President's Perspective

Before Nicolas Sarkozy became France's president, he offered a politically incorrect dose of economic reality. "Globalization is a fact," he said. "It would be as pointless to deny it or oppose it as to challenge the law of gravity or to stop the movement of the clouds. The question therefore is not whether globalization is good or bad. It is whether we are prepared for it."

In the two years since Sarkozy's observation, the tailwinds that had propelled the world's economies have reversed direction. Many countries now face stiff headwinds that threaten growth on a variety of fronts.

Facing tougher times, many countries are shrinking from globalization, looking inward to protect themselves. I am sure most *Southwest Economy* readers are well aware of proposals aimed at restricting foreign buying, recruiting and investing that are now being advanced around the world—from England to France to these United States.

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Today, the question is not whether we are prepared for the forces of globalization—what Sarkozy described as a *fait accompli*. It is whether we will stand to defend it from the siren calls of protectionism.

We know firsthand the destruction that protectionism can bring. It was the protection afforded in the Smoot–Hawley Tariff Act of 1930 that made the Great Depression regrettably "great." The Panic of 1873 was transformed into a 23-year-long depression by Chancellor Otto von Bismarck's abandonment of free trade in Germany, aided by our own President Benjamin Harrison's election platform of protectionism.

Protectionism is a dangerous, double-edged sword. It benefits a handful of domestic producers at the expense of their peers. It ensures the employment or recruitment of some while forcing the layoffs of others. It raises prices on imported goods while simultaneously raising the cost to consumers of the domestic goods they purchase. In essence, it will undercut any temporary benefits it provides with long-term damage and destruction.

I am happy to see Nathan Sheets, director of the Federal Reserve Board's Division of International Finance, address the danger of protectionism in this issue's "On the Record" feature. I urge you to read the interview, which offers plenty of other cogent insights.

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