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Protectionism doesn't protect anyone

By: [John Bruton](#)
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Halton Hills, a small Canadian town of 55,000, recently passed a resolution banning the purchase of all goods from countries that discriminate against Canadian products. The town's mayor, Rick Bonnette, acknowledged his town is a small community in the big scheme of things but that "sometimes you have to take a stand."

The town is taking a stand against the "buy American" provisions attached to the recently signed stimulus bill, fearing it could lose millions of dollars in business by being shut out of the U.S. market.

Halton Hills' reaction is a textbook example of a protectionist tit for tat, a game that was played time and time again during the Great Depression. Though we haven't reached that era's level of economic collapse, recalling the lessons learned from that time can help us steer clear of some obvious pitfalls.

The 1929 Smoot-Hawley Tariff Act, with its astronomical tariff hikes on imported goods, showed us just how easy it is to get quickly sucked into a downward protectionist spiral. With Canada and Europe quickly retaliating with their own trade barriers, we saw how trade protectionism and the ensuing trade war turned a recession into a deep depression. We all learned that there are no winners in a game of protectionism.

Or at least I thought we did. Countries now struggling with a deep recession are once again looking to achieve short-term economic gains by restricting a free and open market that has otherwise served them well. The World Trade Organization recently named and shamed countries for making counterproductive trade changes, such as raising tariffs and introducing "buy American"-type provisions. The World Bank similarly concluded that 17 of the 20 members of the G-20 have adopted measures restricting trade — despite the group's pledge in Washington last November to avoid protectionism.

As WTO head Pascal Lamy warned last month, there is now a danger of "an incremental buildup of restrictions that could slowly strangle international trade and undercut the effectiveness of policies to boost aggregate demand and restore sustained growth globally." We are also seeing a growing number of retaliatory measures, ranging from Halton Hills'

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small-scale action to Mexico slapping \$2.4 billion in tariffs on U.S. imports in response to restrictions on their trucks.

I was pleased to see that the buy American provision in its final version established that it would comply (with the quite limited) U.S. international trade obligations. But I would rather not have seen the provision at all. And neither should have the United States, which stands to lose more from it than any other country. This buy American provision as passed is considerably more severe than previous provisions.

Scholars at the Peterson Institute for International Economics have calculated that the provision will create about 1,000 new jobs in the steel industry and potentially a few thousand more in other industries. But gaining a few thousand jobs has to be weighed against running the risk of other countries — or even a town like Halton Hills — shutting out U.S. manufactured goods. The U.S. stands to lose 6,500 jobs for every percentage of exports decreased.

Restricting competition is also simply a waste of taxpayers' money. It pushes up the price of any product — giving less bang for your stimulus buck.

But more important, it is sending the wrong signal to the world — a signal that has been heard far and wide, as Halton Hills illustrated. The United States stands for freedom, openness and choice in this world. If one of the world's biggest proponents of open markets — an economy that has proved that trade liberalization can be a powerful engine of

economic growth — starts to close its markets, it makes it harder to keep preaching the free-trade gospel to the rest of the world.

The European Union and the United States, as the two largest global economies, have a joint responsibility to turn around the world economy. Trans-Atlantic flows of trade and investment amount to around \$1 billion a day, and, jointly, our global trade accounts for almost 40 percent of world trade.

That wealth and success have been created because we have established innovation-driven economies with a commitment to free trade and open markets. The United States and Europe need to remember that and remind the rest of the world as we seek to overcome the current economic crisis.

John Bruton is European Union ambassador to the United States.

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