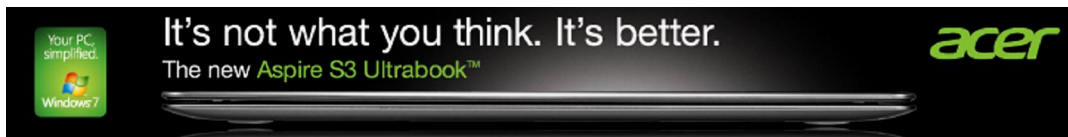


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Wednesday, 3 Jun 2009

# Unintended Consequences: Protectionism Backfires

Posted By: **William Dunkelberg**, Economic Strategist, Boenning & Scattergood  
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**William Dunkelberg**  
 Economic Strategist,  
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The "Buy America" provision in the "stimulus" (haven't seen much of the \$787 billion yet) package is causing more and more trouble to U.S. firms that would like to participate, but have "hidden" imports in their products.

Simple logic reveals this to be a bad idea – no geographic entity is so well endowed that it can be self sufficient and be a low cost producer at the same time. Economic growth and wealth depend on specialization – doing what one does best.

But specialization requires trade. Specializing as a barber means that you have to trade with others to get your food, cars and TVs. Money, of course, makes trade work a lot better (thus the willingness of the world to use dollars rather than "barter"). I would hate to have to give lectures to the barber to pay for my haircut.

So, should our states try to be self-sufficient, producing all the goods and services desired by residents within the states borders? Texas would have to make its own wine and California produce its own electricity. We take trade among our 50 states as a fact of life, never understanding how free trade (well, a few tax differences that are starting to matter) between the states increases our wealth.

Trade builds dependencies.

California could not quickly produce all of the electricity it needs. Such dependencies have been built between the U.S., Canada and Mexico, based on what each country does best. 20% of our oil comes from Canada. Should we prevent anyone using it from participating in any project funded by the stimulus bill? That's what the bill says about steel, iron and manufactured goods. Any foreign content apparently disallows use. It is hard to find a manufactured good that doesn't have a "foreign component". In response to the U.S. policy, Canadian cities are passing "Do not buy American" resolutions – not a good idea, just as Texas passing "Do not buy California" laws would be foolish indeed. Unions pushed this provision in the stimulus bill and got the president to require the use of unionized labor for all federally funded stimulus projects. All of this "restraint of trade" is bad for America and bad for ordinary citizens. Congress is supposed to represent our interests in Washington, but in fact ordinary folk are the most poorly represented group in Washington, we don't make large enough

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Too bad they forget us once they get to Washington.

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*William Dunkelberg is an Economic Strategist, Boenning & Scattergood and Chief Economist, National Federation of Independent Business.*

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