Article Review: "My Anti-Stump Speech"

The article "My Anti-Stump Speech" by William Safire (New York Times, Feb 23 2004) highlights several important macroeconomic concepts that have been covered in the syllabus thus far, namely free trade, protectionism, inflation and unemployment. In the article, Safire argues against protectionism and points out the unfounded pessimism behind the arguments for protectionism.

While outsourcing and free trade are inevitably blamed for the economic problems of a nation, protectionism is an almost instinctive reaction to recessions and high unemployment rates. However, as we have learnt from our chapter on the Open Economy, protectionist trade policies have no effects on the trade balance of the country, but only reduce the amount of international trade. This is because using the model of the open economy, protectionist policies shifts the net-exports schedule outward as shown in Fig 1 and leads to a higher real exchange rate.

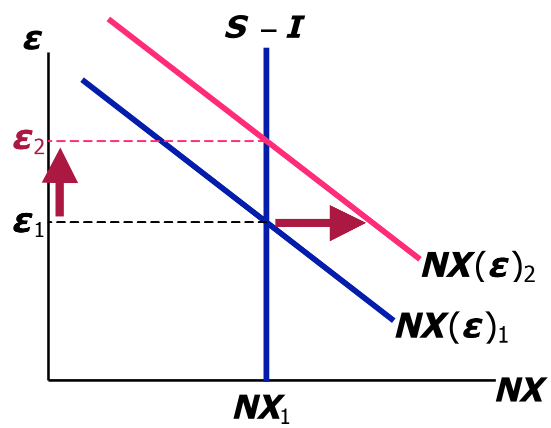

Fig 1

This appreciation of the real exchange rate means that the price of domestic goods will be more expensive relative to foreign goods. This will lower net exports by stimulating imports and depressing exports. The appreciation offsets the increase in net exports that is directly attributable to the trade restriction. This means that there is no effect on the trade balance overall.

However, trade is reduced because net exports are unchanged, thus when we export less in the new equilibrium, imports also decrease. Therefore, protectionist policies reduce both the quantity of imports and the quantity of exports.

In this article, Safire focuses on the diminished gains from trade caused by protectionist policies. International trade benefits all countries by allowing each country to specialize in what it produces best and by providing each country with a greater variety of goods and services. International trade leads to the availability of cheap goods from overseas, such as the $24 Rockport shoes mentioned in the article. This will raise the standard of living of the Americans as they can now afford to purchase a greater variety of goods and services. Protectionism will diminish these gains from trade and deny Americans such cheap goods. Society is worse off with protectionism.

The article also brings up the idea of unemployment rate and to what extent we can use it as a gauge of a country's economic well-being. As unemployment rate does not include the people who are no longer looking for jobs, a drop in unemployment rate can probably be due to people having given up hope and stopped looking for jobs, as the "gloomy-Gus politicians" insist. These people who are counted as being out of the labor force and do not show up in unemployment statistics are termed "discouraged workers" in the textbook. Job increases and decreases would therefore seem to be a more accurate gauge of a country's economic well-being. It is because of this and many other issues that complicate the interpretation of the unemployment data that the Bureau of Labor Statistics calculates several measures of labor underutilization, from U-1 to U-6. Using the measure U-4, which is defined as the total unemployed plus discouraged workers, as a percentage of the civilian labor force plus discouraged workers, would then take into account this group of unemployed personnel.

Politicians should turn to such alternative measures when making their arguments so as to reduce any ambiguity.

Although Safire makes a good case against protectionism in his article, the article is not without flaw with regards to its economic arguments on inflation. In particular, there are problems with Safire's argument that inflation in the last Clinton year sent real average wages down and led to people's "higher" earnings buying less. We have learnt in the chapter on Money and Inflation that this complaint about inflation reducing the purchasing power of labor is a common fallacy. The purchasing power of labor – the real wage – depends on the marginal productivity of labor.

$$MPL = W/P$$

According to the classical theory of money, when the overall price level changes, price increases of goods and services will be in line with wage increases. Wages increase in proportion to the increase in the overall price level. Thus inflation does not send real wages down as Safire claims. Inflation does have its costs, such as shoeleather costs, menu costs and tax distortions, but they are relatively minor.

Lastly, this article also highlights the political implications of economic policies. As the state of the economy affects everyone, macroeconomic issues play a central role in political debate. The Republican and Democratic camps are almost always divergent with regards to economic policies. Republicans are more pro-trade while the Democrats are more inclined towards protectionist policies. With a firm grasp of macroeconomic principles, one would be able to make a more informed judgment of the various economic arguments politicians put forth.