and getting higher wages than they could expect to earn in a free marketplace. These special-interests have the money and political clout for influencing politicians to pass laws favorable to them. Politicians in turn play on the fears of uninformed voters to rally support for these laws.

THE LOSERS? YOU and all other ordinary consumers. Your freedom of choice is being trampled into the dust by these laws, and you are literally being robbed, through taxes and higher prices, in order to line the pockets of a few politically privileged "fat cats".

"'Protectionism' is a misnomer. The only people protected by tariffs, quotas and trade restrictions are those engaged in uneconomic and wasteful activity. Free trade is the only Philosophy compatible with international peace and prosperity."

DR. WALTER BLOCK
Senior Economist: The Fraser Institute, Canada

TRADE WARS — BOTH SIDES LOSE

When the government of Country A puts up trade barriers against the goods of Country B, it is no less than an act of economic warfare against the people of Country B. The government of Country B will naturally retaliate by erecting trade barriers against the goods of Country A. The result? A trade war in which both sides lose. But all too often a depressed economy is not the only negative outcome of a trade war. . . .

WHEN GOODS DON'T CROSS BORDERS — ARMIES WILL

History is not lacking in examples of cold trade wars escalating into hot shooting wars:

- Europe suffered from almost non-stop wars during the 17th and 18th centuries, when restrictive trade policy (mercantilism) was the rule; rival governments fought each other to expand their empires and to exploit captive markets.
- British tariffs provoked the American colonists to revolution, and later the Northern-dominated U.S. government imposed restrictions on Southern cotton exports—a major factor leading to the American Civil War.
- In the late 19th Century, after a half-century of general free trade (which brought a half-century of peace), short-sighted politicians throughout Europe again began erecting trade barriers. Hostilities built up until they eventually exploded into World War I.
- In 1930, facing only a mild recession, U.S. President Hoover ignored warning pleas in a petition by 1028 prominent economists and signed the notorious Smoot-Hawley Act, which raised some tariffs to 100% levels. Within a year, over 25 other governments had retaliated by passing similar laws. The result? World trade came to a grinding halt, and the entire world was plunged into the "Great Depression" for the rest of the decade. The depression in turn led to World War II.

THE NO. 1 DANGER TO WORLD PEACE

The world enjoyed its greatest economic growth in history during the relatively free-trade period of 1945-1970, a period that also saw no major wars. Yet we again see trade barriers being raised around the world by short-sighted politicians. Will the world again end up in a shooting war as a result of these economically deranged policies? Can we afford to allow this to happen in the nuclear age?

"What generates war is the economic philosophy of nationalism: embargoes, trade and foreign exchange controls, monetary devaluation, etc. The philosophy of protectionism is a philosophy of war."

PROF. LUDWIG VON MISES

FREE TRADE: THE SOLUTION

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." Later in the 20th century, journalist Frank Chodorov made a similar observation: "Society thrives on trade simply because trade makes specialization possible and specialization increases output and increased output reduces the cost in toil for the satisfactions men live by. That being so, the market place is a most humane institution."

WHAT YOU CAN DO

Silence gives consent, and we do **not** consent to the current waves of restrictive trade legislation being passed with ever-increasing regularity. If you agree that free trade is beneficial to the world and important to your future, we suggest that you write political leaders in your country and tell them that you will not tolerate their interfering with free trade. Send them a copy of this pamphlet. We also suggest that you write letters to editors in the media and send this pamphlet to them. Discuss this issue with your friends and warn them of the danger of current "protectionist" trends. Check on how this issue is being taught in the schools. Widespread public un-

derstanding of this issue, followed by citizen action, is the only solution. Free trade is too important an issue to leave in the hands of politicians.

"For thousands of years, the tireless effort of productive men and women has been spent trying to reduce the distance between communities of the world by reducing the costs of commerce and trade.

"Over the same span of history, the slothful and incompetent protectionist has endlessly sought to erect barriers in order to prohibit competition—thus, effectively moving communities farther apart. When trade is cut off entirely, the real producers may as well be on different planets.

"The protectionist represents the worst in humanity: fear of change, fear of challenge, and the jealous envy of genius. The protectionist is not against the use of every kind of force, even warfare, to crush his rival. If mankind is to survive, then these primeval fears must be defeated.

KEN SCHOOLLAND

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The Great Debate:

FREE TRADE VS. PROTECTIONISM



You as a consumer are going to be greatly affected by the outcome of a major debate now raging around the world. The debate is whether national economies can be helped more by FREE TRADE or by TRADE PROTECTIONISM.

This pamphlet answers the questions:

- Who benefits from protectionism?
- How will the outcome of protectionist legislation affect your wallet and your choices?
- How will protectionism affect jobs, the economy, and even world peace?