

“Free Trade”

by Milton Friedman

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We have heard much these past few years about using the government to protect the consumer. A far more urgent problem is to protect the consumer from the government.

The immediate occasion for these remarks is the bill that is being considered by the House Ways and Means Committee to impose import quotas on textiles, shoes and other products. Such a bill will, like present tariffs, raise prices to customers and waste our resources. Unlike present tariffs, it will not even yield any revenue to the government. The higher prices will all go to the producers—mostly simply to pay for higher costs. The consumer will be forced to spend several extra dollars to subsidize the producers by one dollar. A straight handout would be far cheaper.

The proponents of quotas say, “Free trade is fine in theory but it must be reciprocal. We cannot open our markets to foreign products if foreigners close their markets to us.” Japan, they argue, to use their favorite whipping boy, “keeps her vast internal market for the private domain of Japanese industry but then pushes her products into the U.S. market and complains when we try to prevent this unfair tactic.”

The argument sounds reasonable. It is, in fact, utter nonsense. Exports are the cost of trade, imports the return from trade, not the other way around.

Suppose Japan were incredibly successful in her alleged attempt to restrict imports into Japan, managing to dispense with them entirely. Suppose that Japan were incredibly successful in her alleged attempts to push exports to the U.S., managing to sell us large quantities of assorted goods. What would Japan do with the dollars she received for her exports? Take crisp greenbacks back to Tokyo to stash in the vaults of the Bank of Japan? Let deposits at U.S. banks pile up? Jolly for us. Can you think of a better deal than our getting fine textiles, shiny cars and sophisticated TV sets for a bale of green printed paper? Or for some entries on the books of banks? If the Japanese would only be willing to keep on doing that, we can provide all the green paper they will take.

The Japanese might accumulate, as they have been doing, a moderate sum in greenbacks or dollar deposits or dollar securities as a reserve for possible future needs. But they are too smart to do so indefinitely. Very soon Japan would take steps either to reduce exports or to use the dollars to buy imports (by changes in trade restrictions, or in the internal price level, or in the exchange rate between the yen and the dollar). We would again be under the unfortunate necessity of having to pay in real goods for real goods.

But, you may say, what if the Japanese asked for gold? Like greenbacks, gold would be useful to them only as a reserve for future purchases. They would derive no current services from the gold any more than we do from the gold buried at Fort Knox. I for one would rather have the useful goods than the idle gold. But if the U.S. authorities thought differently, they could readily refuse to sell the gold for the dollars at a fixed price of \$35 an ounce. In that case, Japan would again

have only the alternatives of greenbacks, deposits, dollar securities—or buying U.S.-produced goods.

Japan does impose numerous restrictions on trade—though in recent years she has been reducing them. Those trade restrictions hurt Japan and they hurt us—by denying them and us mutually profitable trade. In Japan no less than in the U.S., concentrated producers exert a greater influence on government than widely diffused consumers and are able to persuade the government to fleece the consumer for the benefit of the producers.

However, we only increase the hurt to us—and also to them—by imposing additional restrictions in our turn. The wise course for us is precisely the opposite—to move unilaterally toward free trade. If they still choose to impose restrictions, that is too bad but at least we have not added insult to injury.

This is clearly the right course for action on economic grounds. But it is also the only course of action that is in keeping with our political position in the world. We are a great nation, the leader of the free world. Yet we squander our political power to appease the textile industry in the Carolinas! We should instead be setting a standard for the world by practicing the freedom of competition, of trade and of enterprise that we preach.

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