

Free Trade Would Boost the Economy, But It's Not on the Ballot

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When Americans cast their ballots on Tuesday, surveys say the economy will weigh on most voters' minds. Pollsters give Republicans the advantage on pocketbook issues after the Biden administration presided over a spending spree and then downplayed the resulting inflation. But on one issue that could make a big difference, voters have little choice: President Biden is a protectionist just like his predecessor, and both major parties embrace trade barriers, further threatening, in an already tumultuous world, peace and prosperity.

"Joe Biden's protectionism is costly for America and the world," *The Economist* warned last week. "The trouble is that protectionism is a poison pill that weakens the whole enterprise. It hurts friend and foe alike, sapping America's alliances of good faith and encouraging others to respond in kind."

The Economist attributed the Biden administration's protectionism to a wrongheaded effort to craft an industrial policy that will counter China and promote environmental goals. But "China's ailing economy and crashing stock market show the flaws of centralisation. The West's advantage lies in its understanding of the strategic and economic benefits of openness."

In truth, despite Joe Biden's constant criticism of his predecessor, he's continuing the revival of protectionism that began during Donald Trump's presidency from 2017 to 2021.

"After decades of supporting free trade, in 2018 the U.S. raised import tariffs and major trade partners retaliated," noted the authors of a 2019 National Bureau of Economic Research paper. "Import and retaliatory tariffs caused large declines in imports and exports. Prices of imports targeted by tariffs did not fall, implying complete pass-through of tariffs to duty-inclusive prices. The resulting losses to U.S. consumers and firms who buy imports was \$51 billion, or 0.27 percent of GDP."

Those hoping the Biden administration might free-up trade a bit, especially after the chaos of pandemic-era economic interventions, were disappointed.

"Both Democrats and Republicans are now advocating ... tariffs and 'Buy American' programs aimed at saving jobs from unfair foreign competition," Adam S. Posen of the Peterson Institute for International Economics observed last year. But, he added, "it is the self-deluding withdrawal from the international economy over the last 20 years that has failed American workers, not globalization itself."

"Biden has kept many of Trump's protectionist measures and has even added to them," agreed economist Pierre Lemieux in the Fall 2022 issue of *Regulation*. "In general, the Biden administration's interest in trade appears motivated by the environmental, labor, and other restraints it can impose on trade agreements. There is no real effort to liberalize trade."

The current administration talks about helping workers, Lemieux points out. But trade restrictions deprive workers of jobs while elevating costs for consumers. Driving this convergence in policy is a similar ideological convergence between the left and the right, he added. "Both sides fundamentally believe in the superiority of collective choices over private choices; their only disagreement is over who gets to make the collective choices."

As the commentary suggests, economists generally think that Joe Biden's rebranded protectionism and the bipartisan endorsement of trade barriers are mistakes. They put individuals further under the control of governments and make the world poorer.

Unfortunately, many current debates over trade revolve around bilateral or multilateral trade agreements which are more *managed* trade than *free* trade and so muddle the argument. But you can still find advocates of unencumbered trade among consenting individuals and businesses.

"Contrary to conventional wisdom, imports are not a drag on the U.S. economy or the price we pay to sell goods and services abroad. In fact, rising imports coincide with stronger economic growth," Scott Lincicome and Alfredo Carrillo Obregon write in *The (Updated) Case for Free Trade*, a Cato Institute study published in May. "The payoff to the United States from expanded trade between 1950 and 2016 was \$2.1 trillion, increasing GDP per capita by around \$7,000 and GDP per household by around \$18,000."

"Higher imports are also correlated with higher private-sector employment in the United States, as numerous industries and workers depend on trade," they add.

To that end, even though only a small minority of American businesses directly participate in international trade, "U.S. firms that engage in international goods trade support about half of all jobs," according to research published in February of this year by the Centre for Economic Policy Research's *VoxEU*. That's because so many businesses rely on goods and materials sourced from abroad.

Could high tariffs and "buy American" policies compel firms to find domestic suppliers? Well, maybe. But foreign sources were chosen for a reason; replacing them with domestic suppliers will require compromises. "Subsidising electric cars assembled in North America will make them more expensive and lower-quality," *The Economist* cautioned of protectionist policies. And since politicized policy tends to breed yet more politicization, tariffs and subsidies will inevitably be further burdened with conditions. "The red tape will raise costs to consumers and taxpayers still further."

As the war in Ukraine rages amidst economic sanctions against Russia, that country's retaliatory measures, and the resulting misery for regular people, it's worth emphasizing that politicians admit curtailing trade does damage when that's what they *intend* to do.

"Sanctions can cause great economic pain, and this time is no different," economist Vaibhav Tandon wrote in August. "Western sanctions are imposing far-reaching consequences upon the Russian economy... But sanctions can be a double-edged sword, leading to unwanted economic consequences, including for sanctioning nations."

There's an old admonition that "when goods don't cross borders, soldiers will." Often attributed to the 19th century economist Frederic Bastiat, the quote reflects the sentiment that peaceful exchange builds cooperation as well as prosperity. Countries engaged in mutually beneficial commerce are less likely to go to war than those that have built few economic ties or severed the ones they had. Crafted to cause pain, sanctions don't go that far, but they're a step in an unfortunate direction.

Joe Biden campaigned against Donald Trump, but he and his party ended up adopting some of their opponents' worst ideas and making them their own. Americans deserve the benefits of freedom in all things, and that certainly includes the peace and prosperity that result from free trade.