



DeSantis is wrong about tariffs and industrial policy

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Gov. Ron DeSantis (R-FL) recently pledged that he would continue former President Donald Trump's trade war with China. DeSantis stated, "You need to couple that with tax incentives, tax credits, and even, for things that are really important, like semiconductors ... government support."

Precisely how tax incentives or tariffs differ in principle from so-called "government support" — consisting of payouts on the model of the CHIPS Act of 2021 — DeSantis left unclear. He assumes that subsidization, not deregulation, would best entice businesses to manufacture domestically.

DeSantis seems unwilling to accept the fact that Trump's trade war was a failure. While Trump's protectionist rhetoric fired up his economically populist allies, everyone else paid the price. The Florida governor should have less confidence in his personal ability to administer efficient and effective industrial policy because so many other once-confident politicians have failed in the attempt. The laws of economics say protectionism unavoidably creates market inefficiencies and unforeseen consequences, no matter which party attempts it.

In 2018, DeSantis, then a member of Congress, supported Trump's tariffs as a mechanism to extract concessions from Beijing. However, if Trump failed to do so, DeSantis said, "You will see some economic consequences." Trump failed, and those consequences indeed ensued. The tariffs inflated prices and staggered domestic industry. China, meanwhile, instituted retaliatory measures and skirted its trade commitments.

"[T]he trade war has hurt the U.S. economy and failed to achieve major policy goals — resulting in a peak loss of 245,000 jobs," reads a report from the Atlantic Council. "Specifically, the U.S. tariffs have been paid, not by China as the Trump administration claimed, but by U.S. importers and consumers." Moreover, American agricultural exports in 2018 totaled little more than a third of 2017 levels, recovering only barely in 2019. The reeling agricultural sector required unprecedented federal subsidies simply to keep pace.

Trump's tariffs also failed in re-shoring American companies' Chinese-based factories. While two in five American companies had begun (or were considering) relocating from China by 2019, only about 5% came home. Instead, due largely to the high cost of American labor, many decamped to other Asian nations or elsewhere.

DeSantis's trust in domestic manufacturing subsidies for products of great significance to national security — e.g., semiconductors — also seems ill-placed. Many conservatives (who generally eschew industrial policy) supported the CHIPS Act, which provided \$52 billion in manufacturing incentives. However, as conservatives often note, a policy's worth stems from its effects, not the aspirations of its proponents, however noble. By that standard, the CHIPS Act will fail.

America is a comparatively uncompetitive home for semiconductor factories. A tranche of federal subsidies cannot alter this economic reality. “The major reason for the cost gap is the construction cost of building and facilities, which can be four to five times greater for [a] U.S. [fabrication plant] versus a fab in Taiwan,” said Wendall Huang, chief financial officer of the Taiwan Semiconductor Manufacturing Company. Indeed, shortly after the triumphant announcement of a TSMC plant in Arizona, the company's brass conceded the project's economic futility.

“Even aside from the astronomical building costs explained by Huang, the cost of producing chips in Arizona could be as much as 100 percent higher than the cost of producing the same chips in Taiwan,” report policy analysts Jordan McGillis and Clay Robinson. “TSMC will produce many chips in Arizona but continue to advance its cutting-edge production elsewhere for cost reasons, leaving Arizona as a legacy producer and leaving our military in the same position of foreign dependency a decade hence.”

The CHIPS Act has given President Joe Biden several celebratory headlines as manufacturers scramble to take Washington's free money, money that rightly belongs to taxpayers. However, photo ops can't generate sustainable competitiveness in any industry (besides photography).

As economist Friedrich Hayek wrote, central planners can allocate resources neither as effectively nor as efficiently as market forces. Politicians have routinely misidentified which emergent technologies will prove “critical.” The outlay of federal funds sinks too often into a morass of red tape and lobbyist interests.

Industrial policy advocates' “rosy projections of direct economic benefits for recipient companies are rarely combined with empirical assessments of whether the U.S. economy overall would be better off due to the oft-claimed but usually unproven positive externalities, market-beating R&D spillovers, or faster economic growth,” the Cato Institute's Scott Lincicome writes. “Furthermore, there is little consideration given for whether an industrial policy success would have occurred in a market without the supporting program at issue.”

In navigating conflict with foreign authoritarians, politicians should remember that economic freedom and civil liberties fortify American security rather than weaken it.