

DEPARTMENT OF DISINFORMATION

THREE MYTHS OF PROTECTIONISM

Myth 1: The trade deficit causes unemployment

The effect of our unilateral free trade policies has been a decline in employment.

Senator Jesse Helms (R-N.C.)

Testimony to Subcommittee on International Trade

Senate Finance Committee

July 15, 1985

One million apparel and textile jobs have left these shores since 1972 as a result of low-priced imports—and a million more are at immediate risk.

Sol C. Chaiken

President

International Ladies' Garment Workers' Union

New York Times, May 22, 1985

Since 1974, we've lost two-and-a-half million American jobs to foreign competition.

Lee Iacocca

Chairman of the Board

Chrysler Corporation

Speech to the League of Women Voters

May 15, 1984

If there is any correlation between the trade deficit and jobs, it is the opposite of that suggested by protectionists. Between 1980 and 1985, the merchandise trade deficit went from \$25.5 billion to over \$100 billion. During that same period, eight million net new jobs were added to the U.S. economy. We lost jobs in some sectors but more than made up for the losses elsewhere.

Compare this to the job situation in Europe. The Europeans generally maintain higher trade barriers than the United States, in large part to protect their domestic industries and domestic employment. Many industries are nationalized, and it is nearly impossible to lay off or fire workers. One might think that the job situation in Europe is pretty good, with so much state "protection." Just the opposite is true. Western Europe as a whole has *lost* be-

tween two and three million net jobs since 1975. During the same period, the United States added over 20 million net new jobs.

Protectionists like to point to workers in factories who, they say, will lose their jobs to foreigners without trade restrictions. But the protectionists fail to count the number of jobs lost elsewhere in the economy because of these restrictions. For example, the Congressional Budget Office estimated in 1984 that a "domestic content" bill that would prohibit the sale of most foreign cars in the United States would have cost the U.S. economy a net 66,000 jobs. Current attempts by Congress to limit the import of textile products would cost some 60,000 jobs in the retail sector alone. Trade restrictions inevitably cost more jobs than they save.

The ability of an economy to employ additional workers, at ever-increasing wage rates, is dependent on increases in overall economic productivity. Free trade means we can purchase more for less. Capital and labor are freed for higher valued enterprises. The resulting increased productivity will mean that labor becomes more productive and in greater demand.

Myth 2: The United States is a free trade country. It is others who practice protectionist policies.

The United States has permitted imports to gush ashore freely while not demanding comparable access abroad.

Senator Lloyd Bentsen (D-TX)

Wall Street Journal, November 1, 1985

In the past, the United States blinked at other countries' trade barriers even though our markets are among the most open in the world.

Senator Robert Dole (R-KS)

Washington Post, September 16, 1985

Free trade is quickly becoming a one-way street.

Representative Morris Udall (D-AZ)

Washington Post, September 1, 1985

While the United States has freer trade policies than many other countries, it is by no means a sterling example of the free trade philosophy. America uses tariffs and quotas to restrict such goods as steel, autos, textiles, motorcycles, books, sugar, and peanuts.

It is estimated that auto quotas in 1984 cost U.S. consumers between \$5 billion and \$8 billion in higher car prices. The U.S. steel industry has received periodic protection since the late 1960s. The result: the industry failed to invest in modernization and now has pressured the Reagan Administration into forcing "voluntary" restrictions on steel imports from most steel-producing countries.

Sugar in the United States costs around 21 cents per pound wholesale, 700 percent over the market price, due to trade restrictions. Recently, U.S. customs officials stopped the entry of frozen Israeli pizzas and Korean egg noodles, each of which contains no more than one percent sugar. It was felt that this sugar was getting into the country around U.S. trade restrictions.

The U.S. textile industry provides the most glaring example of U.S. trade protectionism. The United States has placed multilateral restrictions on foreign textile and apparel products since 1961. These restrictions have grown ever tighter over the last decades. Today it is estimated that these restrictions cost U.S. consumers at least \$23 billion and perhaps as much as \$38 billion per year in higher prices. Recent congressional attempts to further restrict textile trade would add \$14 billion, and perhaps as much as \$28 billion, per year, to consumer prices.

Those who fulminate against foreign protectionism should remember that our own house is not in order.

Myth 3: The United States need not fear retaliation.

Japan can take action against the United States only by shooting itself in the foot.

Owen Bieber, United Auto Workers

Testimony to Senate Committee on Commerce, Science, and Technology

May 16, 1984

The most devastating trade war in our history occurred as a result of America's Smoot-Hawley tariff, signed into law in 1930. This huge increase of import duties was the final push needed to set off a decade-long, worldwide depression. In reaction to U.S. trade restrictions, other industrialized countries quickly restricted their own markets. This "beggar-thy-neighbor" policy was meant to protect jobs and productivity in the various countries. The result in the United States was a 66 percent decrease in both exports and imports between 1929 and 1933, a 50 percent reduction of GNP during the same period, and unemployment at 30 percent.

Since the end of World War II, the free countries of the world have moved towards a more open trading system. Yet the threat of retaliation for restrictions on trade remain real. For example, in 1983, China cut off purchases of U.S. wheat in retaliation for U.S. cuts in Chinese textile quotas. This cost U.S. farmers half a billion dollars in sales.

Retaliation against U.S. protectionist measures is now much more likely than in the past because there are so many alternate suppliers for goods that the United States exports. Wheat, for example, can now be purchased from Canada, Australia, France, or Argentina. High tech goods can be bought from Japan and increasingly from European and Asian firms. The larger the number of alternate suppliers, the greater the likelihood of retaliation.

Congressmen who deny that protectionist legislation breeds retaliation should be a bit more self-conscious and realize that *they* are retaliating against foreign trade barriers. Protectionism in Japan has not inspired the United States to open its markets further—indeed the opposite has occurred—so there is no reason to suspect that American sanctions will pry open Japanese markets.

Finally, it should be remembered that many countries do not have strong commitments to free trade. They share the misconceptions of U.S. congressmen about the way the market works. The sight of the United States, the most powerful economic nation in the world, turning to protectionism, will no doubt drive many other nations in the same direction.

Edward Hudgins

ASSESSING THE O.T.A.

The Office of Technology Assessment (O.T.A.), after an 18-month study, concludes that the Soviets could overwhelm even a sophisticated American defense system with ballistic missiles, bombers, and cruise missiles.

John Dillin

Christian Science Monitor, September 25, 1985

President Reagan's plan to build a leak-proof defense against nuclear missiles probably won't work unless the Soviet Union agrees to shrink its offensive arsenal, the Office of Technology Assessment said. The agency also questioned whether the United States could afford to de-

ploy an effective missile defense system or could build one that would survive attack itself.

Tim Carrington

Wall Street Journal, September 25, 1985

The development of a defense against intercontinental missiles might make nuclear war between the United States and the Soviet Union more likely, analysts for Congress's Office of Technology Assessment (O.T.A.) concluded in a report.

Charles Mohr

New York Times, September 25, 1985