The Public Trough

The new protectionism

by Bruce Bartlett

One of the most disturbing developments of the past year is the resurgence of protectionism in the United States and throughout the world. The mounting pressure for protectionism is becoming so acute, in fact, that the prospects of a full scale trade war—with all that implies—are growing all the time.

At its convention in December, the AFL-CIO issued a strong statement favoring legislation protecting U.S. industry from foreign imports. George Meany, president of the labor federation, went so far as to say: "Free trade is a joke and a myth. And a government trade policy predicated on old ideas of free trade is worse than a joke—it is a prescription for disaster. The answer is *fair* trade, do unto others as they do to us—barrier for barier, closed door for closed door."

This pronouncement is important because it reverses labor's historically held position favoring free trade. In the 19th century, Cobden and Bright in England, Frederic Bastiat in France, and Henry George in the United States proved that free trade benefits the masses and that no overall benefit can come from tariffs, which only raise prices for goods workers must buy.

Business has always favored tariffs, on the quite natural grounds that such levies protect it from competition and thereby increase its profits. Thus, we have always had business on one side and labor on the other. Politically, the Democratic Party traditionally has been the party of free trade while the Republican Party was the party of the tariff.

Labor has reversed its position because it feels that free trade has led to the "export" of American jobs. It has asserted that hundreds of thousands of jobs have been "lost" due to imports in clothing, shoes, steel, autos, consumer and industrial electronics, and communications equipment.

A modicum of thought will show that the simple logic of the protectionists is easy enough to refute. As Milton Friedman wrote in a recent *Newsweek* column: "If the Japanese can sell color TV-sets in the U.S. more cheaply than U.S. manufacturers, that will mean fewer jobs in the U.S. television-manufacturing industry. *But it will mean more jobs in those industries that can now export more to Japan.*"

The Carter administration has attempted thus far to walk a tightrope, trying to placate labor while avoiding quotas and tariffs. In the case of the steel industry, which has been especially hard-hit by imports from Japan, the administration adopted a reference price system designed to prevent the Japanese from selling steel for less than their cost of production. Allegedly, the Japanese have adopted this tactic in order to undercut American steel manufacturers and take over the market.

The fact is, however, that Japanese manufacturers are not baldly "dumping" their steel in the United States. It's just that the Japanese steel industry is vastly more efficient. According to a study by the American Iron and Steel Institute, Japanese workers are as much as 50 percent more productive than American steel workers—largely because Japanese steel plants are much more modern and efficient than American steel plants. Moreover, according to the Council on Wage and Price Stability, American steel companies have granted pay increases to their workers which are totally out of line with the economics of the industry. Steel workers are currently among the highest paid workers in America. At present their wages are more than 60 percent higher than the average wage for all manufacturing industries.

But even if the Japanese are "dumping," who cares? If they want to present a felicitous gift to the American people in the form of underpriced goods, why should we be concerned? The result can be only that all goods made with steel will be cheaper than they otherwise would have been—thereby creating more jobs in steel-related industries, such as automobile production.

The most serious danger in the United States' adoption of large-scale tariffs or quotas is the nearly certain retaliation in kind by other countries and a resultant breakdown of world trade. The last time this happened was when the United States adopted the Smoot-Hawley Tariff in 1929. This one act may have done more to create and prolong the Great Depression than any other single event. (See Jude Wanniski's article, "The Crash of '29—A New View," *Wall Street Journal*, October 28, 1977.)

(continued on page 42)

Crosscurrents

by Walter Grinder

•Austrian Economics Conference
Many of the country's leading Austrian economists gathered at New York University together with other prominent economists for two days in early January for a rather impressive and useful conference on "Issues in Economic Theory: An Evaluation of Current Austrian Perspectives." Cosponsored by the Institute for Humane Studies and NYU's Center for Applied Economics, the conference was organized and directed by Mario Rizzo—a member of a rare and curious breed in that, although he earned his doctorate at the University of Chicago, his sympathies and interests are far closer to the Austrian than to the Chicago School.

Speakers and discussants at the conference, in addition to Rizzo, included such notables as Ludwig M. Lachmann of NYU and South Africa; Murray N. Rothbard of the Polytechnic Institute of New York; Sir John Hicks of Oxford; Gerald P. O'Driscoll, Jr. of Iowa State University; Israel M. Kirzner of NYU; Richard E. Wagner of Virginia Polytechnic; Leland B. Yeager and Roger W. Garrison of the University of Virginia; Harold Demsetz of UCLA; John B. Egger of Goucher College; and Harvey Leibenstein of Harvard.

Economists with an Austrian bent are in residence at a growing number of academic institutions. But with Rizzo, Kirzner, and Lachmann (the latter as a frequent visiting professor) at NYU, Washington Square appears to be the best place in the country for advanced study in economics with an Austrian flavor. Kirzner and Lachmann have been published widely, and I look for some of the most important work in Austrian economics during the next several years to come from the pen of Professor Rizzo. His major interests at the moment include the relationship between law and economics, and the implications of Hayek's work on the "spontaneous order" of socio-economic development. For those interested, there are a number of fellowships available at NYU for qualified students.

Rizzo plans to collect and edit the conference papers, and it is hoped these proceedings will be published soon thereafter. For more information, write Dr. Rizzo at the Department of Economics, 516 Tisch Hall, New York University, New York, NY 10003.

•Looking for a Textbook?
One of the peculiar frustrations of trying to teach an introductory economics course—whether to college freshmen or sophomores, or to an independent study group—from the Austrian viewpoint has been the lack of an appropriate textbook. Those of us who have been faced with this puzzle have searched for years for a suitable volume. Standard works like Samuelson or imitators thereof are both contradictory and too eclectic. Lipsey and Steiner are too abstractly rigorous and, even worse for a beginner, usually bear no relation to real-world human action. Alchian and Allen, Rothbard, Mises are, in all but exceptional cases, too difficult for beginners.

Yet in my delvings I have discovered two introductory-level texts I could recommend, with one basic caveat: the macroeconomics sections of each of them—since they are not written from a strictly Austrian analysis—are less than sound, in my view.

First is Henry N. Sanborn's *What, How, For Whom: The Decisions of Economic Organization* (Cotter-Barnard Company, P.O. Box 8466, Baltimore, Maryland 21234). Sanborn's book would best be described as a less-advanced and less-rigorous version of Alchian and Allen's famed *University Economics.* The book is particularly good on specialization, division of labor, and savings and investment.

The second introductory text I would recommend, and the one I tend to favor, is Paul Heyne's *The Economic Way of Thinking* (Science Research Associates, Chicago). Like Sanborn, this author's policy implications are clearly quite libertarian, and Heyne is good on specialization, efficiency, monopoly, profit, and other topics. But Heyne's book is my favorite principally because it is imbued totally with one of the major building blocks of Austrian theory—opportunity cost. Heyne's version of opportunity cost is not as consistently subjective or as forward looking as most Austrians would prefer, but it is clearly the best I've seen in any college-level introductory text.

I am looking forward to the day when an introductory text is written by an Austrian economist who will deal with all matters—both micro and macro—from a consistently Austrian point of view. Until then, though, I do recommend both Heyne (first) and Sanborn.

If we ever expect to replace our current system of state capitalism with that of the free market, then we simply have to know how the unhampered market works and be ready to answer various criticisms of the free market. Therefore, as ancillary reading along with either of these texts, I still recommend using Henry Hazlitt's marvelous *Economics in One Lesson,* which is going through yet another revision and updating. Other than Hazlitt's little gem, I know of no book which so repeatedly and convincingly presents the basic economic lesson that within each and every projected economic policy measure are entailed a number of secondary (usually deleterious) consequences, the nature of which it is the job of the good citizen-economist to trace out, to understand, to explain, and to consider carefully before a policy decision is made.

•Changing of the Guard
The principal organizing genius behind the creation and development of the Center for Libertarian Studies has been its first president, John Hagel III. Thanks in large part to Hagel's tireless efforts, the Center had developed into a top-notch academic think tank. Its publications, conferences, and research projects are among the finest in the country, and certainly the finest in the realm of purely libertarian studies produced in recent memory. At the end of his latest tenure as president, Hagel resigned because increasing time commitments of a business career will keep him out of the country a large part of the time.

Speaking for the whole libertarian community, I want to thank John for his sustained and creative efforts in making the Center the reality that, before he prodded others to action, many of us once only dreamed about.

Fortunately for the Center and for the cause of liberty, Hagel is being replaced by another talented and ardent libertarian. The Center's new president is David H. Padden, a Chicago businessman. He is president of his own investment firm and past chairman of the board of a major Chicago-based conglomerate. Like Hagel, he earned his MBA from Harvard University, albeit two decades earlier. Padden's administrative talents should ensure the con-