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PERSPECTIVE

The Season of Protectionism

N. Gregory Mankiw, the Harvard professor who now chairs the President's Council of Economic Advisers, had a rough lesson in Washington culture a few months ago. Talking to reporters, he set off a firestorm when he said, "Outsourcing is just a new way of doing international trade. More things are tradable than were tradable in the past and that's a good thing." He acknowledged that this can cause individual hardship, but added, "[W]e shouldn't sort of retreat from the basic principles of free trade."

"Outsourcing" refers to the hiring of labor in other countries in order to cut costs and increase efficiency. This is nothing new, but because of changes in the world, it is taking a new form. American manufacturers, such as textile and shoe companies, long ago turned to foreign labor by setting up factories in other countries. What's new is that high-paying "knowledge jobs," such as computer programming, can now also be outsourced easily because the Internet makes the movement of information cheap and fast. Advanced telecommunications also makes it efficient to farm out less-skilled jobs, such as telephone support services. As a result of these advances, American workers who have never thought about foreign competition now must do so.

Cable-TV talk shows and newspaper columns are filled with alarm that outsourcing will drain the United States of most of its high-paying jobs. Mankiw tried to point out that alarmism is unjustified. Outsourcing is just a variation on an old theme: getting the most out of scarce resources. In the past it did not reduce us to poverty. Why would it do so now?

But in the political season, good economic theory is not often welcome. Mankiw works for a Republican President, but that didn't stop members of the GOP, such as House Speaker J. Dennis Hastert, from denouncing Mankiw's position: "I understand that Mr. Mankiw is a brilliant economic theorist, but his theory fails a basic test of real economics.



An economy suffers when jobs disappear. Outsourcing can be a problem for American workers and for the American economy.” One Republican congressman called for his resignation.

The White House suggested that President Bush stood behind his chief economist, but the words belied that stance. The spokeswoman said the President “is committed to free and fair trade. He is committed to a level playing field.”

In fact, those words yanked the rug out from under Mankiw. “Fair trade” and “level playing field” are code words that endorse regulations for the developing world that are intended to make outsourcing economically pointless. Poor societies simply cannot afford those government impositions.

With all the flak flying, Mankiw was forced to retreat rhetorically. In a letter to Hastert, he wrote, “My lack of clarity left the wrong impression that I praised the loss of U.S. jobs.” Hastert responded by saying America needs a better environment for job creation. His message was mixed, but at least he included low taxes and an end to frivolous lawsuits in the package.

As the *New York Times* and *Washington Post* editorialized, Mankiw’s initial statement is correct. If a task can be done more cheaply with foreign labor, the savings are available for new investment. That is what has always happened—when the economy is allowed to work. The American computer programmer who loses his job to an Indian programmer is a visible “victim” of free trade. The *invisible* beneficiaries are the workers who will find new opportunities in yet-unknown industries thanks to the freed-up capital.

The case for free trade may be counter-intuitive, and it doesn’t lend itself to sound bites. No wonder it gets battered at election time.

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If liberty and prosperity are to have a future, people must grasp the meaning of free enterprise, the rule of law, and classical liberalism. Richard Ebeling discusses the critical connections.

There’s a lesson in those fairy tales about the granting of three wishes. Joseph Fulda draws some inferences.

An ominous development is emerging: the conversion of business regulations into potential *criminal* offenses, complete with prison time as the penalty for violation. William Anderson and Candice Jackson examine this worrisome trend.

The people of Scotland had craved independence for many years. They finally won it, but it hasn’t worked out as expected, and disillusionment has set in. James Payne finds fault in the welfare state.

Does the decline of Rome have implications for modern-day America? In the realm of ideology, Harold Jones says yes.

An economic success story in eastern Europe is almost totally ignored. Norman Barry has the details about Estonia.

Here’s what our columnists have come up with this month: Richard Ebeling contrasts neoconservatism with the freedom philosophy. Lawrence Reed discusses the bad effects of telecom regulation. Thomas Szasz ponders self-inflicted disease. Stephen Davies sees a refutation of government control in the shoe industry. Russell Roberts considers the attack on cheap foreign labor. And Gene Callahan, reading claims that free-trade theory is outmoded, retorts, “It Just Ain’t So!”

Book reviews this month focus on John Stossel, FDR, gun control, and the environment.

—SHELDON RICHMAN