

Power, Privilege, and Political Entrepreneurs in America

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“Power tends to corrupt, and absolute power corrupts absolutely” (Lord Acton). Harnessing the authority of government is as close to omnipotence as mere men can come. Such power breeds the temptation for misuse and manipulation. Though in capitalism all men are propelled by self-interest, this pursuit can be mutually beneficial to both individuals and society as a whole. The government need only implement a few constraints, such as private property rights and antitrust laws to enhance free markets and correct for certain market failures. However, it is when these same regulations are contorted and manipulated to suit special interests that corruption arises. A new class of entrepreneurs in America has emerged in recent decades. Rather than reaping wealth from value-creation, innovation, and efficiency as traditional market entrepreneurs do, these political entrepreneurs lobby for government protection and regulation to thwart their competitors. Such policies benefit a narrow minority at the expense of society as a whole.

In the wake of globalization, protectionist cries for a level playing field are greater than ever. Protectionists argue that free trade takes away domestic jobs by exploiting cheap labor, making it impossible for American labor to compete in a global marketplace. Such arguments do not withstand economic scrutiny; they are merely thinly veiled attempts to leverage government policy against free trade as a means to financial advancement. Martin Wolf points out, “Both theory and experience show that the more interventionist the state and the more closed the economy, the more likely the government is to be captured by powerful interests” (75). These special interest groups use a wide array of political instruments, such as tariffs, quotas, and subsidies to achieve their economic goals.

Tariffs increase the price of imports by inflicting taxes on them, and as such, effectively redistribute wealth from domestic consumers to domestic producers. This type of policy can cause enormous deadweight losses and trigger a domino effect of retaliation amongst foreign countries. One such notable debacle occurred in 1930 with the passage of the Smoot-Hawley Act. Against the advice of over 1,000 American economists, President Hoover passed the bill in which “the average import duty in the United States reached an all-time high of 59 percent in 1932, provoking foreign retaliation” (Salvatore 312). Salvatore goes on to explain, “By 1932, 60 countries retaliated with stiff tariff increases of their own... The result was the collapse of world trade [which] contributed in a significant way to the spreading and

deepening of the depression around the world” (Salvatore 312-3).

Quotas limit the number of imports into a country and have a similarly negative effect on the overall economy. Just like tariffs, quotas increase domestic prices; these increased prices are clearly bad for domestic consumers, but are also bad for other domestic firms for which the price of their production inputs have now increased. Alan Blinder elaborates, “Quotas on imports of semiconductors sent the prices of memory chips skyrocketing in the 1980’s, thereby damaging the computer industry. Steel quotas force U.S. automakers to pay more for materials, making them less competitive” (Blinder).

Subsidies, on the other hand, are direct government payments to domestic firms to encourage specific economic activities. More covert subsidies come in the form of low-interest government loans and tax breaks given to domestic exporters. Most notably, the U.S. government subsidizes grains, dairy, cotton, sugar, and other agricultural commodities to the tune of \$20 billion per year (Sumner). Such subsidies distort market incentives and entice firms that would have otherwise moved into more productive activities to contribute to industry overcrowding and resource overuse. In fact, the government sometimes even pays farmers to keep land and equipment idle as part of subsidy agreements. Further, subsidies are a great area of contention in international politics and trigger retaliatory actions by foreign governments in an attempt to offset the alleged unfair benefits of these subsidies.

One of the most popular arguments for such restrictions is that American workers must be protected from cheap foreign labor. Firstly, it is argued that this labor is exploitative in nature, and as a result should be banned or restricted. The plight of sweat shop workers who spend long hours in dangerous conditions for dismal pay, no doubt tugs on the heartstrings. However, imposing excessive trade restrictions on sweatshop goods or boycotting factories that employ such labor is not an appropriate or even logical solution. Consider Charles Wheelan’s brazenly truthful and eloquent assessment in Naked Economics:

The problem with Asian sweatshops is that there are not enough of them. Adult workers take jobs in these unpleasant, low-wage manufacturing facilities voluntarily. So one of two things must be true. Either (1) workers take unpleasant jobs in sweat shops because it is the best employment option they have; or (2) Asian sweatshop workers are persons of weak intellect who have many more attractive job offers but choose to work in sweatshops instead. Most arguments against globalization implicitly assume number two. (20)

It is a huge humanitarian folly to assume that taking away the best employment opportunity these sweat shop workers have is in any way an act of compassion. So long as they are acting under free will and are not of unspeakably weak intellect, as Wheelan points out, these workers must be left to make their own choices both as consumers and workers. It is egregiously arrogant to assume that we as Americans are better qualified to make choices for these workers whom, in most cases, we have never met and whose everyday reality is unimaginable by American standards.

Anti-globalization crusaders have done far more harm than good in all of their protests against sweatshops and child labor. Paul Krugman relays in a *New York Times* article the true story of child laborers in Bangladesh in 1993. When these child laborers were found to be producing clothing for Wal-Mart, legislation was immediately proposed by Senator Tom Harkin to ban imports made by children. In a seeming victory, these factories stopped employing child labor. Unfortunately, a follow-up study done by Oxfam found that these “displaced child workers ended up in even worse jobs, or on the streets—and that a significant number were forced into prostitution” (Krugman).

Presumably, those children would have preferred to be working in the sweat shops producing textiles instead of starving on the street or selling themselves as child prostitutes, lest they would have chosen the latter alternatives in the first place. The horror of unintended consequences is evident in this true example. Though Senator Tom Harkin as well as countless other human rights advocates are undoubtedly well-intentioned, they must be aware that the push to stop buying these goods does not come from the sweatshop workers themselves, but rather from special interest groups who stand to gain from such legislation. In fact, many times, it is the sweatshop workers that most fervently oppose such trade restrictions and proposals for labor standards. They understand that forcibly imposing higher standards on poor countries will only increase poverty. Hoekman and Kostecki point out, “imposing a relatively high minimum wage in a developing country with low per capita income will be akin to a high tax on employment of low-skilled workers” (264). This will necessarily increase unemployment of such workers.

Conversely, trade can be an important tool in achieving economic growth for developing countries. Trade allows for specialization amongst nations, allows nations access to new technologies, and ultimately gives nations the tools to attain higher living standards. Thus, trade restrictions only hinder economic progress and growth. Clearly, the plight of sweatshop workers and child laborers is not a viable reason to impose trade barriers.

The implementation of such policies benefits certain narrowly-interested lobby groups and harms not only domestic consumers and other domestic firms, but most shockingly, the sweatshop workers themselves.

However, it is also argued that trade restrictions are necessary because domestic firms with highly paid laborers will not be able to compete with foreign firms that pay workers only a few dollars a day. This argument fails to realize that wages are based not on the level of trade, but rather on level of productivity of labor. In order to understand the principles of competitiveness, one must first understand one of the most widely accepted theories in economics: Ricardo's law of comparative advantages. This law surmises that nations will specialize in the commodities in which they have the lowest opportunity cost of producing. Put simply, "a producer's efficiency at growing bananas," for example, "depends on the amounts of other goods and services he sacrifices by producing bananas (instead of other goods and services)" (Boudreaux). Without trade, each nation would have to use time and resources producing all of the goods and services it wishes to consume. However, trade allows a nation to concentrate on producing the commodities it is best suited to produce. Through this specialization, each country's productivity will increase, thus, shifting its production possibilities frontier outward. Subsequently, each nation will be able to produce and consume more than they otherwise could without trade.

This theory is based on opportunity cost, not absolute efficiency. Thus, even if one nation is most efficient in producing every commodity, there will still be basis for mutually beneficial trade because of the idea of opportunity costs. Alan Blinder explains:

Suppose the Chinese could manufacture everything more cheaply than we can—which is certainly not true. Even in this worst-case scenario, there will of necessity be some industries in which China has an overwhelming cost advantage (say, toys) and others in which its cost advantage is slight (say, computers). Under free trade, the United States will produce most of the computers, China will produce most of the toys, and the two nations will trade.

Certainly, America will not be out-competed in a global marketplace. Still, it is equally important to establish that American wages will not be lowered by the forces of globalization. Protectionists concerned with preserving the American standard of living argue that cheap foreign labor will cause a "race to the bottom" of international wage rates, which will slash American income. Martin Wolf dispels this myth in [Why Globalization Works](#) by saying, "Free trade does not equalize wages because productive efficiency diverges immensely

across countries” (85). In short, America’s investment in human capital, such as high-level education and training has increased American productivity. Thus, the highly-skilled American workforce commands higher wages than labor in other countries for which workers remain largely unskilled and uneducated. An increase in international trade will not cause the equalization of wages worldwide. Alan Blinder clarifies, “As long as American workers remain more skilled and better educated, work with more capital, and use superior technology, they will continue to earn higher wages than their [international] counterparts.” He goes on note, “If and when these advantages end, the wage gap will disappear” (Blinder).

Clearly, the fear of converging wage rates amongst nations simply due to trade is unfounded. In fact, the opposite may be true. Globalization can help Americans attain higher overall wage rates. One must think indirectly to realize this benefit. As we have seen, specialization increases productivity, which is an important factor in wage rates. Further, freer trade allows nations access to greater technologies, which also increases efficiency and productivity. More obviously, free trade allows American industries access to a larger market in which to export goods. Wolf elaborates, “Because exports increase the number of workers in relatively more productive, high-wage industries, and imports reduce the number of workers in relatively less productive, low-wage industries, the overall impact of trade in the United States is to raise average wages” (109). This assessment helps shed light on one of the strongest protectionist arguments. The notion of equalization of wages through free trade is revealed as nothing more than a scare tactic meant to perpetuate the economic advancement of a slim minority.

As many people are aware, the benefits of trade do come at a cost, but only to small number of inefficient firms. Without the protection of government policies, these inefficient firms would bow to their more efficient global competitors. This is a process of creative destruction in which low-paying jobs are given up in exchange for higher-paying jobs for which American labor is better suited, more productive, and more efficient. It is important to remember that jobs are not lost, but merely transferred. Still, it is undeniable that this is a painful process in which a number of displaced workers will have a difficult time adjusting. Though it is easy to sympathize with the hardship of these workers, protectionist policies are an incredibly expensive way to help them. Douglas Irwin estimates that “to preserve one job in the textile and apparel industry consumers pay \$140,000... The cost per job saved is even higher in high-paying manufacturing jobs, such as the machine tool industry (\$350,000 per job) or the sugar industry (\$600,000 per job)” (105). Though these estimates differ

from study to study, the costs always far exceed the salary of the job which is preserved.

With protectionism, higher-paying jobs are sacrificed for lower-paying ones and efficient firms are handicapped by higher input prices and restricted access to technologies. This process drags average American wages down, not up. Such damage is done all in the name of protecting a handful of American laborers. Though the process of globalization is necessary, just as the Industrial Revolution was necessary, it would be heartless to pull the rug out from under these largely unskilled workers without a proper safety net. One potential solution may be government programs designed to extend relief to those American workers displaced by globalization. These programs may help America capture the benefits of free trade while softening the opposition to globalization.

Trade adjustment assistance (TAA) has been in place since 1962 following the passage of the Trade Expansion Act. Irwin explains, "The original purpose of TAA was to compensate workers for loss of income, but since then, the goal has shifted toward other assistance, such as training and reemployment services" (118). Training and reemployment services may prove more valuable to these workers in the long run than mere cash disbursements. Roughly \$300 million annually goes to aid 30,000 to 40,000 displaced workers, but the program has recently expanded to \$2 billion in cash aid and services with the 2002 passage of the Trade Adjustment Reform Act (Salvatore 315). Trade readjustment assistance (TRA) is meant to be a supplement to TAA and provides extended unemployment insurance benefits to workers who are slower to return to the workforce.

Like many government programs, these services are not perfect, and thus, are met with skepticism. It is argued that these benefits distort the incentive to become reemployed, much as welfare payments do, because the aid is stopped when workers are hired even at very low-wage positions. Such problems are being worked on, though, and one solution may be found in Alternative Trade Adjustment Assistance (ATTA). This program is still in its infancy and proposes that workers over fifty be given cash benefits equal to 50 percent of the difference between their old pay and new pay only if they are reemployed within twenty-six weeks. This benefit would cap at \$10,000 per person and would only be available to those who earn less than \$50,000 annually (Irwin 121). This type of program shifts the incentive from longer periods of unemployment to quick reemployment. Though somewhat costly, the costs of these programs do not come near the benefits that would be realized by expanding international trade.

Lobbyists and special interest groups have fought the hardest for protectionist policies. Though opposition from these groups will

indubitably persist, these programs may offer a cushion for displaced workers and give the rest of America the courage to oppose insidious protectionist legislation. The costs of American protectionism include forgone productivity, economic growth, higher wages, technology advancements, and increased living standards. Perhaps most unforgivably, though, is that the security afforded to inefficient firms through political legislation comes at the cost of greater government control. Every inch of power relinquished to special interest groups tempts more and more corruption and encourages the degradation of our political and economic values. Ultimately, every step towards greater government control is a step away from liberty. In the words of the great Benjamin Franklin, "Sell not virtue to purchase wealth, nor liberty to purchase power."

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