A challenging road ahead for our new US trade representative

Daniel Pearson

March 14, 2017

Robert Lighthizer, appearing today at a hearing focused on his qualifications to lead the Office of the U.S. Trade Representative (USTR). The Senate Finance Committee will evaluate his ability to fulfill USTR's mission, which emphasizes working "toward opening markets throughout the world to create new opportunities and higher living standards for families, farmers, manufacturers, workers, consumers, and businesses."

Many nations have trade-distorting policies. Eliminating distortions would benefit U.S. exporters, not to mention people in those countries. The USTR rightly should strive to achieve reforms overseas. However, the USTR should never lose sight of a basic economic reality: the most important market "throughout the world" that must remain open is that of the United States itself. If our country acts to restrict imports, American living standards will fall rather than rise. There has been much talk lately of imposing new tariffs on imports into this country. Economists across the political spectrum agree that a country always reduces its own economic welfare when it curtails imports.

A simple illustration helps to explain this concept. Consider the effect on U.S. consumers of a hypothetical increase in the import tariff on orange juice. The United States currently imports almost half of the 613,000 metric tons of orange juiceit consumes. Raising the tariff would have the effect of increasing prices on all domestic consumption, but U.S. orange growers only would benefit from the higher price on the 355,000 tons of orange juice they actually produce. The increase in consumer costs would far exceed the increase in producer revenues. Economic welfare — defined as the overall level of prosperity and living standards — would decline.

In today's anti-trade environment, being U.S. Trade Representative is particularly challenging. There is no shortage of industry groups that would prefer a more highly protected U.S. market. On the other hand, those who would be hurt by protectionism are likely to find it difficult to come to Washington to argue against new tariffs. A key responsibility of the USTR is to guard against requests that don't serve the broad public interest.

Three groups stand to suffer from import restrictions. First, ordinary citizens who search for bargains tend to spend a relatively high percentage of their incomes on imported goods. Basic items such as shoes, shirts, cell phones, coffee, and bananas come primarily from overseas. Import tariffs quickly would lower the living standards of all consumers, especially shoppers at mass-market retailers.

Second, many exporting businesses have been hurt by foreign retaliation against U.S. policies that restrict trade. In 2009, Mexico appropriately retaliated against the United States for its refusal to implement the cross-border trucking agreement that had been included in the North American Free Trade Agreement (NAFTA). In 2011, when the dispute finally was resolved, 99 U.S. products with an annual export value of over $2 billion had been hit with Mexican tariffs. Those goods ranged from foods to books to washing machines. Many U.S. exporters suffered in response to Washington's effort to appease truckers. In the event of a trade dispute, any country that is a major buyer of American products is in a position to inflict similar damage.

Third, half of all imports into the United States are used as inputs by U.S. manufacturers. Any action that restricts imports of those items would undermine the competitiveness of American factories. For instance, consider import restrictions on steel. Anti-dumping and countervailing duty (AD/CVD) measures have been imposed against imports of a wide variety of steel products, thus raising costs and disadvantaging American steel users relative to firms in other countries. This policy favors U.S. steel mills at the expense of downstream manufacturers, which might seem at first to be a reasonable tradeoff. One side gains, while the other side is hurt. It's an example of picking winners and losers, but at least it's balanced, right? Well, wrong.

Iron and steel mills employed about 140,000 people and generated $36 billion in value added to the U.S. economy in 2015. Manufacturers that use steel as an input employed 6.5 million workers and produced economic value added of $1.04 trillion. So steel-consuming manufacturers employ 46 times more people and add 29 times more value to the economy than do steel mills. In other words, a really large portion of the economy stands to lose a lot from efforts to protect the modest-size steel sector.

The incoming U.S. Trade Representative must seek to avoid missteps in our nation's trade policy. Import restrictions easily could cause greater economic welfare losses at home than any set of adverse policies implemented by foreign countries. The best way to achieve "higher living standards for families, farmers, manufacturers, workers, consumers, and businesses" is for the USTR to be an active advocate on behalf of those who would be hurt by protectionism.

Daniel R. Pearson is a senior fellow in trade policy studies at the Cato Institute. He served a two-year term as chairman of the U.S. International Trade Commission during the George W. Bush administration.