

'Fair Trade': the Latest Refuge of Protectionism

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December 18, 2006**

Virtually everyone pays lip service to the virtues of free trade. Abstention from 'protectionism' (import restrictions to protect domestic firms from foreign competition) is widely lauded as an essential element of economic growth, especially in the backward countries that need it the most. This is a most pressing issue in South Texas.

Then why are there still so many trade barriers, and why is the latest round of negotiations aimed at lowering them so contentious, verging on collapse? Because every country contains elected officials willing to limit trade if the short-run political calculus favors it. That means satisfying the special interest demand for import barriers without appearing overtly protectionist. So, there are powerful temptations to sell disguised trade barriers to import-competing businesses. It takes leadership to unmask the closet protectionists and persevere in the pursuit of open markets.

Closet protectionists are easily identified. They hide behind the demand for fair trade; an attractive concept that suffers in the worst way from the adage that the devil is in the details. Especially popular is opposition to so-called 'dumping.' 'Kudos' to the creative political operative that managed to put a bad face on the availability of bargains; to get legislators and voters to authorize suing Santa Claus. That creative use of language destroyed thousands of businesses, and it costs consumers billions of dollars each year in higher prices. Sadly, this made-in-America political innovation has spread to other countries.

People react to the ugly word – who could favor something called 'dumping' – without an understanding of what the law actually prohibits. U.S. businesses can file suit if a foreign competitor sells in the U.S. for: 1.) less than elsewhere (gasp!!!); or 2.) below production cost. Yes, your representatives created a law that mandates the world's highest prices for Americans. And if a foreign business accidentally over-produces, they can't offer bargains to Americans to help sell the over-stock. The citizens of other countries will get the bargains. And if the low price is the result of a foreign government's foolish impulse to tax their people to offer below cost goodies to Americans, the anti-dumping law prohibits the would-be boost to U.S. living standards. Note that such largesse cannot hurt the U.S. economy. Lower prices for some things create savings to spend on other things.

The definition of cost is so fuzzy that many foreign businesses stay out of the U.S. market or accept the low market share that will result from prices set high enough to eliminate lawsuit risk. So, the dumping laws are 'perfect' political cover for officials willing to trade the welfare of their people – to progressively cripple economic growth - for some short-term political gains.

Low prices sometimes result from unfair business practices, but the political process is ill-suited to sorting real from imagined unfairness, and meting out appropriate punishment. That is well-documented (visit www.cato.org/ and search under 'dumping'). Understanding that pursuit of perfection (totally fair) is the enemy of good is a key element of leadership.