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CHAPTER 31

The $750,000 Steelworker

In even-numbered years, particularly years evenly divisible by 4, politicians are apt to give speeches about the need to protect U.S. jobs from the evils of **globalization.** We are thus encouraged to buy American. If further encouragement is needed, we are told that if we do not voluntarily reduce the amount of imported goods we purchase, the government will impose (or make more onerous) either **tariffs** (taxes) on imported goods or **quotas** (quantity restrictions) that will physically limit **imports.** The objective is to save U.S. jobs.

Unlike black rhinos or blue whales, U.S. jobs are in no danger of becoming extinct. There are an infinite number of potential jobs in the American economy, and there always will be. Some of these jobs are not very pleasant, and many others do not pay very well, but there will always be employment of some sort as long as there is **scarcity.** Thus, when steelworkers making $72,000 per year say that imports of foreign steel should be reduced to save their jobs, what they really mean is this: They want to be protected from **competition** so they can continue their present employment at the same or higher salary rather than move to a different employment that has less desirable working conditions or pays a lower salary. There is nothing wrong with the steelworkers' goal (better working conditions and higher pay), but it has nothing to do with saving jobs.

THE NATURE OF TRADE

In any discussion of the consequences of restrictions on international trade, it is essential to remember two facts. First, *we pay for imports with* **exports.** It is true that in the short run, we can sell off assets or borrow

from abroad if we happen to import more goods and services than we export. But we have only a finite amount of assets to sell, and foreigners do not want to wait forever before we pay our bills. Ultimately, our accounts can be settled only if we provide (export) goods and services to the trading partners from whom we purchase (import) goods and services. Trade, after all, involves *quid pro quo* (literally, something for something). The second point to remember is that *voluntary trade is mutually beneficial to the trading partners.* If we restrict international trade, we reduce those benefits, both for our trading partners and for ourselves. One way these reduced benefits are manifested is in the form of curtailed employment opportunities for workers. In a nutshell, even though tariffs and quotas enhance job opportunities in import-competing industries, they also cost us jobs in export industries; the net effect seems to be *reduced* employment overall.

What is true for the United States is also true for other countries: They will buy our goods only if they can market theirs, because they too must export goods to pay for their imports. Thus, any U.S. restrictions on imports—via tariffs, quotas, or other means—ultimately cause a reduction in our exports, because other countries will be unable to pay for our goods. Hence, import restrictions must inevitably decrease the size of our export sector. So imposing trade restrictions to save jobs in import-competing industries has the effect of costing jobs in export industries.

PROTECTION FOR AUTOMOBILES

Import restrictions also impose costs on U.S. consumers. By reducing competition from abroad, quotas, tariffs, and other trade restraints push up the prices of foreign goods and enable U.S. producers to hike their own prices. One of the best-documented examples of this is the automobile industry.

Due in part to the enhanced quality of imported cars, sales of domestically produced automobiles fell from nine million units in 1978 to an average of six million units per year between 1980 and 1982. **Profits** for U.S. automobile manufacturers plummeted as well, turning into substantial losses for some of them. American automakers and autoworkers' unions demanded protection from import competition. They were joined in their cries by politicians from automobile-producing states. The result was a voluntary agreement by Japanese car companies (the most important competitors of U.S. firms) that restricted U.S. sales of Japanese cars to 1.68 million units per year. This agreement—which amounted to a quota even though it never officially bore that name—began in April 1981 and continued into the 1990s in various forms.

Robert W. Crandall, an economist with the Brookings Institution, has estimated how much this voluntary trade restriction cost U.S. consumers in terms of higher car prices. According to his estimates, the reduced supply of Japanese cars pushed their prices up by $2,000 apiece, measured in 2013 dollars. The higher price of Japanese imports in turn enabled domestic producers to hike their prices an average of $800 per car. The total tab in the first full year of the program was over $8 billion. Crandall also estimated the number of jobs in automobile-related industries that were preserved by the voluntary import restrictions at about twenty-six thousand. Dividing $8 billion by twenty-six thousand jobs yields a cost to consumers of about $300,000 *per year* for every job preserved in the automobile industry. U.S. consumers could have saved over $5 billion on their car purchases each year if instead of implicitly agreeing to import restrictions, they had simply given $100,000 to every autoworker whose job was preserved by the voluntary import restraints.

Protection for Other Industries

The same types of calculations have been made for other industries. Tariffs in the apparel industry were increased between 1977 and 1981, preserving the jobs of about 116,000 U.S. apparel workers at a cost of $50,000 per job each year. At about the same time, the producers of Citizens' Band radios also managed to get tariffs raised. Approximately six hundred workers in the industry kept their jobs as a result, at an annual cost to consumers of over $90,000 per job.

The cost of **protectionism** has been even higher in other industries. Jobs preserved in the glassware industry due to trade restrictions cost $200,000 apiece each year. In the maritime industry, the yearly cost of trade protection is $290,000 per job. In the steel industry, the cost of preserving a job has been estimated at an astounding $750,000 per year. If free trade were permitted, each worker moving to employment elsewhere could be given a cash payment of half that amount each year, and consumers would still save a lot of money.

Total Employment Falls

Even so, this is not the full story. None of these studies estimating the cost to consumers of preserving jobs in import-competing industries have attempted to estimate the ultimate impact of import restrictions on the flow of exports, the number of jobs lost in the export sector, and thus the total number of jobs gained or lost.

When imports to the United States are restricted, our trading partners will necessarily buy less of what we produce. The resulting decline in export sales means fewer jobs in exporting industries. And the total reduction in trade leads to fewer jobs for workers, such as stevedores (who load and unload ships) and truck drivers (who carry goods to and from ports). On both counts—the overall cut in trade and the accompanying decline in exports—protectionism leads to job losses that might not be immediately obvious.

Several years ago, Congress tried to pass a domestic-content bill for automobiles. In effect, the legislation would have required that cars sold in the United States have a minimum percentage of their components manufactured and assembled in this country. Proponents of the legislation argued that it would protect 300,000 jobs in the U.S. automobile manufacturing and auto parts supply industries. Yet the legislation's supporters failed to recognize the negative impact of the bill on trade in general and on U.S. export industries. A U.S. Department of Labor study did recognize these impacts, estimating that the domestic-content legislation would actually cost more jobs in trade-related and export industries than it protected in import-competing businesses. Congress ultimately decided not to impose a domestic-content requirement for cars sold in the United States.

More recently, when President Bush decided in 2002 to impose tariffs of up to 30 percent on steel imports, the adverse effects on the economy were substantial and soon apparent. To take but one example, prior to the tariffs, the Port of New Orleans relied on steel imports for more than 40 percent of its revenues, in part because once steel coming into the port is offloaded, the ships are cleaned and refilled with U.S. grain for export. By reducing imports, the tariffs slashed economic activity at the port and also reduced U.S. grain exports. Businesses and farms all up and down the Mississippi River were adversely affected. More broadly, the higher costs of imported steel produced a decline in employment in U.S. industries that use steel as an input. Indeed, one study estimated that due to the tariffs, about 200,000 people lost their jobs in 2002 in these industries alone—a number that exceeded the total number of people actually employed by the steel manufacturing firms protected by the tariff.

The Impossibility of Real Protection

In principle, trade restrictions are imposed to provide economic help to specific industries and to increase employment in those industries. Ironically, in the long-term, restrictions may be totally ineffective in

protecting an industry's employment. Researchers at the **World Trade Organization (WTO)** examined employment in three industries that have been heavily protected throughout the world: textiles, clothing, and iron and steel. Despite stringent trade protection for these industries, employment *declined* during the period of protection, in some cases dramatically. In textiles, employment fell 22 percent in the United States and 46 percent in the European Union. The clothing industry had employment losses ranging from 18 percent in the United States to 56 percent in Sweden. Declines in employment in the iron and steel industry ranged anywhere from 10 percent in Canada to 54 percent in the United States. In short, restrictions on free trade are no guarantee against job losses, even in the industries supposedly being protected.

The evidence seems clear: The cost of protecting jobs in the short run is huge. In the long run, it appears that jobs cannot be protected, especially if one considers all aspects of protectionism. Free trade is a tough platform on which to run for office. But it is the one that yields the most general benefits if implemented. Of course, this does not mean that politicians will embrace it, and so we end up "saving" jobs at a cost of up to $750,000 each.

DISCUSSION QUESTIONS

1. Who gains and who loses from import restrictions?
2. What motivates politicians to impose trade restrictions?
3. If it would be cheaper to give each steelworker $375,000 per year in cash than impose restrictions on imports of steel, why do we have the import restrictions rather than the cash payments?
4. Most U.S. imports and exports travel through our seaports at some point. How do you predict that members of Congress from coastal states would vote on proposals to restrict international trade? What other information would you want to know when making such a prediction?
5. When you go shopping for a new computer, is your real objective to "import" a computer into your apartment or is it to "export" cash from your wallet? What does this tell you about the true object of international trade—is it imports or exports?
6. Some U.S. policy is designed to subsidize exports and thus increase employment in export industries. What effect does such policy have on our imports of foreign goods and thus on employment in industries that compete with imports?

Glossary

acreage-restriction program: a federal government limit on the number of acres that a farmer can plant with a particular crop

adverse selection: a process in which "undesirable" (high-cost or high-risk) participants tend to dominate one side of the market, causing adverse effects for the other side; often results from asymmetric information

amenities: desirable or useful features of a person, good, or location

antitrust laws: federal and state legislation that prohibit anticompetitive behavior by firms; examples of such behavior include collusion, monopolization, and vertical foreclosure

assets: all tangible and intangible items to which an individual or institution holds a legal claim of ownership

asymmetric information: circumstance in which participants on one side of a market have more information than participants on the other side of the market; often results in adverse selection

bankruptcy: a legal status that permits an individual or firm to escape responsibility for many or all of their debts

biofuels: fuels made from once-living organisms or their by-products

capital, or capital stock: the collection of productive assets that can be combined with other inputs, such as labor, to produce goods and services

capital gains: increases in the value of capital assets that are captured upon sale of the assets; when the value of the assets decreases, these are called capital losses

capitalist system: an economic system in which there is large-scale private ownership of resources and in which market incentives play a dominant role in allocating those resources

cartel: a group of independent businesses, often on an international scale, that agree to restrict trade, to their mutual benefit

civil law system: a legal system in which statutes passed by legislatures and executive decrees, rather than judicial decisions based on precedent, form the basis for most legal rules

closed access: an element of the property right to a good, ensuring that the owner can effectively exclude other people from using the good