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THE MYTHS AND REALITIES OF TRADE PROTECTIONISM

INTRODUCTION

This year's presidential campaign has raised once again the issue of free trade versus protectionism, with protectionists arguing that reducing foreign imports protects American jobs and benefits the overall U.S. economy. What are the facts?

There is no evidence that protectionism produces economic benefits that outweigh its costs, but there is plenty of evidence that it does more harm than good. There is near unanimity among economists, for example, that free and unrestricted trade benefits economies while protectionism hurts them.

America has a long history of advocating free trade, and, despite the claims of many, has been a free trade country throughout most of its history. When America has strayed from the path of free trade, the result has been economic hardship. Yet America today is on the brink of reviving protectionist policies that have failed in the past. The consequences would be all too predictable: lower living standards for all Americans, higher levels of unemployment, more business bankruptcies, and lingering economic decay.

The policies advanced by opponents of free trade ultimately are based on a number of myths:

Myth #1: Free trade has destroyed America's manufacturing base. Not true. Today manufacturing measured as a percentage of the U.S. economy is about the same today as it was in 1967.

Myth #2: High manufacturing wages must be protected from foreign competition regardless of the cost to the overall economy. Not true. The cost of saving jobs from foreign competition is higher consumer prices, which harm the economy.

Myth #3: Free trade is causing America to lose its technological edge. Not true. America today is the most technologically advanced country in the world, recapturing the lead in many high-tech industries like semiconductors.

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Myth #4: Trade deficits are harmful while trade surpluses are beneficial. Not true. Trade deficits are more a sign of strength than they are of weakness.

Myth #5: Trade deficits cost jobs. Not true. The data show that as the trade deficit increases, unemployment decreases.

Myth #6: Japan's prosperity is based on trade surpluses generated by managed trade policies. Not true. Japan is suffering economically because of its managed trade policies.

Myth #7: American companies will go bankrupt unless the U.S. government limits import competition and forces foreign countries to purchase more U.S. goods. Not true. Many industries once thought to be in danger of bankruptcy are making record profits.

Myth #8: Countries like Japan are called protectionist simply because the U.S. has experienced difficulty penetrating their markets. Not true. American companies sell almost $70 billion a year in Japan, America's largest market besides Canada.

Myth #9: Trade surpluses are always the result of government policy. Not true. Some countries are likely to run a trade deficit because they import cheaper raw materials and export more expensive finished goods.

Myth #10: Trade retaliation is the most effective way to open foreign markets. Not true. Trade retaliation most often fails to open foreign markets.

Myth #11: International trade arrangements like the World Trade Organization and the North American Free Trade Area violate American sovereignty. Not true. No international organization has final policy-making authority over the United States. In all cases, the U.S. Congress and the President have final authority.

THE MYTHS OF TRADE PROTECTIONISM

The protectionist approach to settling trade disputes with Japan, China, and other countries rests on a number of myths about free trade and trade deficits. These myths are the intellectual foundation of protectionism.

MYTH #1: Free trade has destroyed America's manufacturing base. Opponents of free trade argue that cheaper labor in foreign countries forces American companies to move their operations overseas. They contend that in the long run, America is being de-industrialized.

REALITY: Not true. First of all, labor is not the only factor in producing manufactured goods. Other factors such as capital, natural resources, and infrastructure also must be considered. If labor was the only or even the most important factor, all the world's manufacturers would be located in such low-wage countries as Haiti, Somalia, and the Dominican Republic. Manufacturers avoid these poor countries because of the many problems that add to the cost of doing business there. For example, port facilities or roads may be inadequate or non-existent, driving up the costs of transporting goods to market; there may be no telephone or fax service; and local and federal taxes may be so high that they cancel out any savings from cheap labor.

America's Manufacturing Might. Even more important, America is not de-industrializing. Manufacturing as a percentage of the U.S. economy is essentially the same today —about 21 percent of GDP—as it was in 1967.[1] Moreover, employment in manufacturing has remained relatively stable over the last three decades. The number of Americans working in manufacturing jobs today (about 10.5 million) is about the same as in the early 1960s.[2] Thus, even though these jobs represent a smaller percentage of the growing U.S. population, these Americans now are building computers and advanced medical devices instead of working in assembly lines sewing clothes or soldering circuit boards. If it is true that manufacturing is about the same percent of the U.S. economy as it was nearly 30 years ago, and that there are fewer workers as a percentage of the total U.S. population performing those tasks, then it is also true that the American worker is becoming more productive. This is a sign of strength, not weakness.

MYTH #2: High manufacturing wages must be protected regardless of the cost to the overall economy. Protectionists believe that American manufacturing wages must be protected from foreign competition regardless of the costs to the rest of the country. They also argue that foreign competition causes Americans to lose their jobs.

REALITY: Not true. The cost of saving jobs from foreign competition is higher consumer prices, which harm the economy. For example, when trade quotas were imposed on imported cars in the early 1980s, prices for domestic and imported cars rose by $2,000.[3] While these quotas may have preserved some auto workers' jobs, they also passed the cost on to the American consumer. Instead of being able to use this money to send their children to college, pay their mortgages, or put food on the table, American consumers are forced to subsidize the jobs of other Americans who cannot compete internationally. In short, protectionism takes money from the many to support the high wages or jobs of the few.

Moreover, trying to save a few jobs through protectionism may cause a net loss of many more jobs. When the U.S. imposed import quotas on the auto industry in the 1980s, the price of a new U.S. automobile increased by an average of 41 percent from 1981 to 1984. This was nearly twice the average rate of increase for all consumer prices during that time. While the auto industry can claim that these price hikes saved up to 22,000 jobs, they also prevented many consumers from buying new cars.[4] In fact, U.S. consumers bought around 1 million fewer U.S. cars after the U.S. imposed import quotas,[5] and the drop in sales forced the auto industry to lay off 50,000 workers in the late 1980s.[6] Thus, even though 22,000 jobs apparently were saved, the layoffs caused by the price increase actually produced a net loss of 30,000 jobs.

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1 Based on *Statistical Abstract of the United States*, U.S. Department of Commerce, various years, and current estimates by the Department of Commerce, Bureau of Economic Analysis.

2 *Economic Report of the President*, Council of Economic Advisors, 1996, p. 328.

3 James Bovard, *The Fair Trade Fraud* (New York: St. Martin's Press, 1991), p. 94.

4 *The Costs and Benefits of Trade Protectionism*, Organization for Economic Cooperation and Development (OECD), Paris, 1985.

5 Robert Crandall, "The Effects of U.S. Trade Protection for Autos and Steel," *Brookings Paper on Economic Activity* No. 1, 1987.

6 *Ibid.*

What is more, the price increases cost the American consumers $17 billion in higher auto prices. To save just one of those 22,000 auto jobs, American consumers had to pay $772,727. It would have been cheaper if the American taxpayer, through the U.S. government, could have given these auto workers a one-time check for $500,000 and then laid them off. Either way, whether by imposing tariffs or by paying laid-off workers directly, the U.S. government would be subsidizing relatively few workers at great expense to Americans generally.

Similarly, the number of retail jobs destroyed by years of import restrictions on textile and apparel products is far greater than the number of jobs created or saved in the textile manufacturing industry. Americans pay 58 percent higher prices for textile and apparel products because of U.S. trade restrictions. This amounts to $11 billion to $15 billion a year.[7] Thus, while protectionism saved 22,390 U.S. textile and apparel jobs in the 1980s, it cost the U.S. consumer $550,916 per job saved. However, once job losses in other industries, like the retail sector, are added to the equation, the cost of each job saved increases to well over $4 million.[8]

It should be up to individual Americans, not government, to determine how much they pay for consumer goods. It is unfair to ask a school teacher making $26,000 a year to pay $2,000 more for a car to subsidize an auto worker who makes $50,000 a year.

MYTH #3: Free trade is causing America to lose its technological edge. Advocates of protectionism argue that the United States is losing its technological edge to countries like Japan, mainly as a result of the U.S. dedication to free trade. These advocates argue that foreign competition has forced many U.S. high-tech firms into bankruptcy or out of the business of producing certain goods.

REALITY: Not true. America today is the most technologically advanced country in the world, a leader in the production of such high-tech products as advanced audio and video equipment, air conditioners, building and construction hardware, computers and computer software, environmental technology equipment, medical equipment and chemicals, navigational and surveying equipment, and telecommunications equipment. Moreover, American firms are recapturing the lead in many technological fields in which they had fallen behind during the 1980s. Two examples:

Example 1: Semiconductors. Semiconductors are electrical components used to conduct electricity. They are used not only in the most basic of electrical products, such as toasters, but in the most advanced devices, such as supercomputers or orbital satellites. All electrical products incorporate some type of semiconductor, so this industry obviously is vital to the economic well-being of any country.

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7 David G. Tarr, *A General Equilibrium Analysis of the Welfare and Employment Effects of U.S. Quotas in Textiles, Autos, and Steel*, Federal Trade Commission, February 1989.

8 Bryan T. Johnson, "Time to End U.S. Textile Import Restrictions," Heritage Foundation *Executive Memorandum* No. 265, May 4, 1990.

Today, America is the world's largest manufacturer and seller of semiconductors. Many argue that an aggressive U.S. protectionist policy has raised the industry to its present status. In fact, however, it was U.S. private-sector joint ventures and sound business decisions by the U.S. semiconductor industry that resulted in this current prosperity.

By the 1980s, Japan had become America's biggest rival in semiconductors. Japanese firms began to invest aggressively in computer memory chips, trying to beat out the remaining U.S. producers in this area. Sensing an impending downturn in demand, many U.S. firms abandoned production of these relatively low-tech items in favor of more profitable higher-tech products. One such product was the microprocessor. While the downturn in demand for memory chips did occur in the mid-1980s, and the Japanese endured major losses, American semiconductor manufacturers profited because they focused on producing microprocessors, not memory chips.[9]

However, after U.S. industry had walked away from the memory chip, sales in Japan dropped. The U.S. responded to this problem in 1986 by seeking a U.S.-Japan agreement that would force the Japanese to buy more semiconductors from the United States. But this agreement had little, if any impact on increased U.S. semiconductor sales in Japan. What did increase American semiconductor sales in Japan was a series of private-sector U.S. joint ventures with Japanese companies. These ventures gave U.S. companies access to crucial Japanese manufacturing techniques and distribution channels, in addition to shared research and development costs. In 1990, there was just a handful of U.S./Japan semiconductor partnerships; by 1994, there where over four dozen. It was these partnerships that enabled American companies to sell more semiconductors in Japan.[10]

Example 2: Steel. In the 1970s and 1980s, America's steel industry was unable to compete with cheaper, foreign made steel. Many steel workers were laid off, some permanently. Today, the U.S. steel industry is stronger, with growing sales and more profitability. Many advocates of protectionism argue that U.S. steel was saved by trade restrictions. In fact, however, protectionism in steel harmed the U.S. economy while failing to help the U.S. steel industry. What did help the U.S. steel industry? Joint ventures with foreign firms and massive foreign investment.

To help the U.S. steel industry cope with shrinking competitiveness in the 1970s, the Nixon Administration imposed relief from imports for a period of three years, during which the industry was supposed to modernize. In 1971, these import restraints were extended for another three years. From 1974 until 1993, the U.S. steel industry was under some kind of government protection. Wages rose from $9.90 per hour in 1970 to $17.46 per hour in 1980, an increase more than 60 percent higher than wage increases in the rest of the U.S. manufacturing sector.

9 Bryan T. Johnson, "The U.S.-Japan Semiconductor Agreement: Keeping up the Managed Trade Agenda," Heritage Foundation *Backgrounder* No. 805, January 24, 1991.

10 See Bryan T. Johnson, "A U.S. Strategy Toward Trade With Japan That Will Work," Heritage Foundation *Backgrounder* No. 999, August 30, 1994; "Forging Alliances to Bust Into the Japanese Market," Heritage Foundation *Backgrounder* No. 876, January 31, 1992; and "Increasing American Competitiveness Through Strategic Alliances," Heritage Foundation *Backgrounder* No. 857, September 26, 1991.

The combination of higher steel wages and 20 years of protectionism cost more jobs among users of steel than were saved in the steel industry.[11] Moreover, Americans paid some $5 billion a year in higher prices. Thus, while protection may have saved jobs in the steel industry, it destroyed jobs in other industries that use steel to manufacture their products. For example, from 1969 to 1980, U.S. manufacturers using U.S.-made steel paid 20 to 25 percent more for their steel than was paid by their foreign competitors.

Still, the U.S. steel industry did manage to make a tremendous comeback.[12] The industry once again is making profits and, after years of modernization, is prepared to compete with foreign steel producers. The reason: Japanese foreign investment poured into the U.S. in the 1980s and gave U.S. steel companies the money they needed to build new plants and adopt more advanced manufacturing techniques. Moreover, private sector joint ventures between U.S. and Japanese steel companies taught U.S. firms how to manufacture steel more efficiently.

MYTH #4: Trade deficits are harmful and trade surpluses are beneficial. This is the core idea behind protectionism and managed trade. Advocates of this view argue that trade deficits harm the economy, destroy jobs, and reflect weakness in the economy.

REALITY: Not true. Trade deficits are more a sign of strength than of weakness. The U.S. trade deficit means that Americans hold more goods than their foreign trading partners, while foreigners hold more U.S. dollars. As the richest country in the world, America consumes goods and services from both U.S. and foreign companies. The influx of foreign goods and services in return for dollars adds to America's wealth. It does not detract from it.

Americans receive imported goods and services that increase their standard of living. Moreover, the dollars sent abroad for the purchase of goods and services typically cannot be spent within those countries. While dollars are traded between countries in financial markets, they are used mainly by foreign consumers to buy American goods and services. Thus, nations use surplus dollars to buy American goods and services, invest in American firms, or purchase U.S. Treasury bonds. These investments create jobs and wealth for Americans, while the purchase of Treasury bonds frees U.S. domestic capital for savings, investment, and purchases.

Consider the example of someone who goes to the supermarket and buys $150 worth of groceries. The protectionist believes the proprietor has a trade "surplus" of $150, and the customer has a "deficit" of $150. But this is not the case. The grocer ends up with $150 in currency, while the customer has $150 worth of groceries. It is a mutually beneficial transaction. No one would expect the grocer to buy an equal amount of goods from the customer in order to have an equal balance sheet in exchanged goods. Nor should one expect countries to have an even balance sheet in international trade. The trade deficit represents nothing more than a surplus of foreign goods and services which Americans now own. The value of these goods and services is as much a part of the national wealth as is the possession of U.S. dollars.

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11 Tarr, *A General Equilibrium Analysis of the Welfare and Employment Effects of U.S. Quotas in Textiles, Autos, and Steel.*

12 Donald F. Barnett and Robert W. Crandall, *Up From The Ashes* (Washington, D.C.: The Brookings Institution, 1987).

Another misunderstanding involves the calculation of the trade deficit. At least one-third to one-half of the U.S. trade deficit figure counts U.S. imports from American overseas subsidiaries as part of the deficit. For example, when Ford Mexico sends a motor from its plant to the Ford assembly plant in Detroit, it is counted as an import. However, if Ford then sells an American-made car with a Mexican-made motor in the U.S., there is no corresponding export. Thus, a "deficit" supposedly is created. But why should a car sold in the U.S., even though it has a Mexican-made engine, be calculated as part of the trade deficit? Most of the money made from this sale stays in the U.S.

Trade deficits are not harmful to the economy. If they were, America would not be the economic powerhouse it is today. The U.S. has run a trade deficit for most of its history. For the first hundred years, these deficits were fairly large; nevertheless, throughout this period, growth rates were higher than they are today. Trade deficits did not destroy the economy then. Nor will they destroy it in the future.

MYTH #5: Trade deficits cost jobs. Protectionists claim that trade deficits are a major cause of unemployment.

REALITY: Not true. History shows that, on average, unemployment drops as trade deficits rise. For example, while the trade deficit leaped in 1983-1984 and peaked in 1987, the U.S. unemployment rate plummeted, from 9.6 percent in 1983 to 5.5 percent in 1988. When the trade deficit began to shrink from 1989 to 1991, on the other hand, unemployment rose from 5.3 percent to 6.7 percent, and when it began to rise again from 1992 to 1994, unemployment fell from 7.4 percent to 6.1 percent.

Looking further back in history confirms that trade deficits do not cause a loss of jobs. Every year the trade deficit increased since 1962, unemployment decreased. Likewise, every year the trade deficit decreased since 1962, unemployment increased shortly thereafter.[13] Despite the trade deficit, the economy was growing and jobs were being created.

Why, then, are some major corporations laying off large numbers of workers? The answer has nothing to do with trade deficits and everything to do with America's own economic ills. The U.S. economy today suffers from a host of government policies and regulations that are strangling corporate America.

Faced with a proliferation of environmental regulations, financial reporting requirements, and worker safety laws, American companies are finding it more and more expensive and difficult to comply with government directives. While many regulations may have laudable goals, their implementation is causing severe hardship for America's corporations. This, combined with added costs, causes far more job losses than trade deficits.

MYTH #6: Prosperity is based on trade surpluses generated by managed trade policies. U.S. policymakers often use the managed trade policies of Japan as an example of how a country can eliminate trade deficits, increase living standards, and achieve greater economic stability.

13 Based on *Economic Report of the President*, 1993, 1994, and 1995 editions.

REALITY: Not true. A closer look reveals that Japan's managed trade policies have had mixed results. The real purchasing power of Japanese consumers is at least 20 percent less than that of the American consumer. For example, using purchasing power parity, which takes into account differences in currency values, local prices, availability of goods and services, and inflation, America has a per capita income of $25,860. Japan, however, has a per capita income of only $21,350.[14] This means that the Japanese have a lower standard of living than Americans.

Japan's lower standard of living can be attributed partly to a highly regulated economy that drives up the cost of living. For example, policies that restrict such imports as agricultural products, beef, and other food items force the average Japanese to spend about 25 percent of his disposable income on food, compared to less than 12 percent for Americans. Spending more on food means less money for housing and other needs. The result: a lower standard of living.

Managed trade is not responsible for Japan's prosperity. In fact, Japan's prosperity exists in spite of Japan's managed trade and industrial policies. In the end, the freer trade and market economic policies of the U.S. have produced a higher standard of living in America than in Japan.

MYTH #7: American companies will go bankrupt unless the U.S. government limits competition from foreign imports and forces foreign countries to purchase more U.S. goods. Advocates of managed trade argue that closed overseas markets are the chief reason for America's trade deficit, causing enormous economic hardships that result in bankruptcies and lost jobs.

REALITY: Not true. This scare tactic is employed by U.S. companies to frighten policymakers into taking up their cause in Washington. And what is their cause? To limit import competition and force foreign countries to purchase a set amount of U.S. goods and services. These companies argue that they are hurt by closed markets overseas. As a result, they want Congress and the Administration to punish American consumers by forcing them to pay higher prices for imported products like automobiles.

But if American companies are so beset by closed markets overseas, why is America the world's largest exporter? The U.S. exported over $783 billion in goods and services in the first 11 months of 1995.[15] By contrast, Germany exported only $414 billion and Japan only $397 billion in all of 1994.[16] Clearly, most U.S. exporters experience little if any difficulty finding overseas markets for their goods.

Consider the U.S. auto industry. Is it on the verge of bankruptcy today? It is not. It racked up $14 billion in profits last year. The main reason for Detroit's resurgence was not government coddling. Rather, it is because manufacturers are building better automobiles. This is the result of competition from Europe and Japan. Today, American cars are better built, have fewer flaws, and are bigger sellers than many of their Japanese and

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14 *The World Bank Atlas 1996* (Washington, D.C.: The World Bank, 1996), p. 18-19.

15 Provided by the Department of Commerce, Bureau of the Census.

16 *International Financial Statistics*, International Monetary Fund, June 1995.

European counterparts. For all this, the Big Three auto makers have the free market to thank, not the meddling hand of the federal government.

MYTH #8: Because the U.S. is unable to sell some goods and services in countries like Japan, these countries must have closed markets. Many protectionists argue that the U.S. has an open market while countries like Japan restrict American imports. Thus, they blame Japan for its trade surplus with the U.S.

REALITY: Not true. Japan is no more protectionist than the United States. This is the conclusion of The Heritage Foundation's *Index of Economic Freedom*, which measures the relative level of economic freedom in over 100 countries. The study concludes that, from a global perspective, Japan and the U.S. have relatively equal levels of protectionism.[17]

The trade deficit with Japan is not nearly as bad as protectionists argue. For example, the commonly reported trade deficit figures measure only merchandise trade. While these figures represent the bulk of the trade between the U.S. and Japan, they also ignore the tremendous trade surplus the U.S. has in consulting, telecommunications, computers, and other services. Thus, the deficit is usually smaller than commonly reported. Moreover, much of the trade deficit with Japan comes from counting the products of Japan-based American companies exporting their goods back home. The profits from these sales go to the stockholders of American companies, not directly to the Japanese.

The truth is that Japan is America's largest overseas export market. Japan imported \$69 billion in goods from America in 1995—that is more than the U.S. exported to Britain and Germany combined (\$22 billion and \$19 billion, respectively).[18] Moreover, on a per capita basis, Japan buys more from the U.S. than America buys from Japan. For example, each Japanese citizen bought \$444 worth of U.S. goods and services in 1994, while each American citizen purchased only \$441 worth of Japanese goods and services.[19] But because Japan's population is about 50 percent smaller than America's, a deficit exists. Americans purchase more Japanese goods overall because there are twice as many Americans as Japanese. Thus, a trade deficit exists for many reasons, not just because of—or even primarily because of—Japanese protectionism.

MYTH #9: Trade surpluses are always the result of government policy. Protectionists argue that trade surpluses are created intentionally by government policy. Thus, they reason, trade deficits must be dealt with in the same manner—by government action through tariffs and other forms of protectionism.

REALITY: Not true. Those who argue that trade surpluses and deficits are the result of government manipulation do not understand how a market economy works. They ignore, for example, that some countries with scarce natural resources are likely to run a trade surplus because they must import relatively inexpensive unfinished goods and export more expensive finished goods.

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17 Bryan T. Johnson and Thomas P. Sheehy, *The Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation, 1995).

18 "Survey of Current Business," March 1995.

19 Based on figures in International Monetary Fund, *Direction of Trade Statistics Yearbook, 1994* and *Direction of Trade Statistics Yearbook*, monthly updates, 1995, and *The World Bank Atlas: 1995*.

Japan is a case in point. It must import such raw materials as oil and lumber. These raw materials are used to manufacture more expensive finished products, some of which are exported. Throughout this process, the Japanese are adding value to the imported raw materials by making more expensive finished products for export. The result is a trade surplus. By contrast, the U.S. has abundant natural resources, which in many cases it exports. Thus, most of its imports are finished goods, which are more expensive and worth more than the raw materials that went into making them.

MYTH #10: Trade retaliation is the most effective way to open foreign markets. Protectionists believe the best way to open foreign markets is to threaten trade retaliation. The weapons of choice: special tariffs, duties, and import quotas.

REALITY: Not true. The U.S. has resorted to threats of trade retaliation to open foreign markets, but most of the time they have backfired. The principal U.S. law used to threaten trade retaliation is Section 301 of the 1974 Trade Act, which grants the President the authority to impose punitive trade restrictions on imports. Of the nearly 80 Section 301 cases initiated by the U.S. since 1974, only about 15 were successful. Yet even in these cases, American consumers were saddled with billions of dollars in higher prices caused by higher tariffs and special duties. In the end, all Americans were the losers.

MYTH #11: International trade arrangements like the World Trade Organization and the North American Free Trade Area violate American sovereignty. Advocates of trade protectionism argue that the U.S. should pull out of these and related institutions and agreements because they all infringe on American sovereignty and represent a move toward world government.

REALITY: Not true. A world government would indeed be a grotesque and harmful development, but these agreements or organizations will not lead to such a result.

Nothing in any of America's trade agreements, including the NAFTA, can force America to follow any law not previously passed by the U.S. Congress and signed by the President. All of these agreements contain language stating that no decisions made under them can supersede domestic U.S. law. How can a foreign organization like the WTO infringe on U.S. sovereignty if it lacks the power to supersede or overrule U.S. law?

Free trade is, in fact, the antithesis of world government. It depends on the free flow of ideas as well as goods and services. This promotion of freedom worldwide is inconsistent with the centralizing principle of world government.

CONCLUSION

The driving force behind the protectionist threat of trade sanctions against Japan, China, and other countries is a misguided belief that trade deficits are harmful to the economy. Nothing could be further from the truth. Trade deficits are a sign of economic strength. They often represent a growing economy in which jobs and wealth are being created, not lost.

Another myth that inspires the protectionist is that trade deficits are mainly the result of closed markets overseas. This also is not true. There are many markets for U.S. goods and services overseas. In fact, the U.S. is the largest exporter in the world.

Trade protectionists misunderstand America's position in the international economy. By failing to understand America's massive export strength, they fail to comprehend the implications of America's trade deficit. And they have mistaken the reasons why Japan and other countries have a trade surplus. As a result of these misjudgments, protectionists advocate a trade policy that could threaten the wealth and prosperity of all Americans. Their myths are not merely academic, but profoundly important in a practical sense. Getting the facts straight in this debate is vitally important to the future prosperity of the American people.

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