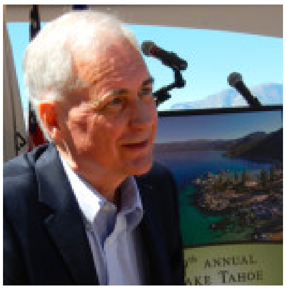
Opinion: Tariffs turn abundance into scarcity

By Tom McClintock

Frederic Bastiat, the great 19th Century economist, posed a simple question we need to think about carefully as we consider tariffs and trade wars.

What is better: abundance or scarcity? The answer might seem self-evident, yet protectionists throughout history can't seem to grasp it.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If a dollar can only buy one widget from Pittsburgh, but two from Ontario, the path to abundant widgets for America is obviously through Canada. If we slapped a dollar tariff on Canadian widgets to "level the playing field," then we have just cut our own country's available supply per dollar by half. It's a perfect way to create scarcity from abundance.

Similarly, by imposing a tariff on Canadian steel (by far our biggest foreign supplier), the price of steel for Americans rises, and with it, the price of everything from cans to cars.

To the protectionists, this is a small price to pay for "saving" American steel jobs. Yet, as Bastiat reminds us, the unseen is just as important as the seen. We see the American steel jobs preserved by ridding them of international competition. What we don't see as clearly are the jobs soon to disappear in every American industry that uses steel, as demand for their products declines in response to higher prices. Every producer in a society is also a consumer. No consumer benefits from higher prices and no producer benefits from scarcer materials.

This has been the consistent experience of every nation that has succumbed to the sophistries of protectionism. Thomas Jefferson thought that high tariffs could fund the government and promote domestic manufacturing. The result was a devastating recession that nearly destroyed our fledgling economy. Herbert Hoover responded to the recession of 1929 with the Smoot-Hawley Tariff Act. It didn't end well.

All trade is the exchange of goods, and both parties must benefit if the trade is to happen. If I pay you a dollar for a cup of coffee, I'm telling you that your coffee is worth more to me than my dollar, and you're telling me that my dollar is worth more to you than your coffee. We both take away something of greater value than we had.

Now suppose someone slaps a dollar tariff on that cup of coffee. I end up buying less coffee, or less of other products to afford the higher price, or switching to tea.

True, some governments subsidize their exports, undercutting their unsubsidized domestic competitors. But how does it harm our overall economy if other countries are willing to help pay for the stuff we buy? As Milton Friedman observed, that's simply foreign aid to American factories and consumers, paid for by the unfortunate taxpayers in the exporting countries. Thank you.

We will lose some of the 140,000 American jobs that produce steel. But the other 6.5 million Americans who manufacture products using steel can make more of their products, causing their producers to hire more workers and to pay them more. Jobs disappear in the steel mills, but reappear as better jobs in industries that can now obtain more steel at lower prices.

Writing 150 years ago, Bastiat asked the question we still hear today: “What shall we do in case of war, if we have placed ourselves at the mercy of Great Britain for iron and coal?” He answered, “This sort of dependence which results from exchange … is a reciprocal dependence. We cannot depend on the foreigner unless the foreigner depends on us.” If war clouds should gather between Canada and the United States, we may face the prospect of losing cheap Canadian steel, but Canada would face the loss of cheap American resources and products that their steel exports buy. Trade reduces the risk of war because it increases the value of peace.

Bastiat noted how much we invest in ports and harbors, railroads and highways, all for the sole purpose of surmounting the obstacles that nature has placed in our ability to trade. What sense does it make to erect artificial barriers to replace the natural barriers we have overcome?

By that same token, President Trump has set the stage for rapid economic expansion by reducing the tax and regulatory burdens that were crushing our economy, and the economy is responding. What sense does it make to replace the taxes and regulations we have shed with new ones?

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