

EXHIBIT 9. **The Politics of Protectionism: A Negative-Sum Game**

By offering trade protection, lawmakers create a dilemma for producers: Compete or seek protection. The economic pie is never greater than when firms compete because then they focus every resource on production. But suppose firm A can increase its piece of the pie (say, from 50 to 60 out of 100) by promising votes or campaign contributions in return for political favors. Then its incentive is to do so even though the total pie will shrink (say, to 90) as resources shift from production to protection. Its competitor, firm B, will do likewise, with similar results. The politics of protectionism lead ultimately to the worst possible outcome: a negative-sum game in which less is produced than under free trade. The only way out of this mess: *Nobody* gets protection.

Producers Versus Consumers

Although trade protection makes no economic sense, just about every nation on earth indulges in it to some degree. To understand why, we need to distinguish the general interest, which favors freer trade, from special interests, which profit at the expense of the overall economy—a negative-sum game. (See *Exhibit 9*.)

This tug-of-war pits producers against consumers. Producers want scarcity—high prices and fat profits. Consumers want abundance—many goods and services at low prices.

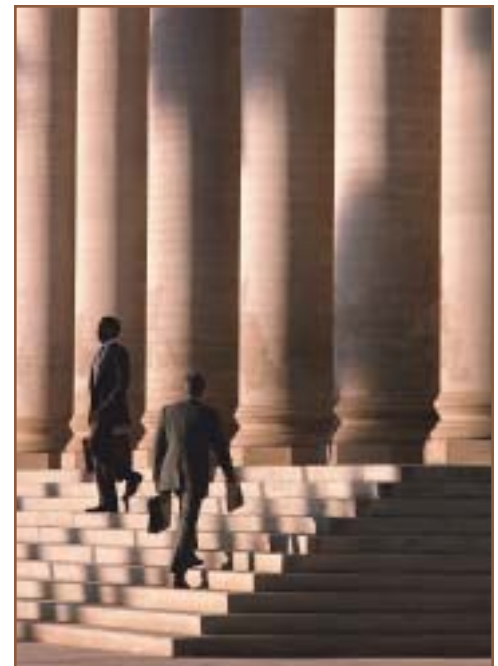
Although consumers outnumber producers, those who seek protection often gain an upper hand. That's because producers are willing to invest more resources in reducing competition than consumers are in fighting for open markets. The imbalance is inherent in the economic system.

Consumers buy in thousands of markets. No individual possesses the time, energy and financial incentive to fight for lower prices in each of them. The overall gains from open trade may be large, but each household's share is usually a few dollars or even a few cents—an amount too small to fire up consumers.

Producers, on the other hand, sell in one market. It gives them a strong incentive to focus on their own industry or jobs. Producers, unlike consumers, are usually few in number. Even if curtailing foreign competition adds only a few pennies per sale, each producer stands to reap a nice profit.

So producers are willing to organize and spend big money in the fight for government favor. We see it in the growing number of lawyers and lobbyists who represent producers' narrow interests. In the past quarter century, the number of registered lobbyists in Washington tripled, to over 60,000. There are 44,000 more lobbyists at the state level.

The imbalance between producers and consumers shows up in America's long-standing import quotas on sugar. Because of inflated prices, a small number of growers and refiners pocket an estimated \$400 million a year. The



quotas deny consumers cheaper foreign-made sugar, so they're worse off. The overall cost to a typical household, however, totals just \$21 a year, hardly enough to incite anyone to petition, picket or politic.

Each instance of protection might involve small amounts of money. Add them up, though, and consumers are left significantly poorer. The Institute for International Economics estimates the annual cost of U.S. foreign protectionism at \$6,027 per household.

Special interests are difficult to police because they're a natural byproduct of our economic success. They derive from specialization, the concentration of producers' efforts to do what they do best. So the major force undermining open trade arises from the very thing that creates wealth in the first place.

Protectionism persists because it's never pitched as a conspiracy to raise consumer prices. Instead, it's presented as a worthy idea. Who could object to saving American jobs or ensuring the survival of industries vital to the national interest?

Troubled industries with political clout—automobiles, steel and agriculture, for example—blame competition from imports for lost jobs and declining sales. It makes for the perfect bumper sticker: *Buy American. The Job You Save May Be Your Own.*

Producers complicate the trade debate by putting the onus on other countries. The offenses of foreign governments include subsidizing textile manufacturers and farmers. Often, American industries charge that foreign companies dump their products on the U.S. market at unfairly low prices. (See Exhibit 10.)

So-called unfair trade practices provide a justification for breaching the common sense of free trade. We should, however, ask, Unfair to whom? Subsidies are surely unfair to European taxpayers. Dumping might seem unfair to U.S. producers. Neither is particularly unfair to American consumers, who benefit from the lower prices.

When other countries' trade negotiators fight U.S. dumping complaints, they're standing up for their nations' companies. Without intending to, they're also working for American consumers.

Another trade complaint centers on nations where workers earn just \$1 or \$2 a day. Protectionists claim that cheap foreign labor drives down domestic wages and hurts U.S. industry. That's not how economies work. American workers command high wages because of their skills, education and productivity. They'll still be well paid even if American consumers take advantage of the bargains trade offers.

Indeed, trade correlates with higher wages. Workers in Mexico's maquiladoras—which assemble products for export—earn more than those in similar jobs in domestic industries. U.S. workers in export industries command an 18 percent premium. In general, export-oriented firms are more productive, and they pay better.

Governments often succumb to the lure of temporary trade barriers. Poor countries, for example, may restrict imports to give infant domestic industries a chance to take root. Such strategies trust bureaucrats to pick winners. If they're wrong, it simply wastes money. And if they're right, the outcome is even worse: Industries become addicted to protection, so they marshal their political clout to preserve it long after it may have served its purpose.

Buy American. The Job You Save May Be Your Own.

A common myth is that it's better for Americans to spend their money at home than abroad. The best way to expose the fallacy in this argument is to take it to its logical extreme. If it's better for me to spend my money here than abroad, then it's even better to buy in Texas than in New York, better yet to buy in Dallas than in Houston. . . .in my own neighborhood . . . within my own family. . . .to consume only what I can produce. Alone and poor.



EXHIBIT 10. **Dumping: Trash or Treasure?**

Dumping is a word normally associated with refuse. But dumped goods can be a boon to consumers. Over the past two decades, U.S. producers have filed more than 300 antidumping claims against foreign suppliers. The allegedly offensive products run the gamut from tin cans to toothbrushes, aspirin to alcohol, hammers to honey, pencils to pasta. Trash or treasure? The consumer surely knows.



Where are the dumped goods?

In the grocery cart

Sugar
Fresh Atlantic salmon
Crawfish tail meat
Honey
Pasta
Nonfrozen apple juice concentrate
Frozen concentrated orange juice
Canned pineapple
Individually quick-frozen red raspberries
Preserved mushrooms
Fresh tomatoes
Fresh garlic
In-shell pistachios
Aspirin
Petroleum wax candles
Natural-bristle paint brushes
Paper clips
Folding gift boxes
Cased pencils
Stainless steel cookware
Polyethylene terephthalate film (used in soda containers)
Greige polyester cotton print cloth (dish towels)
Polychloroprene rubber (latex gloves)

Tin mill products (battery tops)
Potassium permanganate (disinfectant)
Alloy magnesium (aluminum cans)
Anhydrous sodium metasilicate (dish-washing soap)
Sebacic acid (toothbrush bristles)
Sulfanilic acid (food coloring)
Barium chloride (bug spray)
Sorbitol (cough medicine)
Electroluminescent flat-panel display (calculator)
Magnesium (vitamins)

Grocery cart

Melamine (plastic cart handle)
Ball bearings (cart wheels)

On the shopper

Synthetic indigo (purple-dyed sweater)
Polyester staple fiber (skirt)
Extruded rubber thread (hosiery)
Coumarin (perfume)

Store construction

Softwood lumber
Gray portland cement
Furfuryl alcohol (paint)
Granular polytetrafluoroethylene resin (electrical wire insulation)
Carbon steel wire rods
Stainless steel bars
Steel concrete reinforcing bars
Structural steel beams
Welded carbon steel pipe
Malleable cast-iron pipe fittings
Seamless pipe
Silicon metal
Iron construction castings
Pressure-sensitive plastic tape (aisle marking and labels)

Car

Replacement glass windshield
Brake rotors
Foundry coke (used in the production of engine blocks)
Polychloroprene rubber (belts and hoses)
Alloy magnesium (auto body)
Industrial nitrocellulose (paint)