

Does PROTECTIONISM work?



Does it create more domestic jobs? And greater output? Not so, say CHRISTOPHER and RACHEL COYNE

US President Donald Trump ran on a campaign pledge to “Make America Great Again” by, among other things, protecting US manufacturers from foreign competitors.

He reiterated his commitment to this position in his inaugural address when he stated: “We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs.”¹

In his first days in office, President Trump withdrew the United States from the Trans-Pacific Partnership and stated that he would work to renegotiate the terms of the

North American Free Trade Agreement.

Acting on his campaign pledge to “bring back steel” to the United States, President Trump issued a memorandum to the Secretary of Commerce indicating that the agency should exclusively use US steel to build new pipelines and retrofit existing pipelines.

Underlying these statements and actions is the belief that government-imposed protectionist measures benefit domestic citizens.

The source of these benefits, it is argued, is more domestic jobs and greater output. But is this accurate? Not according to basic economics.

In order to understand why, it is important to understand

how voluntary trade generates mutual benefits, as well as the important difference between the seen and the unseen.

Gains from trade

All of us possess certain skills and talents to produce goods and services. Some of us are good at carpentry, while others are superior farmers. In principle, each person could produce everything that they consume, meaning that they could refrain from engaging in exchange with others.

This, however, would severely limit what could be produced and consumed.

The carpenter might do a wonderful job building a house, but he would struggle

to grow food, since that isn’t his area of expertise. Likewise, the farmer would do an excellent job producing large crops but would find it difficult to build a house.

By engaging in voluntary exchange, however, both parties can benefit. The carpenter can focus on what he does best and so, too, can the farmer. They can each exchange part of their output for that produced by others, with both ending up with more than they would have had if they had to produce everything themselves.

The gains from trade still apply if one person – or country – is more efficient at producing everything: it is just that the argument is more complicated.

Even if the world’s best brain surgeon was also genius

dramatically improved when people are free to take advantage of the gains from voluntary trade. In contrast, in poor societies there are almost always numerous barriers which prevent people from engaging in voluntary trade.

This same logic underpins both domestic and international trade. Just as trade between individuals living in Yorkshire and London benefits both parties involved, so, too, does trade between individuals living in London and New York City.

In short, geographic boundaries in no way undermine the reality that voluntary trade makes the parties better off and contributes to growth and prosperity.

Once one understands the gains from voluntary

the seen and the unseen.

The “art of economics”, Henry Hazlitt noted, “consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.”²

When it comes to protectionism, the focus is typically on a small group of easily observable beneficiaries at the neglect of the broader harms which are not as easily observable.

Consider the case of steel. As mentioned, President Trump has made a commitment to increase domestic steel manufacturing in the United States by establishing barriers to foreign imports.

Of course, some people, mainly US steel manufacturers and workers, will benefit from these protectionist measures. These benefits are easily observable since one can point to the number of people working in the steel industry and their output.

However, there are several harms from protectionism which are not as obvious. For example, US consumers of steel will pay higher prices than they would have in the absence of the trade barriers.

Moreover, though output in the domestic steel industry will be higher than it would be without the barrier to trade, there is an opportunity cost to the resources used to produce this output. If resources were not used to produce steel they would be reallocated to the production of other goods and services.

The main implication is that the artificially high output in the steel industry results

MOST OF WHAT CITIZENS IN WEALTHY SOCIETIES CONSUME IS PRODUCED BY OTHERS

with a sewing machine, it would be better for him to buy his clothes from elsewhere and concentrate on what he is relatively best at.

This basic logic can be expanded beyond two people with the same result. As the range of potential trading partners expands, it benefits those involved because they are able to take advantage of the diverse skills and knowledge possessed by a larger number of people.

If you think about it, most, if not all, of what citizens in wealthy societies consume is produced by others with different capabilities.

Standards of living are

exchange, the harm caused by economic protectionism becomes obvious.

Protectionism undermines the benefits of voluntary trade by preventing individuals from improving their lives by engaging in value-added exchange.

This threatens the well-being of those parties who would have otherwise participated in the exchange absent the government mandate which prevented them from doing so.

The seen and the unseen

Many who embrace protectionist measures fail to appreciate the importance of

¹ Transcript of speech: <http://time.com/4640707/donald-trump-inauguration-speech-transcript/>

² Henry Hazlitt (1979) *Economics in One Lesson*. New York: Three Rivers Publishing, p. 17.