**Free Trade Brings Abundance — Protectionism Brings Scarcity**

**9/18/2016**[Frank Hollenbeck](https://mises.org/profile/frank-hollenbeck)

In a targeted attack against trade with China, Donald Trump[has claimed](https://www.donaldjtrump.com/positions/us-china-trade-reform) that America has lost high paying manufacturing jobs to China because China promotes its exports through subsidies, tax advantages, and currency manipulations. The reality is that we should not care what China does. The more China subsidizes its industries, the more we gain in the abundance of cheap goods and services and, contrary to what Trump believes, in the creation of high paying jobs.

#### We Want Abundance and High Productivity

In an exchange economy, there is a natural antagonism of sorts between producers and consumers. Producers benefit from scarcity in the goods they sell, while consumers want an abundance of those goods or goods like them. (Producers, of course, also benefit from abundance in intermediate goods used to produce their products.)

A producer wants to be the only store on a block selling a limited number of products for a limited period of time. Consumers, on the other hand, want abundance with more producers and products available over a longer period of time. This conflict arises naturally in an exchange economy. Robinson Crusoe hunting for himself will clearly prefer abundance to scarcity.

Fortunately, competition promotes abundance while enabling income and wealth equality.

In a non-competitive environment, high paying jobs may accrue in protected industries, but this depends on the ability of trade unions to control the supply of labor. The pressure from non-union labor is a constant threat to these high paying jobs created by government actions of artificial scarcity. Yet, even then, there is no guarantee that this will bring higher paying jobs instead of just higher profits to these protected industries.

In a competitive environment where abundance is the norm, high pay must come from high productivity. Our living standards are higher than those living in Africa not because we are smarter or work harder at the moment, but because our labor is grafted onto a much larger [capital](https://mises.org/library/central-role-saving-and-capital-goods) base. Robinson Crusoe will catch more fish with a net than with his hands: and the more nets he has, the more fish he will catch. His productivity constantly increasing with more resources at his disposal.

Thus, in order to command high pay, a worker must produce valuable goods or services. No one will pay a worker more than the value of what he or she produces.[1](https://mises.org/blog/free-trade-brings-abundance-%E2%80%94-protectionism-brings-scarcity#footnote1_tk17wa9) For example, suppose you could make a five-piece widget that could sell for a subjectively high price of $100 per unit in a highly competitive widget industry. To make this widget you hire 100 workers who work on the widget independently and require 10 hours to complete one widget. Abstracting from other non-labor costs and profits, how much could you pay each worker? $10 an hour. Now suppose you specialize and each worker works on only one of the five components of the widget. The gains from the division of labor allow you to make a widget in half the time or 5 hours. How much could you pay each now? As much as $20 per hour. Now suppose we add a machine that allows each worker to complete a widget in one hour. How much can workers expect now? Now a worker could make as much as $100 per hour. Thus, we find that high wages come from the division of labor and the abundance of capital. The greater the amount of capital, the greater the value productivity and, in a competitive environment, the greater the wages.

Of course, competition will ultimately reduce the price of widgets, reflecting growing abundance, and the nominal wages of this unskilled labor. Yet, if [deflation](https://mises.org/library/europe-and-deflation-paranoia) is the norm, real incomes or the standard of living of the average worker will be constantly rising: every man benefiting from the increase in real wages resulting from more abundance or lower prices.

Now suppose that China subsidizes its exports to the point that we can buy them essentially for free. This will mean that we no longer have to use scarce resources to produce these products at home and we can divert some of the capital from these industries (steel, textiles, etc.) to be used in other industries. With more capital, these other industries, ceteris paribus, will have higher paying jobs than before we started trading with China.

#### Using Government To Create Artificial Scarcity

Protectionist trade policy is structured on creating scarcity. Trade restrictions do not increase the amount of capital but force a diversion of capital. Because the protectionist country would need to engage in less specialization, capital would be dispersed more widely and hence wages would be lower than they otherwise would be.

Moreover, protecting American industry from "unfair" competition is more difficult and complex than Donald Trump and other protectionists seem to think. For example, how would a protectionist respond to complaints by the big three automakers that Audi, Land Rover, BMW, Hyundai, and Toyota have unfair competitive advantage nationally and internationally by using low cost Chinese steel? Would a protectionist then impose restrictions on all imports that use Chinese components as inputs? It is clear this would quickly escalate into trade wars where everybody loses. Globalization, or international competition, has led to razor thin margins, and an anti-trade policy would put US industry at a competitive disadvantage both nationally and internationally.

If "fairness" in trade is a concern, there are many steps that can be taken without depriving American producers and consumers of foreign goods and services. A good place to start would be to shut down the export-import bank which unfairly benefits US exporters.

Another great place to start would be to [return the US to sound money](http://www.forbes.com/sites/realspin/2016/08/19/the-chimera-of-stable-money/#293545bf7694).

When it comes to trade, the best US policy, or that of any country, is the elimination of all barriers to imports. This can be done unilaterally. Abundance should always be preferred to scarcity.

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