



What's Wrong with Protectionism?

Pierre Lemieux. The Rowman & Littlefield Publishing Group, Lanham, Maryland; 2018. Pp. xv + 125. \$US19.95.

This short book responds to seven common objections to free trade corresponding to the seven sections of this review. It successfully points out the fallacies underlying those objections by introducing theories of free trade and providing examples and statistics correspondingly. In this review, I will summarize some concepts and conclusions that I find most important and interesting.

Since the purpose of this book is to counter misconceptions about protectionism, the book emphasizes conceptual works rather than quantitative studies. It clarifies relevant economic concepts and trade theories in the body of each chapter. In the essays following each chapter, applications of those concepts and theories are collected in the form of case studies or extensions.

I. Objection: Americans Cannot Compete against Low-Cost Foreign Producers

1. The theory of comparative advantage states that a country gains by exporting what it has a comparative advantage in producing and by importing what foreign countries have a comparative advantage in producing (p. 10).
2. Mutually beneficial exchange can take place even with absolute advantage, since differences within countries in the relative internal costs of producing goods and services are what generate comparative advantage and the opportunity for mutually beneficial exchange (p. 13).

3. A country will always have some comparative advantage, if only because of its geographical location and other characteristics such as its history, institutions, and culture (p. 14).
4. Economic analysis shows not only that a country is able to compete against low-cost producers, but also that it has an interest in doing so, as long as it specializes in goods in which it has a comparative advantage (p. 15).
5. The United States has a comparative advantage in services, many agricultural products, and many specialized manufacturing subsectors (pp. 19-20).

II. Objection: Free Trade Harms the United States

1. James Mill wrote, "The benefit which is derived from exchanging one commodity for another, arises, in all cases, from the commodity received, not from the commodity given" (p. 22).
2. In virtually all cases, protection generates a net cost compared to free trade or, alternatively, free trade generates a net benefit compared to protection (pp. 23).
3. Imports are not a deduction from GDP because, by definition, they are not part of it (pp. 29-30).

III. Objection: The Trade Deficit Is Bad

1. There is nothing inherently good or inherently bad about a trade deficit (p. 32).
2. The American current account deficit is in large part a reflection of the fact that foreigners want to invest in America. From this perspective, the current account deficit is not a cause of American decline but, on the contrary, a consequence of America's growth and attractiveness to investors (p. 34).
3. Paul Krugman wrote, "The economist's case for free trade is essentially a unilateral case: a country serves its own interests by pursuing free trade regardless of what other countries may do" (p. 36).
4. Unless it is fueled by government deficits, a trade deficit allows foreign investors to create factories, industrial equipment,

warehouses, commercial buildings, and other capital goods that can only benefit most Americans, workers and consumers alike (p. 38).

5. There is no statistically significant correlation between the trade deficit as a proportion of GDP and unemployment rates over the period 1960-2016 (p. 43).

IV. Objection: The United States Is Losing its Factories

1. Manufacturing output has not dropped like employment because labor productivity has increased as a result of a number of factors, including technological progress and long supply chains (p. 46).
2. Technology has been the main cause of the reduced number of jobs in manufacturing (p. 47).
3. The comparative advantage of the United States lies in the more high-end services—such as conception, design, engineering, logistics, and distribution—not in manufacturing itself (p. 47).
4. According to both measures of output—production and value added—it appears that manufacturing output has either plateaued or is poised to continue its growth after the recession dip (p. 52).

V. Objection: Trade Destroys Jobs

1. Consumption and the incomes necessary to consume are better indicators of welfare than is the number of jobs (p. 54).
2. Trade may resemble technological progress, which eliminates jobs in some sectors but creates an equivalent or higher number of jobs elsewhere in the economy (p. 54).
3. Although one may sympathize with the victim of economic disruptions, trade should not be impeded any more than technological progress just because of its short-run costs (p. 58).
4. A number of empirical studies have concluded that openness to trade is associated with higher rates of economic growth (p. 58).
5. Population rather than trade drives employment (p. 66).

VI. Objection: Trade Lowers Wages

1. Trade should reduce the prices of consumer goods, and increase the average US resident's real income, compared to what they would be without trade (p. 69).
2. Wages are determined by labor productivity; free trade increases labor productivity; therefore, free trade increases wages (p. 70).
3. International trade is not a zero-sum game: both countries gain (p. 71).

VII. Objection: Free Trade Is Not Fair

1. Small, concentrated interests have greater ability and incentives to organize for lobbying and other political action than large, diffuse interests do. In general, the better-organized and better-financed interests win in the political process (p. 78).
2. For individuals, the benefits of exchange cut across political borders—they are not confined within a country (p. 79).
3. Free trade is fair trade. The fair trade argument is usually an excuse for special interests or state power. What is fair is to let each individual or private entity reach its own bargains (p. 94).

In conclusion, I find that Pierre Lemieux effectively evaluates and attacks the seven erroneous tenets of protectionism. In fact, this book serves as a roadmap for understanding the benefits of free trade over protectionism. The first six chapters of this book introduce concepts and theories of international trade. For a detailed analysis, one can refer to Douglas Irwin's *Free Trade Under Fire*. The last two chapters, chapter 7 and 8, cover the key messages from the book, *The Fair Trade Fraud*, written by James Bovard.

Reviewed by Bangyu He, Duke University (Student, MA in Economics). He thanks Professor Edward Tower and Mia Mikic, ARTNeT secretariat for the constructive feedback.