Why protecting steel workers from China's imports doesn't help America

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During the presidential campaign, Donald Trump blamed the declining labor market prospects of American manufacturing workers on foreign trade, especially from China.

As a matter of electoral strategy, Trump's position seems to have been astute; recent evidence finds that the President-elect fared well in locations heavily impacted by trade with China. For example, the US steel industry, long-centered in Pennsylvania, has declined over the past several decades as imports of Chinese steel have soared; and Pennsylvania voters gave Trump a crucial unexpected victory November 8.

As a basis for economic policy, however, the President-elect's perspective on trade is misguided. While import competition for a particular sector indeed harms the workers in that sector, focusing on these workers misses crucial, larger issues.

To begin, importing cheap Chinese steel means lower prices for all US goods produced with steel, so consumers throughout the economy benefit. Further, since steel is an intermediate good used in the construction and manufacturing industries, importing Chinese steel helps expand these industries and thus aids the workers in those sectors. Any attempt to protect American steel workers from foreign competition thus harms both American consumers and American workers in other industries.

And even though trade in steel harms domestic steel workers, trade in food, clothing, cell phones, computers, cars, and more benefits these very same steel workers as consumers of these other products. Similarly, trade in cars from Japan harms US autoworkers, and trade in tomatoes from Mexico harms US agricultural workers. Yet all these workers benefit as consumers from free trade in every sector outside their own. Free trade expands the economic pie; interference with trade shrinks that pie.

Nothing guarantees that every worker is on net better off due to free trade; the net impact depends on which goods a given person buys, how much foreign competition exists, and so on. But the net harm from trade is far lower for workers in every sector than is implied by considering only trade's impact on that sector. And overall, workers as consumers benefit greatly from free trade due to lower prices for a vast range of goods and services.

The question is, then, whether policy should nevertheless try to even out the remaining gains and losses from trade by protecting those industries where workers are particularly hard hit. The answer is no.

Protection aimed at a specific country or product will unleash demands for protection more broadly: once steel and other manufacturing workers have protections against Chinese competition, similar demands from, and protections for, every other trade sector become almost inevitable. If this occurs, free trade disappears, and everyone loses out by paying more for import-competing goods and services (even though a few gain from higher wages due to protection in their sector).

Protection for domestic industries, whether narrow or broad, also risks retaliation from other countries against US exports. This happened in the 1930s after the Smoot-Hawley Act raised tariffs for thousands of products to near record levels. Numerous countries raised their tariffs in response, and worldwide trade shrank dramatically. The adverse impact of other countries' tariffs on US exports can easily swamp any benefit of US protection for its own industries.

The fact that workers in trade-competing industries can lose their jobs or suffer lower wages is unfortunate but inevitable; just as importantly, policies that interfere with the adjustment of an economy to changing technologies and comparative advantages will condemn itself to a lower standard of living that benefits no one.

In this sense, accepting the gains and losses that arise from foreign competition is no different than accepting the gains and losses that arise from domestic competition: in both cases, policies that attempt to avoid these losses generate even worse costs for the economy.

Operating a social safety net that softens the blow for displaced workers is a reasoned response; it helps those who lose from competition, while allowing the gains from new technology and competition to flow broadly. Interference with free trade does little to help the losers from competition while imposing serious costs on everyone.

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