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Trade War Meets Border Wall: A Bad Deal for Taxpayers

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We were told that "trade wars are good and easy to win." Yet nine months into this trade war with China and many of our close allies, we haven't won, and many Americans are shouldering its costs. First among the casualties, of course, are consumers who must pay higher prices for final goods and services. Tariffs increase the price of goods and services subject to the import tax. And since at least half of American imports are inputs used by American-based producers, the tariffs also hit many U.S. firms and their workers. Read this story for concrete examples of how workers and firms are affected.

Then, there are farmers. They injuries they're suffering during this trade war are deep. Steel and aluminum tariffs have increased the cost of farm equipment — thus raising farmers' production costs. In addition, farmers are among the primary targets of retaliatory actions by foreign governments against the Trump administration's protectionism.

And because consumers are also taxpayers, they pay the price of the trade wars not only through higher prices, but also by footing the fiscal bill for the administration's and Congress's decision to shelter themselves from political retaliation by paying off farmers with bailouts and "market facilitation payments".

But now our story takes an ironic turn. The administration is at war with the Democratic-led House over whether or not to build a border wall. As part of a compromise, the administration has offered to give up on building a wall made of concrete wall and instead to build one made of steel. Steel is more expensive than concrete, but some Democrats like the steel wall better than the concrete wall.

Here's the thing: Steel isn't just more expensive than concrete. The price of U.S. steel, which was already very high before the trade war, is driven even higher by Trump's steel tariffs.

That those steel tariffs are still in place even though Canada and Mexico reached a deal with the administration on NAFTA (which was the condition for their removal) is insane, to say the least. It is also a sign that the president's goal isn't a world free of trade barriers and tariffs, contrary to what his allies like to claim. It is a sign that, once again, we should take him at his protectionist world when he brags: "I am a tariff man." But that's a topic for another day. The bottom line is that the steel tariffs are still in place, to the great delight of the United Steel workers — and the despair of steel consumers.

According to economists Gary Clyde Hufbauer and Euijin Jung in their paper, "Steel Profits Gain, but Steel Users Pay, under Trump's Protectionism": "Calculations show that Trump's tariffs raise the price of steel products by nearly 9 percent." Others have calculated a much bigger increase since some steel products aren't available in the U.S. and must be imported despite the 25 percent surtax. Moreover, the spread between the U.S. steel prices and European and Asian prices has grown. The SteelBenchMarker prices for the U.S, Western Europe, World market, and China are listed here, demonstrating that the U.S. price is often twice the price of steel in other markets.

So let's recap: The government is shut down, which never ends up working out well for taxpayers. We are fighting over a steel wall that , whatever one thinks about the security issue, if built, will cost taxpayers much more than it would have in the past because the administration wastefully insists on using U.S steel — the price of which that same administration drove up with its ill-advised tariffs.

As Cato Institute's Scott Lincicome told me: "It'd be better if Mexico built the wall and we paid for it!"

Finally, as a reminder, we should ask what we are getting in exchange of all these tariffs, bailouts and fights. China may or may not agree to a face saving deal with the U.S. The U.S., too, will have to compromise. NAFTA 2.0 is agreed upon, but the changes that weren't already included in the Trans-Pacific Partnership are mostly cosmetic and, on net, negative. Tariffs on metal and other goods and services are still up. Retaliatory tariffs are still up. And for all the talk of steel jobs being created in the U.S, those jobs are being created on the back of consumers and jobs in downstream industries:

Higher steel prices will raise the pre-tax earnings of steel firms by $2.4 billion in 2018. But they will also push up costs for steel users by $5.6 billion. Yes, these actions create 8,700 jobs in the US steel industry. Yet for each new job, steel firms will earn $270,000 of additional pre-tax profits. And steel users will pay an extra $650,000 for each job created.