



# The Pressures of Protectionism

PAUL KNIGHT

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IT LOOKS as though President Nixon is going to be pushed into a full scale policy of protectionism. Attempts to get Japan to agree to voluntary quotas on textile imports into the U.S. has failed and this failure has led to an all-out bid by the protectionists to reverse the free-trade tendencies of recent years.

The first step has been a Bill to impose import restrictions not only on goods from Japan and the other main textile producers in the Far East, but also on exports from the rest of the world. But even this is not the worst; there are proposals to put quotas on a list of more than 400 items including leather footwear, electronic components and steel. The original Bill called for quotas only on textiles and shoes.

“Friction between the U.S. and its main trading partners seem inevitable,” comments the *Financial Times*, June 26, “and if that friction ignites a spark there is a grave risk that those most affected by quota legislation abroad will launch into retaliation. The Japanese Minister of International Trade has already hinted that such action by the U.S. could put the general agreement on tariffs and trade in jeopardy.

Says the correspondent from Washington: “Apart from the obvious anxieties that almost every foreign Government (and a good number of the more liberal members of the U.S. Administration) are now prey to, there is a general sense of shock and disappointment at the prospect of twenty-five years of hard-won liberal trade policy going up in smoke, not to mention the collapse of the delicately constructed fabric of international trade.”

For the first evidence of protectionism we must look back to 1968 says the writer, “when the Ways and Means Committee held public hearings on President Johnson’s Trade Bill. At those meetings, there was a veritable outpouring of protectionist sentiment, with calls for quota legislation coming from a broad variety of manufacturers.”

As is usual with protectionist arguments there is nothing new about them, they have the old familiar ring. The argument that appeals best to both employers and workers in the U.S. is that well-worn hypocritical one that home trade is being eroded by foreign goods produced by workers earning a lower rate of wages than that which prevails in the U.S.

Fallacious economic arguments such as this have of course been accompanied by emotional reactions calculated to win support. A few months ago in Alabama,

the management of a steel plant forbade the staff from parking in the factory lot if they drove foreign cars!

The “foreigner” is always an ideal scapegoat for all kinds of internal troubles and protectionists are only too keen to take advantage of this.

Unlike those in Britain, Trade Unions in the US have traditionally taken the stand in favour of free trade and their support was one of the reasons why President Kennedy was able to embark on his tariff-cutting negotiations with a fair amount of confidence that he would succeed. Now this is being changed and workers are beginning to blame foreign imports for some of their difficulties in finding employment. In this, they will not be discouraged by the employers. Once emotions have been aroused by this most plausible but erroneous argument, economics will be thrown to the winds. The fact that every import creates—in the long run—an export, and thus a job, and that tariffs mean higher prices for consumers, is not likely to be advertised by the protectionist interests.

President Nixon is now being tempted to sacrifice longer-term interests in favour of popularity at the polling booth at the November elections.

Comments the *Financial Times*, “It is difficult to accept that they (the new measures) will accomplish any economic objective that could not be accomplished through a restructuring of the weaker sections of American industry and a return to more rapid growth.”

Which is another way of saying let efficiency and the free market determine the flow of international trade—not privileged interests.

## FIRE BURN

IT IS REPORTED that farmers in Idaho, USA, have burned five million pounds of potatoes and will burn more, if necessary, in a desperate effort to force potato prices up. They are asking \$3.50 per hundredweight and if they fail to get it, a spokesman said, “there’s going to be about 20 per cent that aren’t going to farm next year. They’ve been pushed about as far as they can be and they’re going to fight back, tooth and nail.”

One can sympathise with the plight of the potato growers, but tooth, nail and fire are not the best means to improve the situation. Unfortunately, such methods have often been tried, even by governments, so potato growers cannot be singled out for blame. If their plight

is desperate, then there is trouble elsewhere in the economy, production and commerce have slowed down, in which case marginal producers are the first to suffer.

If potato growers cannot get an adequate return for their product, it should simply be regarded as economic sense rather than disaster that 20 per cent should seek their fortune elsewhere. What makes it a disaster is that it is extremely difficult for them to find productive opportunities elsewhere, especially nowadays with the slowdown in the economy. Certainly higher prices will not solve their problem when there is already consumer resistance to the present retail price of Idaho potatoes at 15 cents a pound.

On Long Island, farmers get \$2.50 per hundred-weight for their potatoes, and many are going out of business. But it is easier for them to find other income than in Idaho. In ten years Long Island farmland prices have risen from \$2,000 to \$5,000 an acre, because of population extending out from New York City. At this rate, it is more profitable for them to sell their land, invest their capital and receive a higher return than if they continued to farm.

When wealth is not being produced in one sector of the economy, the remedy is not to destroy wealth in another sector. Rather, causes should be sought and the remedy should lie in the fuller production and freer exchange of wealth. Take the profit out of land speculation and there may then be more profit in production.