



BY ROBERT J. BARRO

## The GOP Doth Protect Too Much, Methinks

Some of the Bush Administration's economic policies have been admirable. The tax cut this year was well-designed to help the economy in both the short and long run. The interventions in Afghanistan and Iraq, though not motivated by economic concerns, have broadly benefited the economy by confronting terrorism. Other policies, however, are worrisome. The pattern

is to favor special interests over the whole economy.

The special-interest policies include protectionist interventions. Last year's steel tariffs continued a 30-year tradition of ill-advised attempts to prop up this inefficient industry. Most observers agree that tariffs have harmed the economy and led to an overall loss of jobs. After all, the U.S. not only produces but also uses steel—in autos and other manufactured goods. When I complained about the steel tariffs in an April, 2002, column, I got criticism from the steel industry, both management and labor. Managers were polite; labor union members used obscenities. The World Trade Organization's recent finding that the steel tariffs are illegal gives President George W. Bush political cover for getting rid of tariffs.

**EVEN THOUGH THE ADMINISTRATION** will probably be forced to do the right thing on steel, it is unwisely moving ahead to curb imports of Chinese textiles. I agree that China's currency is undervalued, making its goods inexpensive for Americans. I recently suggested in China that the yuan should float freely, which would probably lead to a substantial appreciation. This appreciation would be good for the Chinese, because they could buy more foreign goods in exchange for their exports. Their standard of living would rise. But a cheap yuan is their choice. What I cannot understand is that some people think cheap Chinese goods are bad for Americans. We should not be swayed by 17th century mercantilism, which viewed imports as bad and exports as good. Instead, we should be happy about the availability of Chinese products at low prices.

As with steel tariffs, textile quotas are appealing because the winners can be readily identified. U.S. producers and their employees will benefit. It is also easy to identify a few losers: consumers and U.S. companies that outsource operations to China. But it is harder to list all the losers. For example, when imports of Chinese textiles rise, it is impossible to identify the specific U.S. jobs gained that offset the lost textile jobs. We know, however, that the U.S. labor market is highly fluid and works to maintain, on average, a growth rate of employment equal to the growth of the labor force. Hence, there is no reason to value job creation when it depends on a government subsidy, such as trade protection or a tax break. The overall cost to the economy negates gains in the favored sector.

Agriculture also has a long history of protectionism. In 2001, the Administration made things worse by piling on new subsidies. The world's middle-income countries, led by Brazil, were correct at the September WTO negotiations in Cancun to press for decreases in farm protectionism by the U.S. and others. Instead of siding with Europe and Japan, we should have joined Brazil in pushing for free trade.

Special-interest politics applies also to spending. An example is the energy bill, postponed to the next session of congress. A reasonable bill would focus on expanding domestic supply—for example, by opening up Alaska to more exploration. Instead, the bill became a giveaway that included outrageous subsidies to ethanol producers.

**Tariffs and giveaways help only the special interests—as outlays soar**

The lavish energy bill exhibits the general lack of restraint. Growth in federal spending, aside from defense and interest, has been 8.5% per year under Bush, vs. 4.3% under Clinton. Medicare illustrates the change in philosophy. In the mid-1990s, the main issue was how to reform Medicare to curtail runaway outlays. Now, Republicans have joined Democrats in enlarging this vast program with a new drug entitlement—and without serious reforms.

Economic policy and spending might be more rational if the Administration had an economic czar in the mold of Clinton's Treasury Secretary Robert E. Rubin, who imposed a global perspective on policy. Absent this discipline, Republicans and Democrats behave alike on protectionism, special interests, and extravagance. So, if we cannot find the right czar, maybe we should return to the divided government of the '90s, when an opposition-party Congress could check the White House. With the exceptions of tax policy and international security, that environment yielded better results. ■

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