THE HIGH COST OF PROTECTIONISM

Murray L. Weidenbaum

Introduction

The rising pressures from management and labor for protection against imports require a Dutch uncle response, one that takes a tough position for the listeners' own good. My conversation with many business executives and union leaders reminds me of the students who cut class, do not do their homework, and then complain when you give them a low grade. Unfortunately, the parallel is clear.

For instance, in the U.S. automobile industry, worker attendance is substantially less than in Japan. The typical plant absenteeism in Japan averages 1.6 percent, whereas in the United States it ranges from 7 to 11 percent.[1] In addition, the labor turnover rate in the United States is twice as high. In 1977 Toyota reported a turnover rate of 2 percent compared with the historical average of around 4 percent for domestic U.S. automobile firms.[2] Yet, although these inefficiencies can be corrected, labor and management still request protection from the strong foreign competition which is, to a large extent, a result of the differences in current cost structures.

A second example is that of Caterpillar Tractor, a company which is losing its share of world markets, and at the same time is required to pay a bonus each time a worker puts in a full week on the job. In

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The author is Director of the Center for the Study of American Business at Washington University, St. Louis, Mo. 63130. He is indebted to Michael Athey for assisting in the preparation of this paper.

This paper draws heavily on Murray L. Weidenbaum with Michael C. Munger and Ronald J. Penoyer, *Toward a More Open Trade Policy*, Formal Publication No. 53, Center for the Study of American Business, Washington University, 1983.

[1]William J. Abernathy, James E. Harbour, and Jay M. Henn, "Productivity and Comparative Cost Advantages: Some Estimates for Major Automotive Producers," draft report to the U.S. Department of Transportation, Transportation Systems Center, 13 February 1981, p. 29.

[2]Ibid., pp. 34–35.

the recent contract settlement between the UAW and Caterpillar, the union "generously" agreed to replace the previous two hours time-off credit with a provision that allows workers to earn only one hour a week credit for regular attendance. Even with this concession, an average worker can still get paid for as much as four and a half days a year in which he or she does not work.[3] That is like my having to give an apple to each student who shows up in class on time. The result of contract settlements such as this has been to make it more difficult for American companies to compete with foreign firms. In this case, Caterpillar's labor costs are reported to be about double those of its major competitor, Japan's Komatsu Ltd.[4]

The sad truth is that industry after industry in the United States has been matching rising labor costs with falling productivity, making it more and more difficult to compete with imports. We cannot blame that on foreigners. The solution to this is not to erect additional trade barriers. Let us not fool ourselves about our hands being clean. The United States has erected numerous obstacles to imports. We may have conveniently short memories for such matters, but foreign businessmen can cite U.S. trade restrictions by chapter and verse.

Despite the lip service so often paid to the virtues of free trade, there is great danger that the United States is taking the lead in the current rush toward protectionism. Public policy debates are now dominated by one-sided, self-serving views of international trade. Everyone wants open markets and free trade overseas. We all know how urgent it is to eliminate "their" barriers to our exports. But we rarely even acknowledge U.S. barriers to foreign exports.

The problem can be explained with a simple, two-country example. Suppose country B has a big export surplus with country A while country A has a hard time getting its exports into country B. Sound familiar? Country B (with the big trade surplus), of course, stands for Japan and country A (with the big trade deficit) represents the United States. However, the story does not end here. When we take another look, we find that country B (with the big trade surplus) could also represent the United States and country A (with the big trade deficit), Western Europe. In fact, the United States has enjoyed a merchandise trade surplus with the European Common Market over the last decade ($83.8 billion) that is slightly larger than Japan's surplus with us ($81.4 billion). (See Table 1.)

[3]"A Strike-Weary Caterpillar Knuckles Under," *Business Week*, 2 May 1983, p. 30.
[4]Ibid.

TABLE 1

COMPARISON OF U.S. MERCHANDISE TRADE WITH JAPAN AND WESTERN EUROPE
(Billions of Dollars)

Area	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Japan										
Exports	8.4	10.7	9.6	10.2	10.6	13.0	17.6	20.8	21.8	20.7
Imports	9.7	12.4	11.3	15.5	18.6	24.5	26.3	31.2	37.6	37.7
Deficit	−1.3	−1.7	−1.7	−5.3	−8.0	−11.6	−8.6	−10.4	−15.8	−17.0
Western Europe										
Exports	21.2	28.1	29.9	31.9	34.1	39.6	54.2	67.6	65.1	59.7
Imports	19.8	24.3	20.8	23.0	28.2	36.6	41.8	47.3	52.9	52.9
Surplus	+1.4	+3.9	+9.1	+8.9	+5.9	+2.9	+12.4	+20.3	+12.2	+6.8
Net Surplus (+) or Deficit (−)	+0.1	+2.2	+7.4	+3.5	−2.1	−8.7	+3.7	+9.9	−3.6	−10.2

SOURCE: U.S. Department of Commerce. All figures are rounded.

U.S. Barriers to Imports

It would help to clear the air in international trade discussions if the United States were to acknowledge that all of our actions are not on the side of the angels. We have created many obstacles to inhibit imports into the United States.

Probably the most noticeable of these obstacles are the "Buy American" statutes that give preference to domestic producers in federal government procurements.[5] According to these statutes, federal agencies are required to pay up to a 6 percent differential in price for goods that are produced in the United States. In the case of military purchases, as much as a 50 percent premium is paid for domestic production. In addition, the Surface Transportation Assistance Act of 1978 requires that, for most purchases over $500,000 under the program of aid to mass transit systems, American materials and products be used. Also, American flag vessels must be used to ship at least 50 percent of the gross tonnage of all commodities financed with U.S. foreign aid funds.[6]

As shown in Table 2, many states also have "Buy American" laws. New York requires state agencies to buy American steel. New Jersey requires that all state cars be produced domestically. In addition, numerous states and municipal authorities require utilities to use American materials, whether they are investor-owned or government-owned.[7]

The Merchant Marine Act of 1936, now commonly referred to as the Jones Act, prohibits foreign ships from engaging in commerce between American ports. This law, of course, effectively bars competition in U.S. domestic marine transport. The perverse effects of such statutes are much greater than might be expected. For example, at times Canadian lumber transported by Japanese flag vessels has undersold domestic timber from Oregon in the lucrative southern California markets. In such cases, both the American merchant marine and the American timber industry suffer damage. Foreigners then become the unintended beneficiaries of these misguided attempts to subsidize the American merchant marine.

Many U.S. statutes limit imports of agricultural products such as sugar, beef, dairy produce, and mandarin oranges. Under the Meat

[5]See Murray L. Weidenbaum, *Business, Government, and the Public*, 2d ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1981), pp. 253–55.

[6]Norman S. Fieleke, "The Buy-American Policy of the United States Government," *New England Economic Review* (July/August 1969), pp. 2–6.

[7]Murray L. Weidenbaum with Michael C. Munger and Ronald J. Penoyer, *Toward a More Open Trade Policy*, Formal Publication No. 53, Center for the Study of American Business, Washington University, 1983, p. 26.

TABLE 2

BUY-AMERICAN PRACTICES IMPOSED BY THE STATES

State	Practice
Alabama	Requires use of U.S. materials "if available at reasonable prices" in cases of public works financed by state funds.
California	Requires use of materials of U.S. origin (subject to court challenge).
Georgia	Requires state agencies to buy American products if price and quality are equal to those of foreign products.
Hawaii	Establishes a scale of preferences for domestic products.
Idaho	Requires state bids to carry a clause restricting use of foreign materials.
Indiana	Restricts use of foreign steel and aluminum.
Kentucky	Discourages state agencies from requesting foreign-made products.
Maine	Reserves the right to reject bids involving foreign products when in direct competition with American products.
Massachusetts	Grants preference, "other considerations being equal," to in-state products first and then to other American products.
New Jersey	Requires U.S. domestic materials to be used unless their cost is "unreasonable."
New York	Restricts use of foreign products through general specifications for bids.
North Carolina	Follows a policy of purchasing domestic products "wherever we deem we are not penalizing ourselves as to competition, availability, service and ultimate cost."
North Dakota	Requires certain bids to carry the phrase "bid domestically produced material only."
Oklahoma	Requires purchases of domestic goods and equipment unless a foreign product is of "equal quality" and also "substantially cheaper" or is of "substantially superior quality" and is sold at a "comparable price to domestic products."
Pennsylvania	Prevents use in state projects of foreign steel and aluminum products made in countries that "discriminate" against American products.

TABLE 2 (cont.)

State	Practice
South Dakota	Writes state specifications for American-made products; if foreign-made is bid, award is made on condition of acceptance by the state agency.
Wyoming	Generally discourages use of foreign goods.

SOURCE: Norman S. Fieleke, "The Buy-American Policy of the United States Government," *New England Economic Review* (July/August 1969).

Import Act, the president has the authority to impose beef import quotas if imports of beef reach a certain trigger level. The United States generally has encouraged foreign exporters to restrain their sales voluntarily to avoid the imposition of formal quotas, but during the past year the administration has eliminated the pretense of voluntarism.

Although average U.S. tariff rates are low—about as low as Japan's—high tariffs are levied on some items. (See Table 3.) Tariffs on textiles average 22 percent. Duties on fruit juices are over 27 percent, and the rate on ceramic products is 14.5 percent. In addition, numerous nontariff barriers (often of a regulatory nature) are imposed by federal, state, county, and municipal governments. For example, many state and local authorities enact building codes that impose discriminatory standards favorable to local industry. The ceramic tile industry is one example. In the 1960s after Japanese imports had captured a large portion of the floor tile market in the United States, many local building codes were revised in order to screen out imported wall tile. This was brought about simply by requiring a thickness of wall tile different from that which Japan and Europe were producing.[8]

Despite this nation's overall free-trade posture, protection against imports into the United States now covers such basic industries as automobiles, steel, and textiles. Pleas for further trade restrictions extend to such esoteric sectors as mushrooms, ceramic tableware, and even mechanics' shop towels. It is not a question of merely accepting the existing array of protection. The challenge is to deal with the rising pressures for further restriction of world trade.

[8]William R. Cline, "Long-Term Changes in Foreign Trade Policy of the United States," in *The International Economy: U.S. Role in a World Market*, U.S. Congress, Joint Economic Committee (Washington, D.C.: Government Printing Office, 1980), p. 214.

TABLE 3

MAJOR U.S. HIGH-TARIFF ITEMS, 1980
(Millions of Dollars)[a]

Product	Import Value	Duty	Average Tariff
Agricultural Products			
Dairy Products	$ 314	$ 30	9.5%
Vegetables	660	75	11.3
Beverages	2,255	153	6.8
Fruit Juices	(144)	(40)	(27.6)
Tobacco	487	60	12.2
Manufactured Products			
Wood Veneers	613	57	9.3
Textiles	8,152	1,793	22.0
Apparel	(5,500)	(1,469)	(26.7)
Benzoid Chemicals	1,444	197	13.0
Synthetic Resins	160	16	10.3
Ceramic Products	969	140	14.5
Glass Products	604	66	10.9
Specified Products	17,240	1,320	7.7
Footwear	(3,975)	(494)	(12.4)
Jewelry	(821)	(83)	(10.1)
Matches	(120)	(14)	(11.2)
Miscellaneous Products	298	38	12.7
TOTAL	$33,196	$3,944	11.9%

[a]Numbers in parentheses are selected subtotals.

SOURCE: Statistical Services Division, U.S. International Trade Commission.

The Pressures for Protectionism

The first step is to understand why protectionism is popular. Protectionism can be described as a means by which small, well-organized groups use the political process to their advantage. The benefits are received by the protected industries, while some costs are shifted to other companies who buy from the protected industries. Ultimately, most of the costs are borne by consumers in the form of higher prices.[9] Thus, protectionism can be viewed as a hidden tax on

[9]For several examples of this phenomenon, see Morris E. Morkre and David G. Tarr, *Effects of Restrictions on United States Imports: Five Case Studies and Theory*, Staff Report of the Bureau of Economics to the Federal Trade Commission (Washington, D.C.: Government Printing Office, 1980).

the consumer. A recent study at the Center for the Study of American Business at Washington University attempted to estimate that hidden tax for 1980. It came to more than $58 billion, or $255 per American consumer.[10]

Like so many sales taxes, protectionism is unfair. Another report from the Center for the Study of American Business showed that "voluntary" quotas on imports of footwear acted as a regressive tax that hurt low-income consumers more than high-income consumers.[11] These quotas, however, have been eliminated by the Reagan administration.

Protectionist measures are a two-edged sword. They may well reduce imports from abroad, but at the same time they make it more difficult for U.S. domestic firms to export their products. For example, the United States was "successful" in getting the European Common Market to restrict its exports of steel to us. But our domestic automobile industry, a major purchaser of steel, now bears the burden of higher costs, which in turn make it less competitive. All this generates pressures for more protection—witness the domestic content bill recently proposed to protect employment in the automobile industry. Lower imports also mean fewer dollars abroad to buy American exports.

From the viewpoint of economic performance, protectionist measures are counterproductive. They reduce competition. By encouraging capital and labor to stay in less-efficient industries, they also result in less productivity and lower output, especially by the domestic industries purchasing the products of the protected companies. All this generates pressures for additional protectionist measures. There are no easy answers. But we do know that trying to export unemployment via beggar-thy-neighbor policies will not work. Such actions only exacerbate economic difficulties.

U.S. Barriers to Exports

We must also acknowledge the great extent to which our government has caused self-inflicted wounds by erecting obstacles to our own exports. Frankly, that makes us a laughingstock overseas when we urge other countries to lower their barriers to our exports while we make it more difficult for our own exporters.

[10]See Murray L. Weidenbaum and Michael C. Munger, "Protection at Any Price?" *Regulation* 7 (July/August 1983): 14–18.

[11]See Jooh N. Suh, *"Voluntary" Export Restraints and Their Effects on Exporters and Consumers: The Case of Footwear Quotas*, Working Paper No. 71, Center for the Study of American Business, Washington University, 1981.

The truth is that in the United States many laws and regulations limit our exports. In many ways—and often without considering the effects—we have enacted statutes and promulgated rules that prohibit U.S. exports or make it more difficult for American companies to compete in foreign markets. For example, the Trans-Alaskan Pipeline Authorization Act prohibits the export of oil from North Slope fields. A provision added to an appropriations act for the Interior Department bans timber exports from federal lands west of the 100th meridian. When restrictions get that specific, you can detect special-interest pressures at work.

The Export Administration Act provides for controls on exports of goods and technology to protect national security. In practice, however, the law mandates controls over a great variety of products, including domestically produced crude oil, refined petroleum products, unprocessed red cedar, and horses exported by sea. In 1980 the act was employed to embargo grain exports to the Soviet Union. It was invoked again in 1981 and 1982 to carry out the ban against U.S. firms participating in the construction of the natural-gas pipeline between the USSR and Western Europe. Studies of how export controls actually work conclude that, although the great majority of applications for approval under the Export Administration Act are promptly reviewed, the more sensitive requests get tied up in a "bureaucratic morass."[12] There is also considerable evidence that the licensing system has been a powerful disincentive to exporting.[13]

Export controls do more than limit U.S. international trade for the time they are imposed. These restrictions also call into question the reliability of the United States as a supplier of products to other countries, which therefore are likely to develop alternative sources. A clear example is soybeans—hardly a product that could be considered a strategic item. Although the purpose was to contain a short-term increase in domestic prices, the main effect of the U.S. embargo of soybean exports in 1974 was to induce Japan to turn to other producing countries, particularly Brazil. Japan proceeded to invest huge amounts in that country to develop alternatives to U.S. production, thus effectively and permanently reducing our share of the world soybean market.[14]

[12]Gary K. Bertsch, "U.S. Export Controls: The 1970s and Beyond," *Journal of World Trade Law* (January/February 1981), pp. 67–82.

[13]Ibid.

[14]Statement by the Honorable C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, before the Committee on Banking, Housing and Urban Affairs, 6 March 1979, p. 3.

The United States also conducts a great variety of domestic regulatory activities that impose costly burdens on American manufacturers. In many cases, foreign producers are not subject to similar burdens. For example, the regulations under the Federal Insecticide, Fungicide, and Rodenticide Act require exporters to notify countries for which products are destined when a hazardous product is being exported 30 days in advance of the export—even if the product is not viewed as hazardous under the laws of the importing country. The importing nation must notify the exporter that the notice was received. No other country has such a restriction.

The federal government has imposed special burdens on companies involved in foreign trade. The Foreign Corrupt Practices Act requires strict recordkeeping standards to monitor the antibribery sections of the statute. It is difficult to discuss that law without being criticized for callousness on ethical matters. However, the sad fact is that this trade statute has established a regulatory regime that displays the same cavalier attitude toward the burdens it imposes on American business as do so many other regulations.

A former chairman of the Securities and Exchange Commission, the agency administering the act, has stated, "The anxieties created by the Foreign Corrupt Practices Act—among men and women of utmost good faith—have been, in my experience, without equal." The language of the act is so sweeping and ambiguous that American firms turn down foreign business when they merely suspect that they could be charged with actions that technically might be classified as bribery.[15] In support of this claim, the General Accounting Office found, in a survey of 250 American companies, that 30 percent of the respondents engaged in foreign trade had lost business as a result of the Foreign Corrupt Practices Act.[16]

Besides the effects of trade policies, the strong foreign exchange value of the dollar makes it difficult for American companies to compete in world markets. Many factors influence the strength of a nation's currency, but our extraordinarily high real interest rates are very important. In turn, the large budget deficits are a key influence on those rates—and we cannot blame the deficits on "foreign devils." They have a made-in-America label.

An obvious solution to the deficit problem—and a major potential contributor to reducing high real interest rates—is entirely of our

[15]Cited in *Proposed Revisions of the Foreign Corrupt Practices Act* (Washington, D.C.: American Enterprise Institute, 1981), p. 10.

[16]Charles E. Bowsher, "The Government's Role in International Trade: GAO's Contribution," GAO *Review* (Summer 1982), p. 30.

own choosing. All that must be done is to simply reduce the growth of government spending. That objective, unfortunately, is one that has not been accomplished in recent years. In real terms, federal spending is now at least as high as the projections contained in President Carter's last budget message.[17]

The United States is by no means the only nation with trade barriers. Every nation has them and they continue to grow. In 1982, Canada restricted the imports of leather goods, Austria restricted dresses, the European Community cassava, and France electronic goods. At the same time, Japan continues to find many reasons for restricting the importation of baseball bats. However, the concerns of these producers and the public will be far better served by responding to the underlying problems that generate pressures for protectionism. The answer surely is not to retaliate and thus open the way for a return to the trade wars of the 1930s which exacerbated the great depression.

Positive Approaches to Trade Policy

Five positive steps toward trade liberalization can be outlined. First and foremost, we need to implement domestic economic policies that expand production and incomes while holding down inflation. This, of course, is a plea for tax simplification, government spending restraint, and regulatory relief. A healthy economy nips the protectionist sentiment in the bud.

Second, we need to maintain greater balance in macroeconomic policies. The shift in the United States in 1981 to tight monetary policy and expansive fiscal policy contributed substantially to high interest rates and a rise in the value of the dollar. If we are not careful, we will see an easy money policy—coupled with large budget deficits—lead to another inflationary spiral, which would further reduce the competitiveness of U.S. products in world markets.

Third, we need to limit government "trade adjustment assistance"—which seems to be a politically necessary part of any comprehensive trade policy—to temporary aid in shifting labor and capital from industries hard hit by imports to more competitive activities. All too often, government aid merely maintains an inefficient and uncompetitive industrial structure. In turn, this inefficiency adversely affects our competitiveness in world markets and generates further pressure for additional protectionist measures. The result is lower

[17]Murray L. Weidenbaum, *Dealing With Deficits and the Rise in Federal Spending*, Contemporary Issues Series, Vol. 3, Center for the Study of American Business, Washington University, 1982, pp. 4–5.

domestic employment that generates additional pressures for government interference. This cycle represents a more general principle: Government intervention begets more government intervention.

A healthy, dynamic economy is a flexible economy. It is an economy where business executives, consumers, and workers have continuing opportunities to invest their capital, tailor their spending, and find employment in response to market forces. This process should not be retarded by artificial government barriers or props.

In a healthy and dynamic economy we must expect that some industries and regions will grow more rapidly than others and that some sectors will experience difficulty in maintaining their position and may even decline. We must avoid the economic inefficiency and waste that occur when sectors experiencing difficulty seek government aid, while healthy sectors focus on more conventional business matters. When the forces of competition are strengthened and broadened, the prospects for productivity growth are enhanced and domestic industries experience improved competitiveness in world markets. Conversely, when companies get in the habit of looking to the government for help, their own entrepreneurial and risk-taking characteristics are weakened.

We delude ourselves if we think that the solution to the real problems facing American industry is more government intervention. Federal aid does not come without strings attached. Any business executive who still believes that government is his friend is too naive to be allowed out alone at night.

Fourth, we need to acknowledge the positive role of multinational corporations in the world economy. Multinationals adapt to change more readily and are less likely to plead for protection than other companies.[18] They are also the private-sector alternative to foreign aid and other types of government intervention to encourage the growth of developing nations. This, of course, explains why so-called transnational enterprises are being attacked in international organizations and are increasingly subject to regulation by the United Nations.

Fifth, we need to focus more on improving our own productivity. We cannot blame our poor production practices on foreigners. The answer is not to prop up domestic industries via import restrictions or government subsidies—or to play King Canute and try to prevent them by law from closing down or "running away." Rather, labor and management in each company need to face the challenge of greater productivity and enhanced competitiveness. Management must show

[18]Ingo Walter and Kent A. Jones, "The Battle Over Protectionism: How Industry Adjusts to Competitive Shocks," *Journal of Business Strategy* (1982), pp. 37–46.

the way. Cutting back on the proliferation of staff activities and layers of executives creates an operating environment in which labor is more likely to accept changes in factory work rules that are unnecessarily costly, and in which wage rates and fringe benefits can be brought back to reality. We must acknowledge the painful fact that foreign competition is the most effective spur to greater productivity. The sun is not going to set on U.S. manufacturing companies. In fact, it will rise on those that make the hard decisions that bring productivity up and costs down.

The current economic problems that face the United States and many other countries will not be solved by responding to the parochial concerns of steel producers, citrus growers, and automobile makers. Nor should international economic relations be dominated by short-term protectionist pressures from the producers of edible seaweeds, casein, and manhole covers (to name some recent candidates for protection).

Economies such as ours, which have become more service-oriented, need to overcome the historic preoccupation with commodity trade. As can be seen in Table 4, the United States has run a substantial deficit in its trade balance in goods over the past decade. Yet, what is less widely appreciated is that over the same period, this nation has experienced a positive trade balance in goods and services combined. In order to develop trade policies that accord with current realities, we need to focus on the total flows of commerce among nations. That includes services as well as goods, and investments as well as current account transactions. After all, it is from the totality of our economic dealings with other economies that we gain the totality of benefits from a more open exchange of things—and ideas.

The Case for Free Trade

We must focus once again on economic fundamentals. In the immortal words of Adam Smith:

> It is the maxim of every prudent . . . family, never to attempt to make at home what it will cost . . . more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. . . . What is prudence in the conduct of every private family, can scarcely be folly in that of a great kingdom.[19]

[19]Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, Modern Library ed. (New York: Random House, 1937), p. 424.

TABLE 4

Comparison of U.S. Trade Balance in Goods and Services
(Billions of Dollars)

Category	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Goods										
Exports	74.0	101.7	111.1	120.2	128.2	150.0	191.0	232.4	246.7	223.3
Imports	75.1	108.8	103.0	129.1	157.7	183.4	220.3	260.2	276.2	259.5
Excess of Exports (+)	−1.2	−7.2	+8.2	−8.9	−29.6	−33.3	−29.3	−27.8	−29.4	−36.2
Services										
Exports	36.3	45.0	44.6	51.4	56.1	70.0	95.8	109.7	127.9	125.0
Imports	24.1	28.7	30.0	33.3	36.4	47.0	61.8	74.3	86.9	92.0
Excess of Exports (+)	+12.2	+16.3	+14.6	+18.1	+19.7	+23.0	+34.0	+35.3	+40.9	+33.0
Net Surplus (+) or Deficit (−)	+11.0	+9.1	+22.7	+9.2	−9.9	−10.3	+4.7	+7.5	+11.5	−3.2

Source: U.S. Department of Commerce. All figures are rounded.

The arguments in favor of free trade are supported by a great deal of historical evidence.[20] During the 1930s, however, the United States and many other countries followed "beggar-thy-neighbor" trade policies which contributed to the worldwide depression. The Smoot-Hawley protectionist tariff epitomized this approach in the United States. (Unfortunately, memories are short. Some of our young people think that Smoot-Hawley is a British rock group.)

Subsequently, our trade policy shifted to the negotiation of reciprocal trade agreements. These tariff reductions were followed by an acceleration in world trade and economic growth. That was not just coincidence. The United States had similar positive experiences with open trade in the 19th century.

Let us recapitulate the benefits of freer trade:[21]

- Open trade contributes to lowering inflationary pressures by increasing the supply of goods and services competing for the consumer's dollar. Thus, the question of free trade is basically a consumer issue.
- Open trade minimizes the role of government in influencing private-sector decisions, thus allowing individuals and business firms to respond to the needs and pressures of the international marketplace. Free trade is fundamental in promoting economic freedom and the private-enterprise system.
- Open trade improves the efficiency with which our own resources are allocated. It thereby yields more growth, higher levels of employment, and an improved standard of living at home.

International trade policy will not remain static. The choice now facing the major trading nations is between a further drift to protectionism or a joint effort to remove trade barriers. Surely the credibility of this country's commitment to open and freer trade is not enhanced by companies sending their lawyers to Washington on Monday to seek the removal of import barriers overseas, and then turning around on Wednesday to send the same attorneys back to Washington to advocate import restrictions on the products of their foreign competitors. Free trade is a two-way street.

As in so many other aspects of economic policy, time is an important but often neglected factor. The longer we wait to move decisively to freer world trade, the more obstacles will be in place and the more difficult it will be to remove them. The best time to move to free trade is now.

[20]See Robert R. Russel, *A History of the American Economic System* (New York: Appleton-Century-Crofts, 1964), chaps. 25 and 38.

[21]For a more detailed analysis of trade effects, see Herbert G. Grubel, *International Economics* (Homewood, Ill.: Richard D. Irwin, 1977).