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Free Enterprise: Protectionism doesn't lead to prosperity

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When under siege, circle the wagons.

What may be good advice for a fleeting military engagement is almost certainly counterproductive when it comes to long-term trade relations. In difficult economic times, such as the current recession, decision-makers are pressured by various interest groups to protect them from "unfair" foreign competition.

Given the short-term political benefits of "doing something, anything," such demands tend to receive a favorable hearing from those in a position to restrain cross-border trade. The long-term negative consequences of inhibiting the free exchange of goods and service on economic growth and, eventually, standards of living are usually downplayed.

Given strong historical evidence that the wave of protectionism circling the globe in the 1930s deepened and likely prolonged the economic misery, one may assume there is no likelihood of a repeat during the current worldwide recession. However, one may very well be proven wrong.

In a report released this month, two World Bank economists sound a warning that protectionist tendencies are on the rise once more. In their short but revealing study (available at <http://tinyurl.com/cscalr> [1]), Elisa Gamberoni and Richard Newfarmer counted no fewer than 78 trade-related policy proposals between October 2008 and February. They concluded that "47 trade-restricting measures eventually took effect."

In populism's "hall of shame" there is a sizeable plot reserved for all those politicians, policy advisers and columnists who dared to state unambiguously that free trade makes nations as a whole better off. Never mind that economic research overwhelmingly supports this notion.

Critics invested in blaming cross-border commerce for all economic ills are usually tone-deaf to sensible arguments demonstrating the gains created by free trade. Those include, but are not limited

to, higher productivity due to various countries being able to specialize in activities in which they have a comparative advantage.

For the U.S., this has long meant being able to focus high-tech and high value-added production. Of course, this advantage is not guaranteed and requires continued investment in the education of new generations of, say, engineers and scientists. Also, free trade by definition leads to higher standards of living through more affordable goods as well as a greater variety of consumption choices. Not to mention that port cities, such as Savannah, clearly fall on the side of the scale that weighs the benefits of growing global commerce.

In light of a strong scientific consensus on these issues and after decades of struggles to lower trade barriers, it will be harder today than in the 1930s to revert to all-out protectionism. However, as mentioned in the study, developed nations have discovered more subtle ways to impede competition and new entry by innovative entrepreneurs. The tool of choice for nations with large public budgets (and stimulus money to throw around) is to subsidize domestic industries, even if their prospects of survival without public money are more than doubtful. That kind of short-term bandage is not only expensive, but it is also likely to increase consumer prices and taxes in the long-run.

Consequently, one should be wary whenever military jargon (fight, war, defend) enters the debate about trade relations. Instead of closing ranks and slamming doors, we should keep up our end of the promise of free trade, especially in tough economic times. Not just survival, but also prosperity is more likely that way.

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