
Readings

Pummeling Protectionists

A Trade Policy for Free Societies: The Case Against Protectionism by Robert W. McGee

publisher?

Reviewed by Edward L. Hudgins

The public debate over the General Agreement on Tariffs and Trade (GATT) has revealed the depth of misunderstanding over free trade. Most unfortunate is that many of these economic errors are perpetuated by advocates on the right who profess to favor limited government. Some, such as Pat Buchanan, maintain that free trade costs American jobs, lowers living standards, and makes the country less competitive.

These arguments were well refuted at least 150 years ago and certainly have been refuted by history and empirical study up to the present. Yet the fallacies about free trade, beyond the special pleadings of interest groups that benefit from reduced competition, persist.

This is why Robert McGee's work is so welcome at this time. McGee has managed to collect in one short book every major argument against free trade and refute them with every major argument in favor of freedom. Further, he does not shy away from the logical and sensible conclusions of his own analysis, that there are no justifications for trade barriers and that they might be removed unilaterally, to the benefit of the U.S., whether America's trade partners do so or not.

There is little fundamentally new in McGee's book; McGee himself points out that the truth has been around for centuries, and he relies heavily on secondary sources. Indeed, the extensive footnotes and bibliography are virtues of the book.

For over a decade, this reviewer has heard innumerable misunderstandings and miscon-

ceptions used to justify restrictions on trade. I can think of none that McGee has not addressed in his book.

The book's first section is on "The Philosophy of Protectionism." Chapter 1, on the "Protectionist Mentality," addresses, among other things, the common fallacies used to justify trade restrictions, including the job destruction argument, the deindustrialization argument, the hamburger flipper argument, the level playing field argument and the national defense argument. For each a short refutation is given. An honest reader with a bare knowledge of market principles should find the logic of each argument easy to follow. Those seeking a more in-depth explanation will find in this chapter, as in all others, copious references to other works that should clear up any lingering questions.

Chapter 2, on the "Trade Deficit Myth," contains a clear refutation of one of the most misunderstood, though what should be one of the easiest to understand, concepts in trade. McGee follows step by step a hypothetical transaction in which an American company sends a boatload of goods to Japan and returns with a boatload of Japanese goods to sell in the U.S. Viewing this transaction from one perspective, the American firm, that is, the owners, stockholders and workers, makes a profit of \$110,400. But focusing only on trade figures, these transactions are recorded as a \$152,000 trade deficit. The point is that looking only at transactions in terms of trade deficits and surpluses does not tell the whole story. Americans, in fact, profit with trade deficits.

The book's second section focuses on "The Costs of Protectionism." Here we see the magnitude of the rents acquired by industries that can limit foreign competitors in their home markets and, of course, the real motives of many who wrap their protectionism in an alleged concern for the strength of the American economy.

McGee mainly compiles the cost calculations of other analysts. But it is valuable to have these figures handy in this one source. In addition to the costs of protectionism for such products as automobiles, steel, and textiles, McGee reviews the non-monetary costs of protectionism. The net loss of jobs is a cost often disguised, since the jobs "saved" by trade barriers usually are concentrated in one industry while the losses are spread out over many.

In addition, McGee appropriately lists the loss of freedom and individual choice among the costs of protectionism. Indeed, protectionism is first and foremost a limit on the freedom of individuals to dispose of their property as they see fit, to purchase from whom they please. The ethics of redistribution of wealth, which is the essence of protectionism, should be at the center of trade discussions.

The book's third section, on anti-dumping policy, addresses one of the most pernicious, yet misunderstood, forms of protectionism. Dumping is usually defined as a form of unfair competition in which a foreign firm sells its products on the American market below either the market price in the home country or the actual cost of production. To many policymakers, private citizens and the media, to charge a foreign business with "dumping" goods in the American market has the feel of that other term that protectionists hid behind, "unfair trade," but with a pseudo-economic veneer. To simply call a competitor "unfair" sounds too much like special pleading for many to take seriously. Yet when federal bureaucrats and agencies work with prices, exchange rates, product volumes and formulae to supposedly demonstrate that a foreign competitor is engaging in some sort of practice that should be stopped, many assume that dumping complaints must be based on some objective standard of economic "good" and "bad." *ol*

In fact, anti-dumping laws are a form of protectionist sleight-of-hand that do not demonstrate that any transgression has taken place. Such laws set up arbitrary and unfounded definitions of what is "unfair," and give American firms maximum flexibility to manipulate data to "prove" an unfair practice deserving retaliation.

McGee reviews the fallacies of anti-dumping

arguments, from their philosophical flaws to the methodological tricks employed by their users. For example, the depreciated value of an asset can be an important factor taken into account in anti-dumping cases. McGee shows how, depending on which method of accounting is used, in a hypothetical case the value might be \$750, \$1,250, \$1,700 or \$1,200. Again, McGee relies heavily on secondary sources. Of the 129 footnotes in Chapter 7, ~~forty-eight~~ ⁴ are from the works of James Bovard. But this well-organized review should be standard reading for those who mistakenly believe that anti-dumping laws rest on some principle accepted by most economists.

McGee reviews a number of actual dumping cases. If the reader's eyes are not opened by theoretical refutations of the validity of these laws, they certainly should be when they see how these laws, in a politicized process, work in practice.

As the world becomes more economically interdependent, and as America opens both foreign markets and its own with NAFTA and GATT, the political forces aligned for and against open markets are in curious flux. Traditional support for free trade among Democrats had eroded in past decades as unionized manufacturing industries such as steel and autos faced new competition. Yet freer trade is now part of the program of so-called "New Democrats." But in the Clinton administration this program has increasingly included attempts to force America's regulatory regime, most notably in the areas of environment and labor, on other countries.

On the Republican side, Ronald Reagan made the free trade ideology, though not always the practice, part of his movement. And it was Republicans who initiated negotiations leading to NAFTA, and pushed it through in the House of Representatives over Democrat opposition. Yet the Buchanan Republicans and the Perot independents have made economic nationalism part of their ideology, even though their policies are demonstrably not in America's national economic interest.

To fight future free trade battles it will be necessary to return to basics. That is what McGee's book does.