## Key Concepts and Summary

### 20.1 Protectionism: An Indirect Subsidy from Consumers to Producers

There are three tools for restricting the flow of trade: tariffs, import quotas, and nontariff barriers. When a country places limitations on imports from abroad, regardless of whether it uses tariffs, quotas, or nontariff barriers, it is said to be practicing protectionism. Protectionism will raise the price of the protected good in the domestic market, which causes domestic consumers to pay more, but domestic producers to earn more.

### 20.2 International Trade and Its Effects on Jobs, Wages, and Working Conditions

As international trade increases, it contributes to a shift in jobs away from industries where that economy does not have a comparative advantage and toward industries where it does have a comparative advantage. The degree to which trade affects labor markets has much to do with the structure of the labor market in that country and the adjustment process in other industries. Global trade should raise the average level of wages by increasing productivity. However, this increase in average wages may include both gains to workers in certain jobs and industries and losses to others.

In thinking about labor practices in low-income countries, it is useful to draw a line between what is unpleasant to think about and what is morally objectionable. For example, low wages and long working hours in poor countries are unpleasant to think about, but for people in low-income parts of the world, it may well be the best option open to them. Practices like child labor and forced labor are morally objectionable and many countries refuse to import products made using these practices.

### 20.3 Arguments in Support of Restricting Imports

There are a number of arguments that support restricting imports. These arguments are based around industry and competition, environmental concerns, and issues of safety and security.

The infant industry argument for protectionism is that small domestic industries need to be temporarily nurtured and protected from foreign competition for a time so that they can grow into strong competitors. In some cases, notably in East Asia, this approach has worked. Often, however, the infant industries never grow up. On the other hand, arguments against dumping (which is setting prices below the cost of production to drive competitors out of the market), often simply seem to be a convenient excuse for imposing protectionism.

Low-income countries typically have lower environmental standards than high-income countries because they are more worried about immediate basics such as food, education, and healthcare. However, except for a small number of extreme cases, shutting off trade seems unlikely to be an effective method of pursuing a cleaner environment.

Finally, there are arguments involving safety and security. Under the rules of the World Trade Organization, countries are allowed to set whatever standards for product safety they wish, but the standards must be the same for domestic products as for imported products and there must be a scientific basis for the standard. The national interest argument for protectionism holds that it is unwise to import certain key products because if the nation becomes dependent on key imported supplies, it could be vulnerable to a cutoff. However, it is often wiser to stockpile resources and to use foreign supplies when available, rather than preemptively restricting foreign supplies so as not to become dependent on them.

### 20.4 How Governments Enact Trade Policy: Globally, Regionally, and Nationally

Governments determine trade policy at many different levels: administrative agencies within government, laws passed by the legislature, regional negotiations between a small group of nations (sometimes just two), and global negotiations through the World Trade Organization. During the second half of the twentieth century, trade barriers have, in general, declined quite substantially in the United States economy and in the global economy. One reason why countries sign international trade agreements to commit themselves to free trade is to give themselves protection against their own special interests. When an industry lobbies for protection from foreign producers, politicians can point out that, because of the trade treaty, their hands are tied.

### 20.5 The Tradeoffs of Trade Policy

International trade certainly has income distribution effects. This is hardly surprising. All domestic or international competitive market forces are disruptive. They cause companies and industries to rise and fall. Government has a role to play in cushioning workers against the disruptions of the market. However, just as it would be unwise in the long term to clamp down on new technology and other causes of disruption in domestic markets, it would be unwise to clamp down on foreign trade. In both cases, the disruption brings with it economic benefits.