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THE PERILS OF A POLICY SHIFT TO 19TH CENTURY HIGH-TARIFF PROTECTIONISM AND MERCANTILISM

By Aaron N. Gruen



The aggregate globalization has produced enormous increases in production, trade, and wealth. Trust that economic growth and with increasing global prosperity, relative peace among nations will continue in the future is a critical element underlying the foundation of global capital markets. Global capital markets provide cheap and large amounts of credit to firms, individuals, and governments. With relative peace, global trade and investments flourish. Increasing interactions and connections gained from trade help to encourage greater peace so that a virtuous feedback mechanism exists.

A policy shift to 19th-century high-tariff protectionism and every-country-for-itself mercantilism and termination of alliances that have provided for relative peace and security would end the virtuous feedback mechanism that has given middleclass Americans better living standards than the oil baron John D. Rockefeller enjoyed.

As the Nobel Laureate economist Milton Friedman said at a lecture he gave at Kansas State University (<https://www.youtube.com/watch?v=QXkX4POxA0g>): “The gain from foreign trade is what we import. What we export is the cost of getting those imports. And the proper objective for a nation, as Adam Smith put it, is to arrange things so we get as large a volume of imports as possible for as small a volume of exports as possible.” Trade barriers impose higher prices on consumers, including those that most benefit from lower prices, middle- and lower-income households, while sheltering frequently affluent producers from competition.

While the benefits of trade are broadly distributed, however, the costs are often concentrated. Rather than undo the benefits of increasing prosperity and peace through policy shifts that will create uncertainty and instability, increase political tensions, and harm the less affluent, U.S. policy should be directed to providing for a larger safety net to those negatively impacted by global competitive forces and in a way that respects the inherent dignity of those impacted. In addition, policy should be directed to encouraging nations that do impose disproportionate restrictions on American goods to lesson those restrictions.

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