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Sorry, Mr. President: Your Trade Protectionism Will Cost The U.S. Dearly

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Trade: Protectionism is a political feel-good policy that does nothing for the economy. It's a big cost with very few tangible benefits. That's why President Trump has made a big mistake in imposing big tariffs on steel and aluminum.

We understand, of course, that President Trump feels beholden to his constituencies in the U.S. who have been hurt by foreign competition, particularly in basic industries like steel and aluminum. But the **25% tariff on steel and 10% tariff on aluminum that Trump seeks to impose** will lead to higher prices for all, the loss of thousands of jobs and a political-crony windfall for a handful of big companies.

"We're going to be instituting tariffs next week," Trump told a meeting of executives at the White House on Thursday. "People have no idea how badly our country has been treated by other countries."

We have no doubt that what Trump says is true. But if so, it should be remedied through trade talks, not a trade war.

And make no mistake: The broad nature of Trump's tariffs, hitting all exporters to the U.S., will invite some kind of retaliation from those who've been hit.

Already, EU Commission President Jean-Claude Juncker is **threatening to respond in kind**: "We will not sit idly while our industry is hit with unfair measures that put thousands of European jobs at risk," he said. "The European Union will react firmly and commensurately to defend our interests."

Cato Institute Fellow Dan Ikenson, **writing at Forbes**, notes for instance that Europeans might "target citrus from Florida, tobacco from Kentucky, textiles from North Carolina, or dairy from Wisconsin in order to arouse strategic U.S. opposition to the steel and aluminum restrictions."

Beijing is already looking at imposing trade penalties on U.S. sales of sorghum there, and may soon also target our sales of soy, too. Meanwhile, India, emboldened by the U.S. turn toward protectionism, might use Trump's moves as a reason to protect its own wheat and rice sectors from U.S. imports.

So the steel and aluminum industry's gains will be the loss of others.

Trump's justification for tariffs is "national security." But, as some have pointed out, the U.S. military uses only about 3% of domestic steel output, and much of our imported steel comes from allies like Canada. So the "threat" really isn't much of one.

Of greater concern is what the higher prices for steel and aluminum — remember, a tariff is actually a tax — will d**o to our domestic economy**.

As the **R Street Institute** think tank reminds us, "According to 2015 U.S. Census data, steel mills employ about 140,000 Americans, while steel-consuming industries, including automakers and other manufacturers who rely on imported steel, employ more than 5 million. It is estimated that nearly 200,000 jobs and $4 billion in wages were lost during the 18 months during 2002 and 2003 that President George W. Bush imposed tariffs on imported steel ..."

Of course, President Trump can cite a recent study by the Commerce Department as justification for his tariffs. And Trump could plausibly argue that he has already imposed trade protection on solar panel imports and washing machines, with few obvious ill effects. At least not yet.

Even so, the evidence against such **protectionist policies** is overwhelming. That evidence can be found in **a report by Cato's Scott Lincicome** last summer that looked at the long, sad history of trade protectionism in America. It isn't a pretty picture.

Yes, some jobs are saved by protectionist moves. But at what cost? We already cited the costs of the steel tariffs under the second President Bush.

But it isn't only steel. Lincicome cites four studies that investigated the costs of protection in a wide variety of industries during what's called the GATT era, stretching roughly from 1950 to 1995. Based on this research, the average economic cost to save a single job through trade protection is about $620,000, in 2017 dollars. And all told, protection leads to a net loss to U.S. consumers equal to about 1.3% of GDP, or roughly $221 billion a year in today's money, based on a study by the Peterson Institute of International Economics.

In short, trade protection, especially tariffs, is a very bad deal for consumers and workers. But it's very profitable for politically connected corporations. That's why the financial markets melted down on Thursday. Will this event mark the end of the Trump bull market? It's too soon to tell, but it bears watching. While most stocks fell on Thursday, steel and aluminum shares had a great day. Good for them, bad for the rest of us.

Maybe so, but what's truly tragic is that Trump's penchant for trade protection will in part offset the benefits to the economy from other free-market policies he has put in place, including tax cuts, deregulation, withdrawal from the Paris Accords on climate change and badly needed changes to ObamaCare.

We understand why he walked away from the Trans-Pacific Partnership trade deal and **reopened NAFTA.** He thought they were flawed, and they were.

But protectionism is a bad road to travel. Let's hope this move by President Trump is merely a negotiating ploy, and not a long-term policy. If it's the latter, buckle up — we're in for a bumpy ride.