

## Manufacturing and Protection: Mr. Cosgood and Mr. Wright Dialogue

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Mr. Cosgood and Mr. Wright are having a little debate before bedtime.

W: All these news reports about a resurgence of interest in protecting American manufacturing. And the Democrats falling over themselves to be protectionists. And Mr. Bush putting tariffs on steel. It's disgusting.

C: What? Our manufacturers are having a tough time against unfair competition. Seems right to demand a level playing field.

W: Uh oh. Are we going to have an argument here? It's almost bedtime, and I don't want to get riled up. You know how poorly I'll sleep.

C: Hey, you started it.

W: No, you did. You don't make any sense.

C: Excuse me?

W: Well, what's this level playing field phrase you throw out. Putting tariffs on imports subsidized by a foreign government doesn't sound like a level playing field, it sounds like building a wall across the field.

C: Now wait, let's start a little earlier. Are subsidies unfair or not?

W: Unfair? I guess it depends.

C: On what?

W: On what the subsidies are for. Suppose a foreign government gives their manufacturing firm a big tax break enabling them to avoid bankruptcy, and get through a rough patch, in order not to dislocate workers unduly, then I suppose that is fair. Like what we did with the airlines after 9/11, giving them all kinds of

credits and loan guarantees to keep them in business. Or when the firm does something that has some extra public benefit, like subsidizing Amtrak because commuter and freight rail reduces congestion on highways and pollution in cities.

C: Yes, but those aren't the kinds of subsidies we're talking about. We're talking about when a government gives subsidies so that its manufacturing firm can outcompete our firm.

W: And you think a lot of governments do that?

C: Damn straight. Doesn't our government do that? Don't we give billion dollar subsidies to our agribusiness firms so they can outcompete foreign firms? Don't we give export credits and foreign loan guarantees and special tax breaks for exports?

W: Just a second, when am I going to get in my line about protectionism being bad because it makes us poorer? Imagine an auto plant that employs a thousand people and pays them \$30,000 each adding up to labor income of \$30 million, and then that plant closes and goes offshore, where labor costs are lower, and now the 100,000 cars that used to be sold can be sold for \$500 less, so the 100,000 consumers have a total of \$50 million 'extra income', and when you add that up year after year, and consider that the old employees get unemployment compensation for quite awhile, and will probably find jobs somewhere even if at lower pay, the consumer benefits are still way bigger than the cost of lost jobs.

C: Wright.... that's not what we're talking about. That logic is fine. I can see you studied your comparative advantage well in college. But we're talking about foreign government subsidies, and that being unfair. The reason the cars are less expensive when produced abroad is because those governments are subsidizing their manufacturers- and by the way one way they do that is by not letting their laborers get organized or have decent working conditions. It's not a real comparative advantage, it's an unfair comparative advantage. Why should those thousand workers have to suffer from that unfair practice, even when 100,000 other people do benefit? Your big front lawn isn't earning you any money, and for sure I could find a developer who could build a condo unit there and add some real value. Just because the benefit exceeds the costs doesn't mean it's right for me to just take your lawn and give it to the developer.

W: Cosgood, are you defending private property? And are you saying that a job is the same as private property, that people have rights to particular jobs? Or are the factory owners the ones who have a right to seek redress from the unfair competition.

C: OK, OK, you know me, and you got me. Private property is sometimes fine, I guess. Can I qualify that more? But I guess I'll also say yes, both the workers and owners have rights to their livelihoods, they are stakeholders in the enterprise that

is being hurt by the unfair subsidy.

W: Well what about when they lose their jobs and factories because someone invents a better technology that can produce the product cheaper? Isn't that the same thing?

C: No, not at all. Technological innovation is fair, government subsidies are not fair. Are you hearing me? The issue isn't about a national cost-benefit analysis of what produces the greatest good or the most stuff, it's about doing things by the rules, about being fair.

W: You have an addiction problem: fair, fair, fair.

C: Cheap shot! Cally-four-nya!

W: Are you making fun of people with accents? I find that very offensive. Is this how you treat people? After all your talk of fairness.

C: OK, I'll give you a driver's license stamped "Immigrant" in big purple letters so you can drive to the hospital, and to the set of my new movie!

W: Enough. What I want to ask you anyway, is why are the actions of foreign governments unfair, per se. If a foreign multi-billionaire wanted to outcompete an American firm by selling tires at a super-low price, would that be unfair?

C: No, only government action is an unfair involvement in the marketplace for goods and services.

W: Why? What makes government action unfair? Isn't a government just like a collection of people getting together for a cooperative enterprise? Sometimes we talk loosely about Japan, Inc., and we also talk about 'crony capitalism'. That language is, like, evidence that we don't actually treat governments different than we do firms. Why not have a level playing field in the sense that there is nothing unfair about subsidies in the marketplace, and foolish governments that want to subsidize an industry or firm are free to do so. It's their mistake, after all, in the sense that their taxpayers and domestic firms that do not receive subsidies bear the cost, and foreign consumers get the benefit.

C: But foreign producers bear the cost too, and that is why it is unfair. Look, the reason why government as opposed to private action is unfair is because governments are not the same actors as private actors. They have different rights and responsibilities, different obligations and privileges. The agents of a foreign government, for example, have diplomatic immunity. The foreign government exercises sovereignty over its territory. So there's no fundamental, moral reason why it's unfair. It is unfair because those are our rules of the game.

W: But plainly they aren't the rules of the game. Look at all the subsidizing that does go on, especially by the rich nations, the so-called free-traders. I'll grant you that your fairness doctrine for protection is a good line. But it has two tests: practicality and consistency. You can't possibly tell me our trade bureaucracy

impartially reviews trade disputes for fairness. It's all political, and they'll find an unfair foreign subsidy under every industry lobbyist's fanny. And also, don't interrupt let me finish, and also the same people moaning about the unfair competition are the same people who practice it at home by subsidizing agribusiness and killing cotton farmers in Burkina Faso.

C: So....? Your point is?

W: That having fairness as the basis for our trade policy is impractical and inconsistent!

C: So....?

W: Alright, let's go back then, since you insist, Monsieur, and let me ask you, what is your basis for a principled trade policy?

C: It has to promote fairness.

W: Even if impractical? Don't say it, is any alternative more practical? Yes, in fact, having a completely non-interventionist trade policy is indeed more practical. Just don't let governments interfere, whether foreign exporters are fair or unfair. That's practical but not fair.

C: Doesn't meet my criterion then. And why do I have to be worried about inconsistency- the politicians do. I can be in favor of protecting manufacturing and not subsidizing our agriculture, no inconsistency there.

W: And so the valiant debaters continued on into the night, vainly trying to reconcile fairness, practicality, and consistency, until one of them said, "Lot's of subtleties in this issue, more in fact than I would have conceded."

C: And the other said, "I'm going to bed."