

A Lesson In Logic— And Economics

Milton Friedman, *Newsweek*, August 14

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.

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 favourite 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 round.

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

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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. Very soon Japan would take steps either to reduce exports or to use the dollars to buy imports.

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 will choose to impose restrictions, that is too bad but at least we have not added insult to injury.