NATIONAL REVIEW

The Winners in the Modern Economy Won’t Be Protection Seekers

Clark Packard

November 30, 2017

After determining that increased imports of washing machines and component parts are causing “serious injury” to the American washing-machine industry, the United States International Trade Commission (ITC) has just recommended that President Trump impose steep “safeguard” tariffs on those imports.

Because the ultimate remedy is the president’s decision alone under law, his verdict on this issue and a similar one on solar panels will represent one of the first concrete signs of Trump’s “America First” trade policy. It will also show, for better or worse, whether the president and his team understand the realities of today’s domestic and global economies, as well as the historical failures of past American forays into protectionism.

At first glance, the washing-machine case is a simple story of a beleaguered producer seeking temporary government protection from low-priced imports — part of the age-old trade-policy give-and-take between American workers and consumers. A deeper look, however, reveals something far more complicated and far less benign.

First, the U.S. producer’s situation is much of its own making. Whirlpool, a Michigan-based company with its washing-machine factory located in Clyde, Ohio, is a longstanding American company and has been a dominant player in the home-appliance market for decades. In recent years, however, its share of the market has declined due to increased competition from foreign companies such as Samsung and LG, both of which eagerly embraced emerging technologies, including touchscreens and the Internet of Things. Whirlpool, by contrast, was slow to embrace these new technologies.

 Rather than creating more-innovative or lower-priced products, however, Whirlpool invested in good old-fashioned protectionism — petitioning the ITC under Section 201 of the Trade Act of 1974 for 50 percent tariffs on imported washing machines and quotas on component parts. Known as “safeguards,” Section 201 remedies provide temporary relief — trade restrictions such as tariffs and quotas against fairly traded imports — designed to give a domestic industry the time and space it needs to become competitive with imports. Whirlpool’s recent plea for protection comes on top of a 2013 anti-dumping order that imposed tariffs on washing machines from South Korea and Mexico. Second, Whirlpool is actually fighting, at least in part, against American companies and workers. Most obviously, higher appliance prices will affect major U.S. retailers, many of whom are brick-and-mortar establishments that are themselves struggling to remain relevant. Sears, for instance, recently announced that it would stop selling Whirlpool, Maytag, and KitchenAid appliances after a century-long partnership due to a pricing dispute.

Furthermore, though both Samsung and LG are headquartered in South Korea, each has recently made significant investments in building domestic manufacturing plants in southern states (Tennessee and South Carolina, respectively) with vibrant manufacturing sectors — a stark contrast to the many Rust Belt states that cling to outdated labor, regulatory, and tax policies (and house many protection-seeking industries).

 In this way, the washing-machine battle is a microcosm of one that has been raging in the United States for decades: the rise of manufacturing in the freer-market Sun Belt at the expense of northern and midwestern states that can’t — or simply won’t — keep up. Some of the South’s rise has been driven by foreign investment, but certainly not all of it. In the steel industry, for example, North Carolina’s Nucor initially embraced innovative technologies and outperformed its Rust Belt competitors, which are heavily reliant on subsidies and protectionism. (Only after dominating its northern competitors did Nucor conveniently begin to seek government protection from its foreign ones.)

Samsung and LG are headquartered in South Korea, each has recently made significant investments in building domestic manufacturing plants in southern states . Finally, there is little historical evidence that safeguard tariffs will actually save Whirlpool. For example, a recent Cato Institute historical survey by Scott Lincicome found that U.S. protectionist measures, including Section 201 safeguards, not only levied enormous costs on the economy (costing American consumers $620,000 per year for every job supposedly saved) but also failed in all but one case — bicycles — to revive the protected industry at issue. One reason: Protected companies didn’t invest their windfall profits in new technologies that could cut costs or improve quality in order to boost their long-term competitiveness. As a result, even with import curbs, these companies eventually went bankrupt or lobbied the government for subsidies and even more protection. The results of such protectionism, the paper concludes, would be even worse today due the advent of global supply chains, the growth of American export markets, and the creation of the World Trade Organization to provide foreign governments with a lawful means of retaliating against American exporters in response to U.S. protectionism.

Given this history, it's likely that new import restrictions would be a pyrrhic victory. Though they would temporarily pad Whirlpool's bottom line, restrictions would also delay necessary changes to a failing business model by blunting the market's clear signals about Whirlpool products. Recall that this is now Whirlpool's second request for import protection. Large tariffs would also raise costs on consumers, hurt major retailers such as Sears, jeopardize Samsung's and LG's investments in a thriving domestic manufacturing hub, and encourage similar government bailouts of domestic companies that simply made bad business decisions. It also would open the door to retaliation against American exports — potentially ensnaring unrelated U.S. companies and workers into the dispute. It would be just the type of myopic and self-destructive Washington favoritism that Americans rightly detest. Protectionism is a tool of a bygone era, not a business model for the 21st century.

Over the last few decades, the world economy has undergone a rapid transformation. Trade liberalization and the advent of the global trading system have not only improved living standards but also fostered sophisticated supply chains and multinational investments upon which millions of American jobs depend. Attempting to reverse this beneficial evolution is a futile exercise — one that will hurt American workers and consumers and likely fail, yet again, to resuscitate yesterday's industries.