



LECTURE NINE - PART FOUR



The Protectionist Arguments

- I've demonstrated gains from trade.
- I've shown efficiency losses from protectionism.

Question
Are there legitimate arguments
for protectionism?

Protectionism In The Name of National Defense

- A political and strategic argument.
- Use tariffs to preserve or strengthen industries needed for defense or war.



The Counterargument

- No objective criteria to weigh the worth of an increase in national security relative to a decrease in economic efficiency.

Defense

Efficiency

The "Save Our Jobs" Argument

- Politically fashionable when a country enters a recession.
- Made in context of "cheap foreign labor."
- More highly paid workers must be protected from countries which pay workers a few dollars a day.



Dumping Exports Below Cost Into Foreign Markets

- **Dumping:** Occurs when foreign producers sell exports below the cost of production.

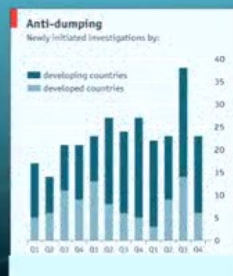
Question
Why might a country engage in dumping?

Dumping To Gain Monopoly Power

- **Strategy:** Drive competitors out of a market and seize that market.
- **Tactic:** Use the new-found monopoly power to raise prices.
- **Bottom Line:** Long term profits offset earlier losses from selling below cost.

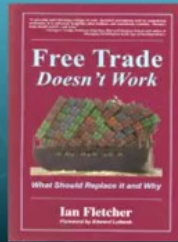
Dumping As An Argument For Protectionist Tariffs

- Prohibited under American trade law and by the World Trade Organization.
- The U.S. can impose "anti-dumping duties" when dumping injures American firms.



Retaliation As An Argument For Protectionist Tariffs

- If a country engages in protectionism or dumping, retaliation IS a legitimate response.
- Retaliatory measures can give birth to trade wars.



The Smoot-Hawley Tariff Act of 1930

- Imposed high tariffs.
- Designed to protect American jobs.
- Backfired miserably!
- Triggered global trade war.
- Pushed global economy into Great Depression.



Smoot & Hawley

Non-Tariff Barriers to Trade

- Many nations also use so-called nontariff barriers or **NTBs**.
- NTBs include quotas.
- Use restrictions or regulations to make it difficult for countries to sell their goods in foreign markets.

Using NTBs To Block Imports

- **Example:** Restrict the import of all vegetables grown where certain pesticides are used.
- **The NTB Trick:** All other countries use these pesticides.
- **The Protectionist Result:** The regulation halts the import of vegetables from competing countries.