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EC551: Economic Systems

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Presentation Notes: Are Protectionist Policies Bad for America?

*Rothbard* not only supports the idea that *Protectionism is bad* for the American economy, he considers the argument for protectionism a *non-argument* in that he believes the *applied economist* would not even consider sanctions against countries willing to do business with the United States - especially with regard to generating a positive economy for the U.S..

Rothbard's case against protectionist policy is based in the **premise that government sanctioning et al. is essentially an act of coercion** aimed at consumers and manufacturers alike, for the purpose of **maintaining high wages, jobs, and patriotism**, even at the **expense of higher domestic costs** for manufacturing, shipping, selling, and consumption. (Manufacturing is the "easy" example to use here; the word is also intended to represent intellectual and scientific production.) Rothbard makes an **example with the contrived increase in regional transportation costs created by policy** that has been designed to constrain free trade, essentially blockading the modern incarnation of the industrial revolution; **limitations on low "transportation" costs hobble creativity and invention, while serendipitously subsidizing local manufacturing monopolies.**

According to Rothbard, the "*fairness*" in *Fair Trade is also a non-issue*, when the **market** is left alone (that is, not negatively sanctioned by governments), it **will equalize itself**. The process of equalizing is the definition of equity; lower scarcity of labor and materials increases production as it decreases wages, effectively evenly the playing field between the large and small businesses. As the cost of production drops, so

does the cost of capital equipment; the quality of the product goes up, benefiting both the consumer and the manufacturer. The manifestation of equity via free trade is a function of Rothbard's argument; the application of a concept of fairness is not required.

Rothbard further considers concerns such as “dumping”, protective tariffs for “infant industries”, and the “balance of payments” as non-issues. Rothbard attacks the protectionists' worry that importers will intentionally undercut the American manufacturer by selling below cost by virtue of being subsidized by their own governments as foolishness; in Rothbard's words, “...if selling below cost is such a powerful weapon, why isn't it ever pursued by business firms within a country?”. The idea of attributing the human quality of “infancy” to a business [within the context of protectionism] is to Rothbard simply a sign of the protectionists' own humanness. Finally, Rothbard eliminates the “balance of payments” problem with the reminder that there currently is no gold standard in the United States; foreign monetary agencies invest in the United States with their [trade] dollars causing a constant flow of cash despite the defunct standard of gold.

Going into the articles, while I wouldn't have defined myself as one who supports Free Trade, per se, I do work with the premise that the good stuff will sift to the top if the reward is high enough; in economic terms, I suspect that makes me a “Free Trader”. (I also must add that my eyes naturally roll whenever I hear Mr. Buchanan speak – I am no fan of Mr. Buchanan, and resisted every word in his speech.)

Having offered as many qualifiers as a three-page paper allows room for, I will admit that I found Mr. Rothbard's article more convincing overall, however, I did find myself writing as many question marks and comments in the margins as I did for Mr. Buchanan. Rothbard used the argument of a lack of sanctions on trade between American states, even going so far as suggesting that any sort of tariff or protectionist policy would be absurd. My understanding of Jefferson's original designs for state sovereignty is that a primary motive was precisely the opportunity for state's to determine their own tax structures; from

that ability to “sanction”, other states are effectively limited in the amount of interstate trade. Rothbard’s statement about cheap labor and “foreigners” crossing state lines to work seems false, as well; currently, for example, the State of Maine is redesigning its tax structure for the express purpose of attracting those “foreigners” to the state as employers and workers. Despite his attempts to keep our focus solely on national versus global issues surrounding trade, Rothbard did offer a more realistic argument against protectionist policy in general than Buchanan offered against Fair Trade.

In fact, Mr. Rothbard’s argument for the inherent equity that comes from competition across all abilities has swayed me just a little further over the fence of indecision. I’m not ready to commit myself to saying that protectionist policy is *bad* for the United States, I’m not at all sure that it would be a good way to do business either.