
The \$750,000 Steelworker

In even-numbered years, particularly years evenly divisible by four, politicians of all persuasions are apt to give long-winded speeches about the need to protect U.S. jobs from the evils of foreign competition. To accomplish this goal, we are 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 physically limit imports. The objective of this exercise 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 a steelworker making \$72,000 per year says that imports of foreign steel should be reduced to save his job, what he really means is this: He wants to be protected from competition so he can continue his 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 steelworker's goal (better working conditions and higher pay), but it has nothing to do with saving jobs. (Despite this, we may even use the term "saving jobs" in the discussion that follows, because it is such convenient shorthand.)

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 true for other countries as well: They will buy our goods only if they can market theirs, because they too have to export goods to pay for their imports. Thus any U.S. restrictions on imports to this country—via tariffs, quotas, or other means—ultimately cause a reduction in our exports, because other countries will be unable to pay for our goods. This implies that import restrictions inevitably must 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.

Just as important, import restrictions impose costs on U.S. consumers as a whole. 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. Perhaps the best documented example of this is found in the automobile industry, where voluntary restrictions on Japanese imports were put in place.

Due in part to the enhanced quality of imported cars, sales of domestically produced automobiles fell from 9 million units in 1978 to an average of 6 million units per year between 1980 and 1982. Profits of U.S. automobile manufacturers plummeted as well, turning into substantial losses for some of them. U. S. automobile manufacturers 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 entered into 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 Institute, has estimated how much this voluntary trade restriction has 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 \$1600 apiece, measured in 2005 dollars. The higher price of Japanese imports in turn enabled domestic producers to hike their prices an average of \$640 per car. The total tab in the first full year of the program was about \$7 billion. Crandall also estimated the number of jobs in automobile-related industries that were saved by the voluntary import restrictions; the total was about 26,000. Dividing \$7 billion by 26,000 jobs yields a cost to consumers of about \$275,000 *per year* for every job saved in the automobile industry. U.S. consumers could have saved over \$2 billion on their car purchases each year if, instead of implicitly agreeing to import restrictions, they had simply given \$75,000 to every autoworker whose job was preserved by the voluntary import restraints.

The same types of calculations have been made for other industries. Tariffs in the apparel industry were increased between 1977 and 1981, saving the jobs of about 116,000 U.S. apparel workers at a cost of \$45,000 per job each year. At about the same time, the producers of citizens band (CB) radios also managed to get tariffs raised. Approximately 600 workers in the industry kept their jobs as a result but at an annual cost to consumers of over \$85,000 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 \$270,000 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 losing a job could be given a cash payment of half that amount each year, and the consumer would still save a lot of money.

Even so, this is not the full story. None of these studies estimating the cost to consumers of saving 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 can afford to 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 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 obvious immediately.

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 have protected 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 its ultimate impact 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 cut 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, some 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.

In principle, trade restrictions are imposed to provide economic help to specific industries and to increase employment in those industries. Ironically, the long-term effects may be just the opposite. 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 actually 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, WTO researchers found that restrictions on free trade were 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 enormous. And 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 looks as if it is the one that will yield 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 \$750,000 each.

DISCUSSION QUESTIONS

1. Who gains and who loses from import restrictions?
2. What motivates politicians to impose tariffs, quotas, and other 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?