

ISSUE BRIEF

No. 4638 | DECEMBER 15, 2016

The Freedom to Pay Lower Prices

Patrick Tyrrell

Trading across borders lowers prices and increases consumer choice. The freedom to engage in this type of trade is a major factor in improving Americans' standard of living. Both exports and imports improve the lives of Americans.¹

Low-Priced Imports Benefit Everyone

The belief that exports are beneficial and imports are harmful comes from the eighteenth-century “mercantilist” economists, who thought that countries grow rich by selling more than they buy from other countries. In reality, however, countries grow rich by exporting what they are best at producing and importing what other countries are best at producing.² By exploiting comparative advantage, both parties “win,” since levels of production and productivity increase in both countries. Which country buys more and which country sells more is of little importance. The reality is that they are splitting a bigger economic pie and that both will have more goods to consume as a result. This insight was one of the key contributions of the founder of modern economics, Adam Smith, who wrote:

When two places trade with one another, this doctrine [of the balance of trade] supposes that, if

the balance be even, neither of them either loses or gains; but if it leans in any degree to one side, that one of them loses and the other gains in proportion to its declension from the exact equilibrium. Both suppositions are false. A trade which is forced by means of bounties and monopolies may be, and commonly is, disadvantageous to the country in whose favor it is meant to be established, as I shall endeavor to show hereafter. But that trade which, without force or constraint, is naturally and regularly carried on between any two places is always advantageous, though not always equally so, to both.³

Imports Help, not Harm, Jobs

An oft-heard refrain is that low prices on imports harm American workers. The reality is they help far more workers than they hurt. When the government acts to protect a favored segment of the population, it ends up making everyone else worse off. As Milton and Rose Friedman explain in their classic book, *Free to Choose*: “We lose far more from measures that serve other ‘special interests’ than we gain from measures that serve our ‘special interests.’”⁴

A case in point is the current saga over low steel price imports, in which low-priced imports are said to cost steel manufacturing jobs. While low prices for imported steel do provide stiff competition for American steel manufacturers, they also benefit consumers of steel-containing products such as cars and refrigerators. Furthermore, some steel-consuming industries require specific grades of steel that are sometimes only available from overseas producers.⁵ These industries benefit from low steel prices. Raising steel prices with barriers on steel imports can cost

This paper, in its entirety, can be found at <http://report.heritage.org/ib4638>

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Actual People Are Harmed When the Government Raises Tariffs on Imports

One company that felt the sting of the 2002 steel tariffs was Wilson Tool International of White Bear Lake, Minnesota. Wilson Tool International was the world's largest independent maker of punch press and press brake tooling. In September 2002, President of Manufacturing Brian Robinson testified that his company had employed 770 people before the tariffs but currently had only 470 employees and was going to lose an additional 40 jobs because of the tariffs. He explained his predicament:

When small business must engage lobbyists to represent them or to be compelled to travel to Washington in order to advocate their right to be heard, or when a tariff is imposed on domestic manufacturers for importation of raw steel product only to have their foreign competition import the same steel product produced from the same foreign mill as a finished product without a tariff, then we have a problem.

It is obvious that the exclusion process does not work. Therefore the tariffs do not work; and they have caused unintended consequences to the manufacturing sectors. Thank you.[†]

[†] Brian Robinson, "Lost Jobs, More Imports; Unintended Consequences of Higher Steel Tariffs (Part II)," testimony before the Committee on Small Business, U.S. House of Representatives, September 25, 2002, <https://babel.hathitrust.org/cgi/pt?id=pur1.3275.4074674726;view=1up;seq=1> (accessed November 23, 2016).

more jobs than all of the steel manufacturing jobs in the country combined. In the months between President George W. Bush's approval of steel import tariffs of up to 30 percent in 2002 and his removal of those tariffs in late 2003, nearly 200,000 Americans working for steel-consuming industries lost their jobs.⁶ By contrast, the steel manufacturing industries that the tariffs were designed to save employed only about 147,000 workers in 2015.⁷

Trade Barriers Hurt the Poor

Globalized trade is often seen as something valuable mainly to the rich. In reality, protectionist trade barriers do the most harm to less well-off

consumers, who benefit the most from global trade. Less well-off consumers spend a larger share of their income on goods that are likely to be traded, such as food and clothing. People with higher income levels spend more of their income on services that are less affected by trade.

Progressive Economy reports that, from 1973 to 2013, as barriers to trade were reduced, families in the U.S. cut their food bills by 35 percent and clothing and home-goods bills by over 40 percent.⁸ However, in 1973, the average U.S. household purchased 28 garments per year, compared to 62 in 2013, and 4.8 pairs of shoes then, compared to 7.5 pairs in 2013.⁹ By 2013, families had an extra \$8,156 per year—

1. For a thorough explanation of the reasons behind this, see Milton Friedman and Rose Friedman, *Free to Choose: A Personal Statement* (San Diego: Harcourt Brace, 1990), pp. 38–69.
2. Johan Norberg, *In Defense of Global Capitalism* (Washington: The Cato Institute, 2003), p. 120.
3. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Vol. II, Book 4 (London: W. Strahan and T. Cadell, 1776 [1966]), p. 76.
4. Friedman and Friedman, *Free to Choose*, p. 39.
5. Tori K. Whiting, "The U.S. Steel Market Needs Free Trade, Not Favoritism," Heritage Foundation *Backgrounder* No. 3150, September 12, 2016, <http://www.heritage.org/research/reports/2016/09/the-us-steel-market-needs-free-trade-not-favoritism>.
6. *Ibid.*
7. *Ibid.*
8. Edward Gresser, "American Families Have Cut Their Bills for Food and Home Goods by 40 Percent since the 1970s," Progressive Economy, February 4, 2015, http://www.progressive-economy.org/trade_facts/american-families-have-cut-their-bills-for-food-home-goods-by-40-percent-since-the-1970s/ (accessed December 12, 2016).

despite buying more goods—to save or spend on other goods due to price-cuts in those three categories.¹⁰

In the extreme scenario where the U.S. was to halt all international trade, the Council of Economic Advisers noted that resulting higher prices would cause:

- People in the lowest tenth percentile of income to lose 62 percent of their purchasing power,
- People in the fiftieth percentile to lose 29 percent of their purchasing power, and
- People in the ninetieth percentile by income to lose only 3 percent of their purchasing power.¹¹

In other words, those who can least afford to lose any of their purchasing power would lose 62 percent of it, while those most able to withstand the shock would lose only 3 percent.

Conclusion

The benefits of low prices are frequently overlooked or taken for granted. People see the present state of affairs and not what could take shape under a future policy change. Lowering restrictions on trade would lower prices and benefit the majority of Americans, especially the poor. Sometimes a trade barrier such as a tariff or import quota may benefit a small group, but only at the expense of everyone else. The U.S. should not penalize individual consumers and business consumers by having tariffs or other barriers to trade on imports. The government should not take away from consumers the freedom to pay lower prices.

—*Patrick Tyrrell is Research Coordinator in the Center for Free Markets and Regulatory Reform, of the Institute for Economic Freedom and Opportunity, at The Heritage Foundation.*

9. Lindsay Oldenski and Theodore H. Moran, “Misconceptions on the Campaign Trail: Benefits of Trade Agreements,” Peterson Institute for International Economics, April 12, 2016, <https://piie.com/blogs/trade-investment-policy-watch/misconceptions-campaign-trail-benefits-trade-agreements> (accessed December 12, 2016).

10. Gresser, “American Families Have Cut Their Bills.”

11. The White House, “The Economic Benefits of U.S. Trade,” May 2015, https://www.whitehouse.gov/sites/default/files/docs/cea_trade_report_final_non-embargoed_v2.pdf (accessed December 12, 2016).
