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Clinton and Trump want to beggar thy neighbor... and you

By Frank R. Gunter, Ph.D.

During their presidential campaigns both **Donald Trump** and Hilary Clinton advocate limiting foreign trade in order to help American firms and workers. While "managing" trade to America's benefit is popular among voters, restricting trade is not only bad economics but also degrades America's political culture.

Clinton, in her rejection of the Trans-Pacific Partnership, and Trump, in his attacks on Mexico and China "stealing" U.S. jobs, make the same argument, namely that limiting imports helps U.S. businesses and preserves jobs in protected industries. Like many bad arguments in economics, these statements are not wrong as much as too limited. They focus on the immediate – visible – effects on the protected industries and disregard the eventual –invisible – adverse effects on the rest of the economy and political system.

For example, among the many industries that have sought limits on imports is the American steel industry. Tariffs, taxes on imported steel, or quotas, limits on the quantity of steel imports would reduce imports of foreign steel. U.S. firms that use steel such as those in the automobile and construction industries would have to "buy American" which would preserve U.S. steel jobs.

These immediate visible effects seem to be as far as Clinton and Trump consider the issue – limiting imports hurts foreigners and helps American workers. However, even if we assume that foreign countries will not retaliate by blocking our exports; there are further effects, invisible to Trump and Clinton, which will end up hurting American workers.

The U.S. automobile, construction, and other industries that use steel don't buy imported steel because they are anti-American. They purchase it because, for the quality, it is cheaper. Now with trade restrictions, these industries must pay more for steel and will raise the price of their products. American consumers must now pay more for the many products that use steel leaving them with less income to spend on anything else.

The visible effect is more employment and higher wages for American steel workers but the invisible effect is lower employment and lower wages in all of those industries that now have reduced sales because potential customers had to spend more of their income on products that use steel. And the adverse effects of protectionism will spread as the business customers of protected industries seek protection for themselves.

A tariff/quota driven rise in steel prices will make U.S. farm machinery manufacturing less competitive. They will begin to lose sales to imported farm machinery that use cheaper foreign steel. It would be inconsistent and hypocritical for Clinton and Trump to deny the farm machinery firms the same tariff/quota protection granted to the steel industry. But this additional protection will raise food costs and again leave consumers with less money to spend on the products of other industries.

And won't the farmers ask for tariff/quota protection to compensate for their higher production costs and loss of markets to foreign farmers? There is no logical or economic limit to providing protection against imports until a country has almost zero imports and, as a result, much lower living standards. Of course, only a few industries are ever able to get the U.S. government to provide tariff/quota protection. And this is the most serious impact of tariffs/quotas - it leads to political corruption.

The great Italian economist Pareto distinguished between economically efficient and politically efficient policies. An economically efficient policy is one where additional benefits are greater than additional burden. But self-interested politicians will only support a policy that is politically efficient – the additional benefit is focused on a small group of voters while the additional burden is diffused over a much larger group.

The politician rarely loses support from the much larger group of people that is injured by the policy. Since the burden of the policy is spread over so many, the individual cost may be low. In addition, while the injured citizen may realize that his or her living standards have declined from higher prices, it is unlikely that the injured citizen will connect his or her lower living standard with the politician's policy. The transfer wins a politician votes and donations from those who benefit without losing votes or donations from the injured.

Clinton and Trump advocate what **Adam Smith** criticized as a mercantilist or "beggar thy neighbor" policy of trying to improve the living standards of Americans at the cost of driving down the living standards of our trading partners. When the invisible costs are considered, the U.S. government imposing tariffs and quotas ends up reducing average living standards in the U.S. We are not only begging our neighbors when we impose tariffs/quotas; we are begging ourselves.

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