

# Bloomberg

## Losing Faith in Free Trade Will Make Americans Poorer

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Robert Lighthizer's nomination as U.S. trade representative made the steel industry happy. Both the Steel Manufacturers Association and the American Iron and Steel Institute put out statements lauding the choice, with the latter citing his "dedication" to the steel industry. U.S. Steel Corp has been Lighthizer's most prominent client as a lawyer in recent years.

Lighthizer's confirmation earlier this month placed him in an administration with many others with a history of supporting steel interests in trade policy. The steel lobby has clout. That clout is a reason not to expect positive results from the new vogue that protectionism is enjoying under the Trump administration.

It's the fashion these days to dismiss free trade as a rigid faith that has to be overcome. Lighthizer has long portrayed himself as a skeptic of "pure free-trade dogma." In a recent article for Slate, Reihan Salam put this gloss on his views: "To Lighthizer, the goal of trade policy should be to foster a flourishing middle class, to retain the capacity to innovate, and to achieve high and rising productivity levels." If policymakers had listened to Lighthizer, Salam writes, the U.S. would not have opened itself to trade with China so quickly and would have mitigated the losses in manufacturing employment that have resulted from that trade.

But you don't have to be a pure free trader to question the wisdom of using trade barriers to protect the steel industry. You just have to notice that industries that use steel are much larger than the steel industry, and that protection for the second group hurts the first. When President George W. Bush imposed steel tariffs, a coalition of steel-using industries protested that the net effect was to destroy manufacturing jobs.

A recent paper, "The China Shock," has been a boon to protectionists, as it appeared to show that trade with China had led to much larger job losses in manufacturing than had previously been assumed. The paper's findings have been disputed. But even if it is right, it does more to undermine than to strengthen the case for steel protectionism.

The paper identifies four mechanisms by which China's manufacturing productivity rose as it entered the World Trade Organization. Three of those mechanisms concerned policy changes in China. The government there privatized some state-owned enterprises, lifted restrictions on exporters, and reduced its own tariffs on inputs to make its exporters more competitive. The fourth mechanism had to do with U.S. policy: Washington committed to not raising tariffs, which were already low. The guarantee of permanence encouraged Chinese firms to invest in exporting.

The paper doesn't support claims that the U.S. erred by lowering its tariffs. It does not suggest that American imports surged simply because U.S. markets opened to China. And it underscores the harm that tariffs on inputs can do. China increased its manufacturing exports by reducing tariffs on inputs. That's an argument against steel protection, not for it.

Dan Ikenson of the Cato Institute points out that U.S. tariffs raise 60 percent of their revenue from imports of intermediate goods. They amount, he says, to "nothing more than a tax on U.S. value creators." An even higher proportion of antidumping actions — designed to protect American companies from imports — cover intermediate goods, but the International Trade Commission is not allowed to consider the impact on downstream industries when it takes those actions.

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A truly strategic trade policy would at least take account of that impact. But that's not what the U.S. has, and it's not what's on the agenda. In the real world, when policy departs from free trade it is very often to help the steel industry. (Iron and steel account for more than half of the anti-dumping and countervailing U.S. duties.) Both parties are solicitous of steel interests: .

Hillary Clinton promised to get tough on Chinese steel in last year's campaign no less than Donald Trump.

U.S. trade policy doesn't look out for steel so often because there is a sophisticated case that it's good for the economy or for national security. It's because the steel industry is a politically powerful lobby, able, among other things, to afford talented lawyers like Lighthizer.

To the extent the U.S. abandons free-trade dogma during the Trump administration, what it will get in its place probably won't be clever policies to boost Americans' standard of living. It will be more special-interest lobbying and government favors that make Americans poorer.