

Another deadly epidemic: protectionism

The protectionism epidemic invariably reduces freedom and prosperity

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Matthew Lau

All across Canada there are outbreaks of a dangerous economic virus that curtails freedom and cuts prosperity. The virus — protectionism — has persisted for centuries. The cure is known but generally disregarded by economically challenged politicians.

Alberta is the latest virus hotspot, with the provincial government this week effectively shutting down the Temporary Foreign Worker Program by adding the vast majority of occupations to the “refusal to process” list.

According to Premier Jason Kenney, “During this jobs crisis, it’s more important than ever that Albertans come first for available jobs.” The unstated assumption is that the number of jobs in the economy is fixed, so whenever businesses hire foreigners, there are necessarily fewer jobs for domestic workers. This is false. Foreign workers in Alberta are paid in Canadian dollars, which are useful only for making purchases or investments in Canada — both of which create new productive jobs. If foreign workers instead decide to stick their paycheques under a mattress, never to be spent, then even better: this would mean they produced goods and services while receiving none in return, effectively providing the economy with free labour.

The following thought-experiment helps illustrate the senselessness of fighting unemployment by shutting foreign workers out of our labour markets. Suppose the provincial government banned everyone with the surname Smith from taking a new job — and also from collecting welfare, so as to prevent them from becoming a fiscal burden. This policy would surely impoverish the Smith families. But would it help Alberta’s non-Smith families? According to Jason Kenney’s logic, by putting non-Smith workers first for available jobs, the policy would make them better off. But basic economics tells us the opposite. The policy would instead make non-Smiths poorer by reducing their opportunities to trade with Smiths. Governments can’t enrich people by limiting their economic options.

There is no difference in economic principle whether the people banned from taking jobs in Alberta are existing residents with the surname Smith or temporary workers from Mexico, the Philippines, Jamaica or the United States. In both cases, the result is less freedom and less prosperity, not only for the people prevented from working, but for society as a whole.

There is abundant evidence that keeping out foreign workers cuts prosperity, not unemployment. The United States tried it back in June, with President Donald Trump’s executive order restricting the entry of foreign workers in order to protect domestic jobs. The order backfired.

A Brookings Institution study, based on an analysis of the market capitalization of Fortune 500 companies, estimated that the executive order “statistically and economically significantly caused ... the equivalent of over 100 billion of U.S. dollars of losses.” Many other studies have also documented the harmful effects of such restrictions.

As a commentary from the American Enterprise Institute points out, this sort of policy had been tried before. During the Great Depression, the United States sent 400,000 to 500,000 Mexican workers home but “the places that lost their Mexican workers either did no better than other cities and regions, or did worse.” David J. Bier of the Cato Institute also argues there is “very strong empirical evidence” that an increase in foreign workers “does not increase unemployment, even in a recession.” He concludes the Trump ban on foreign workers was “economically baseless and counterproductive.”

While the details of Alberta’s foreign worker restrictions are different from what the Trump administration has done, the economic arguments behind them are the same. But if, as interventionists believe, the economy is improved by having government tell businesses which workers to hire, then why not also have government tell people what computer software to use, where to shop for groceries and which kitchen appliances to buy? Of course, some politicians are already doing that. The Ontario government is pushing residents to buy local and look for an “Ontario Made” label when shopping. As basic economics tells us, however, Ontarians can no more be enriched by artificially limiting their economic exchanges to other Ontarians than non-Smith households could be enriched by artificially limiting their economic exchanges to other non-Smiths.

Whether outbreaks come in the form of hiring restrictions or buy-local campaigns, the protectionism epidemic invariably reduces freedom and prosperity. Unlike the coronavirus, however, its control and suppression do not require expensive new medical research. All that is needed is for governments to stop spreading it.