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New Trade Barriers Won't Keep Trump Economy Rolling. They Will Cripple It.

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President Donald Trump is riding high after a well-received State of the Union address that highlighted the positive economic developments of his first year in office. Economic performance over the last year was certainly strong, elevated by the expectations for and then delivery of a once-in-a-generation overhaul of the tax code.

While most Americans are looking forward to lower tax bills and higher take-home pay for the coming year, the biggest long-term benefit from tax reform will come from its improvements of the corporate tax code and American competitiveness. With deep cuts that put US corporate income taxes more in line with other developed nations, along with the adoption of a territorial system, US-based multinationals can finally compete against their foreign counterparts without starting at a heavy disadvantage.

It would be a mistake to now undo some, or all, of these gains by adding new barriers and regulations to international trade.

Unfortunately, the year is off to a poor start on that front. President Trump recently approved new tariffs on imported solar panels and washing machines on the misguided belief that Americans manufacturers can be protected from foreign competition and is considering even more.

That approach almost never works. In a recent study, the Cato Institute's Scott Lincicome surveyed the academic literature and found that protectionism consistently comes at a high cost to consumers, even while typically failing to accomplish its primary objectives. For instance, several studies found that, on average, import restrictions imposed between 1950 and 1990 cost consumers $620,000 (in 2017 dollars) per job supposedly saved. And in the long run, they failed to prevent further increases in imports or declining employment in the targeted industries.

In truth, the losers are American consumers. And when other governments start responding in kind, Americans companies, their employees, and the economy as a whole will lose, too. With a friendly tax and regulatory environment, American businesses can compete with anyone. The futile quest to determine which industries need "protection" from competition only serves to undermine the benefits of the free market system.

There are legitimate areas where trade can be improved. In some cases, our trading partners have maintained barriers when we have brought ours down. If President Trump can increase trade liberalization by compelling them to reduce barriers and open their markets, then all the better.

But we must be careful not to take steps that result in markets previously accessible being closed off again.

Unfortunately, that's precisely the danger we face if the president is seriously considering withdrawing completely from NAFTA after the current renegotiation efforts are completed.

American agriculture has thrived thanks to NAFTA's elimination of tariffs between the US, Canada, and Mexico, with exports to our North American partners growing from $9 billion in 1993 to $41 billion by 2014. If tariffs suddenly return because the US ditched NAFTA, it will throw the industry, and many others, into chaos. The U.S. Chamber estimates 14 million Americans jobs are dependent on trade with Mexico and Canada, and 5 million are attributable to increased trade since NAFTA was implemented. Business Roundtable predicts1.8 million of those jobs will be lost in the very first year after termination of NAFTA.

Another danger of blowing up NAFTA is that we get further left out from international trade advancements, as has happened with TPP. The 11 other countries involved in the Trans-Pacific Partnership didn't give up when the US pulled out, instead dropping the controversial intellectual property provisions that were primarily pushed by Washington, and which were the main driver for much of the public backlash. They now stand to reap the economic benefits, and President Trump has since hinted at some regret for abandoning TPP and diminishing our role as a global leader on trade.

The president should learn from that mistake and not repeat it with NAFTA. He had the right idea last year when he urged lower taxes on American businesses. Making the United States the premier destination for business investment, by lowering taxes and reducing burdensome regulations, is the true path to prosperity.

Ripping up NAFTA, on the other hand, with the inevitable result that markets will be closed off to American businesses leads only to economic decline. Even worse, it would provide opportunity for Democrats to blame the resulting fallout on last year's tax reform, which they would then likely be in the position to try to reverse.