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## LAST WORD

### Petition of the Candlemakers, 1845

**French Economist Frédéric Bastiat (1801–1850) Devastated the Proponents of Protectionism by Satirically Extending Their Reasoning to Its Logical and Absurd Conclusions.**

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Petition of the Manufacturers of Candles, Waxlights, Lamps, Candlesticks, Street Lamps, Snuffers, Extinguishers, and of the Producers of Oil Tallow, Rosin, Alcohol, and, Generally, of Everything Connected with Lighting.

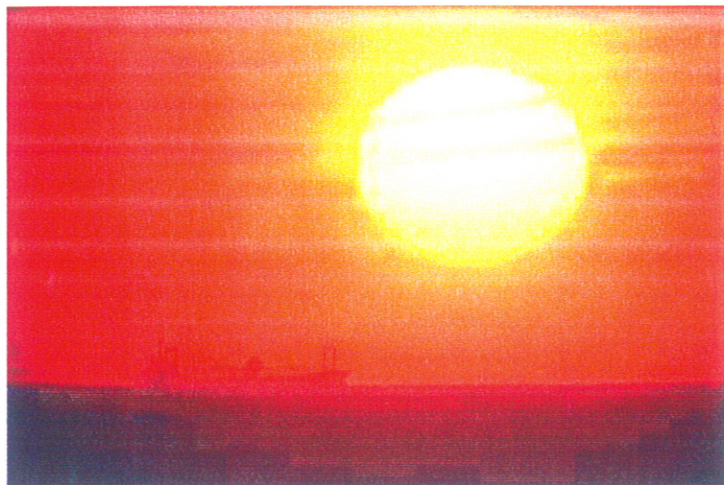
TO MESSIEURS THE MEMBERS OF THE CHAMBER OF DEPUTIES.

Gentlemen—You are on the right road. You reject abstract theories, and have little consideration for cheapness and plenty. Your chief care is the interest of the producer. You desire to emancipate him from external competition, and reserve the national market for national industry.

We are about to offer you an admirable opportunity of applying your—what shall we call it? your theory? No; nothing is more deceptive than theory; your doctrine? your system? your principle? but you dislike doctrines, you abhor systems, and as for principles, you deny that there are any in social economy: we shall say, then, your practice, your practice without theory and without principle.

We are suffering from the intolerable competition of a foreign rival, placed, it would seem, in a condition so far superior to ours for the production of light, that he absolutely inundates our national market with it at a price fabulously reduced. The moment he shows himself, our trade leaves us—all consumers apply to him; and a branch of native industry, having countless ramifications, is all at once rendered completely stagnant. This rival ... is no other than the Sun.

What we pray for is, that it may please you to pass a law ordering the shutting up of all windows, skylights, dormer windows, outside and inside shutters, curtains, blinds, bull's-eyes; in a word, of all openings, holes, chinks, clefts, and fissures, by or through which the light of the sun has been in use to enter houses, to the prejudice of the meritorious manufacturers with which we flatter ourselves we have accommodated our country,—a country which, in gratitude, ought not to abandon us now to a strife so unequal.



If you shut up as much as possible all access to natural light, and create a demand for artificial light, which of our French manufacturers will not be encouraged by it? If more tallow is consumed, then there must be more oxen and sheep; and, consequently, we shall behold the multiplication of artificial meadows, meat, wool, hides, and, above all, manure, which is the basis and foundation of all agricultural wealth.

The same remark applies to navigation. Thousands of vessels will proceed to the whale fishery; and, in a short time, we shall possess a navy capable of maintaining the honor of France, and gratifying the patriotic aspirations of your petitioners, the undersigned candle-makers and others.

Only have the goodness to reflect, Gentlemen, and you will be convinced that there is, perhaps, no Frenchman, from the wealthy coalmaster to the humblest vender of lucifer matches, whose lot will not be ameliorated by the success of this our petition.

*Source:* Frédéric Bastiat, *Economic Sophisms* (Irvington-on-Hudson, NY: The Foundation for Economic Education, Inc., 1996), abridged. Used with permission of Foundation for Economic Education, [www.FEE.org](http://www.FEE.org).

Offshoring is a wrenching experience for many Americans who lose their jobs, but it is not necessarily bad for the overall economy. Offshoring simply reflects growing specialization and international trade in services, or, more descriptively, “tasks.” That growth has been made possible by recent trade agreements and new information and communication technologies. As with trade in goods, trade in services reflects comparative advantage and is

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beneficial to both trading parties. Moreover, the United States has a sizable trade surplus with other nations in services. The United States gains by specializing in high-valued services such as transportation services, accounting services, legal services, and advertising services, where it still has a comparative advantage. It then “trades” to obtain lower-valued services such as call-center and data-entry work, for which comparative advantage has gone abroad.

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Offshoring also increases the demand for complementary jobs in the United States. Jobs that are close substitutes for existing U.S. jobs are lost, but complementary jobs in the United States are expanded. For example, the lower price of writing software code in India may mean a lower cost of software sold in the United States and abroad. That, in turn, may create more jobs for U.S.-based workers such as software designers, marketers, and distributors. Moreover, offshoring may encourage domestic investment and the expansion of firms in the United States by reducing their production costs and keeping them competitive worldwide. In some instances, “offshoring jobs” may equate to “importing competitiveness.” Entire firms that might otherwise disappear abroad may remain profitable in the United States only because they can offshore some of their work.

### QUICK REVIEW 20.8

- Increased international trade and offshoring of jobs have harmed some specific U.S. workers and have led to policies such as trade adjustment assistance to try to help them with their transitions to new lines of work.

## SUMMARY

### LO20.1 List and discuss several key facts about international trade.

The United States leads the world in the combined volume of exports and imports. Other major trading nations are Germany, Japan, the western European nations, and the Asian economies of China, South Korea, Taiwan, and Singapore. The United States’ principal exports include chemicals, agricultural products, consumer durables, semiconductors, and aircraft; principal imports include petroleum, automobiles, metals, household appliances, and computers.

### LO20.2 Define comparative advantage, and demonstrate how specialization and trade add to a nation's output.

World trade is based on three considerations: the uneven distribution of economic resources among nations, the fact that efficient production of various goods requires particular techniques or combinations of resources, and the differentiated products produced among nations.

Mutually advantageous specialization and trade are possible between any two nations if they have different domestic opportunity-cost ratios for any two products. By specializing on the basis of comparative advantage, nations can obtain larger real incomes with fixed amounts of resources. The terms of trade determine how this increase in world output is shared by the trading nations. Increasing (rather than constant) opportunity costs limit specialization and trade.

**LO20.3 Describe how differences between world prices and domestic prices prompt exports and imports.**

A nation's export supply curve shows the quantities of a product the nation will export at world prices that exceed the domestic price (the price in a closed, no-international-trade economy). A nation's import demand curve reveals the quantities of a product it will import at world prices below the domestic price.

In a two-nation model, the equilibrium world price and the equilibrium quantities of exports and imports occur where one nation's export supply curve intersects the other nation's import demand curve. A nation will export a particular product if the world price exceeds the domestic price; it will import the product if the world price is less than the domestic price. The country with the lower costs of production will be the exporter and the country with the higher costs of production will be the importer.

**LO20.4 Analyze the economic effects of tariffs and quotas.**

Trade barriers take the form of protective tariffs, quotas, nontariff barriers, and "voluntary" export restrictions. Export subsidies also distort international trade. Supply and demand analysis demonstrates that protective tariffs and quotas increase the prices and reduce the quantities demanded of the affected goods. Sales by foreign exporters diminish; domestic producers, however, gain higher prices and enlarged sales. Consumer losses from trade restrictions greatly exceed producer and government gains, creating an efficiency loss to society.

**LO20.5 Analyze the validity of the most frequently presented arguments for protectionism.**

The strongest arguments for protection are the infant industry and military self-sufficiency arguments. Most other arguments for protection are interest-group appeals or reasoning fallacies that emphasize producer interests over consumer interests or

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stress the immediate effects of trade barriers while ignoring long-run consequences.

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The cheap foreign labor argument for protection fails because it focuses on labor costs per hour rather than on what really matters, labor costs per unit of output. Due to higher productivity, firms in high-wage countries like the United States can have lower wage costs per unit of output than competitors in low-wage countries. Whether they do will depend on how their particular wage and productivity levels compare with those of their competitors in low-wage countries.

### **LO20.6 Identify and explain the objectives of GATT, WTO, EU, eurozone, and NAFTA, and discuss offshoring and trade adjustment assistance.**

In 1947 the General Agreement on Tariffs and Trade (GATT) was formed to encourage nondiscriminatory treatment for all member nations, to reduce tariffs, and to eliminate import quotas. The Uruguay Round of GATT negotiations (1993) reduced tariffs and quotas, liberalized trade in services, reduced agricultural subsidies, reduced pirating of intellectual property, and phased out quotas on textiles.

GATT's successor, the World Trade Organization (WTO), had 159 member nations in 2013. It implements WTO agreements, rules on trade disputes between members, and provides forums for continued discussions on trade liberalization. The latest round of trade negotiations—the Doha Development Agenda—began in late 2001 and as of 2013 was still in progress.

Free-trade zones liberalize trade within regions. Two examples of free-trade arrangements are the 28-member European Union (EU) and the North American Free Trade Agreement (NAFTA), comprising Canada, Mexico, and the United States. Seventeen EU nations have abandoned their national currencies for a common currency called the euro.

The Trade Adjustment Assistance Act of 2002 recognizes that trade liberalization and increased international trade can create job loss for many workers. The Act therefore provides cash assistance, education and training benefits, health care subsidies, and wage subsidies (for persons aged 50 or older) to qualified workers displaced by imports or relocations of plants from the United States to abroad.

Offshoring is the practice of shifting work previously done by Americans in the United States to workers located in other nations. Although offshoring reduces some U.S. jobs, it lowers production costs, expands sales, and therefore may create other U.S. jobs. Less than 4 percent of all job losses in the United States each year are caused by imports, offshoring, and plant relocation abroad.

## **TERMS AND CONCEPTS**

labor-intensive goods

land-intensive goods

capital-intensive goods

opportunity-cost ratio

comparative advantage

principle of comparative advantage

terms of trade

trading possibilities line

gains from trade

world price

domestic price  
 export supply curve  
 import demand curve  
 equilibrium world price  
 tariffs  
 revenue tariff  
 protective tariff  
 import quota  
 nontariff barrier (NTB)  
 voluntary export restriction (VER)  
 export subsidy  
 dumping  
 Smoot-Hawley Tariff Act  
 General Agreement on Tariffs and Trade (GATT)  
 World Trade Organization (WTO)  
 Doha Development Agenda  
 European Union (EU)  
 eurozone  
 North American Free Trade Agreement (NAFTA)  
 Trade Adjustment Assistance Act  
 offshoring

The following and additional problems can be found in 

## DISCUSSION QUESTIONS

1. Quantitatively, how important is international trade to the United States relative to the importance of trade to other nations? What country is the United States' most important trading partner, quantitatively? With what country does the United States have the largest trade deficit? **LO20.1**
2. Distinguish among land-, labor-, and capital-intensive goods, citing an example of each without resorting to book examples. How do these distinctions relate to international trade? How do distinctive products, unrelated to resource intensity, relate to international trade? **LO20.1, LO20.2**
3. Explain: "The United States can make certain toys with greater productive efficiency than can China. Yet we import those toys from China." Relate your answer to the ideas of Adam Smith and David Ricardo. **LO20.2**