

Replace 'Buy Locally' laws with the laws of economics

12:00 AM, May. 27, 2011 |

Written by Steve Buckstein

In the Great Depression many Americans thought they would be better off if they only bought American products.

Congress passed the Smoot-Hawley Tariff Act in 1930. It raised import duties to protect American businesses and farmers, becoming a symbol of "beggar-thy-neighbor" policies designed to improve one country's lot at the expense of others. Of course, those "others" retaliated in kind, resulting in everyone becoming worse off as trade declined.

Trade is almost always beneficial because of the economic law of comparative advantage, which says that any two countries, states or localities can both benefit from trade when they have different relative costs for producing the same goods. Even if one place could produce all goods more efficiently (which is virtually never the case), it still can gain by trading with less-efficient places as long as they have different relative efficiencies.

Today, many Americans again believe that globalization and free trade are "stealing" American jobs and harming American small businesses and consumers. This has given rise to a new movement called Buy Local First.

Its proponents argue that we will all be better off if we simply shop at local stores and buy locally made products. While there can be good reasons to prefer local merchants, imposing "buy local" ordinances and laws surely will end up harming most of us because consumers will be forced to pay extra money for things they could purchase less expensively from elsewhere.

One particularly instructive aspect of localism is the purchase of food. Purchasing all our food locally may benefit local farmers, but we forget that:

"Practically all the food which has become an integral part of our culture originated someplace else. Archeological evidence suggests that sheep were first domesticated in what is now Iraq; chickens, in Pakistan; cattle, in Greece and Anatolia. The Egyptians were among the earliest people to domesticate wheat. Apples are considered about as wholesomely American as anything can be, but the apple...seems to have come from central Asia. Pears and grapes are from central Asia, too. Oranges, peaches, apricots and Japanese plums, from China. Bananas, from India or Malaysia. Pineapples, from Brazil

or Paraguay. Cherries, from northern Europe." (Jim Powell, "How markets nurtured our civilization," 1999)

What would have happened if localists had imposed trade restrictions on food before we had chickens, cattle and apples? We have them now, they might say, but what other products won't we have in the future if trade is restricted now?

The latest evidence that too many of us don't understand the benefits of trade comes from the Oregon legislature, which passed HB 3000, the Buy Oregon First bill. It would allow state agencies to pay at least 10 percent more for goods fabricated or processed or services performed entirely within the state.

Governor John Kitzhaber issued a press release stating that "this bill will help Oregon businesses by encouraging the development and growth of our local supply chains, which will help create local jobs and revitalize our state's economy."

Economists have exposed the fallacies of such thinking over the centuries. Henry George may have said it best in 1886 when he wrote:

"If to prevent trade were to stimulate industry and promote prosperity, then the localities where he was most isolated would show the first advances of man. The natural protection to home industry afforded by rugged mountain-chains, by burning deserts, or by seas too wide and tempestuous for...the early mariner, would have given us the first glimmerings of civilization and shown its most rapid growth. But, in fact, it is where trade could be best carried on that we find wealth first accumulating and civilization beginning. It is on accessible harbors, by navigable rivers and much traveled highways that we find cities arising and the arts and sciences developing." (Henry George, "Protection or Free Trade," 1886)

Here in Oregon, we should recognize that Portland was located on two navigable rivers for a reason. Early settlers knew that having access to world markets was good. When people freely choose to trade with one another, consumers have access to more products at better prices, and workers have more job opportunities.

Adam Smith wrote in *The Wealth of Nations* in 1776, "Consumption is the sole end and purpose of all production, and the interest of the producers ought to be attended to only in so far as it may be necessary for promoting that of the consumer."

Journalist James Glassman says of the Smith quote above, "That is a great lesson for all policymakers to bear in mind. Ask, does this policy help consumers? Free trade allows consumers to buy a cornucopia of higher quality goods from other countries at lower prices than they would pay if they were restricted to buying homemade goods. Trade is obviously a huge benefit for consumers....And, says Adam Smith, what is better for consumers is always better for an economy....It is indeed true that some producers are hurt by free trade. And we can expect producers?such as textile industries and their employees and tomato growers?to kick and scream over free trade. Fine. But

consumers...benefit mightily." (James K. Glassman, "The Blessings of Free Trade," Cato Institute, May 1, 1998)

Oregon legislators are desperate to create jobs, but any jobs created from Buy Oregon First bill almost certainly will be offset by lost jobs and lost opportunities in the state as government agencies unnecessarily pay more for some products, thus having less to spend on others. While these choices may benefit some Oregon producers, they will almost certainly harm Oregon consumers in general.

Rather than enshrine Buy Local First into law, we should educate Oregonians about more time-tested laws: the laws of economics.

Steve Buckstein is Senior Policy Analyst and Founder of Cascade Policy Institute, Oregon's free market public policy research organization.