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Submitted to

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The president of the United States, Donald Trump, promoted his protectionist policy in the importation of steel and aluminum. Specifically, a tariff rate of 25% steel imports will be applied 10% to those of aluminum, both Mexico and Canada will be exempt for now. Trump has justified this measure because "the steel and aluminum industry in the United States has been devastated by aggressive foreign commercial practices" and has also described industry as "vital" to American national security. There have been many reactions in different countries, criticizing this decision. Canada called the tariffs "absolutely unacceptable," while senior EU officials said they are developing plans to combat this decision. Some European companies mentioned that they were putting American investments on hold as a response. In Spain there has been no specific statement criticizing this decision, or even any authority. Perhaps the most outstanding is the leader of the United Left, Alberto Garzón, who celebrated Trump's decision and commented that "Even part of the right wing like Trump is trying to take protectionist measures because they have understood that neoliberalism and globalization are the problem".

Why does not protectionism work?

When we are faced with a national scenario in which an internal industry lacks the capacity to compete against the country's external industry, the State decides to penalize the external industry through a tax policy, called tariff policy. As a result, there is an increase in external prices compared to domestic prices, so that, in comparison, domestic industry significantly improves its competitive position regarding consumers. These measures are applauded by the left since, by sanctioning external companies, apparently it is possible to benefit the internal industry and therefore the workers that comprise it, and also the companies and their respective corporate profits. The great benefit of this policy is to privilege a specific industry, simply by placing it in the national sphere. However, it has great damage for consumers, also in global levels of poverty and the dynamic process of innovation, also known as creative destruction.

Protectionism

Imagine that we are with Product A that has been manufactured internally and whose price is 20 euros and on the other hand, we have Product B, with the same characteristics as Product A, at a price of 15 euros but it has been manufactured externally. In this case, imagine the State decides to impose a tariff policy, so finally, the final price of Product B is 23 euros, that is, higher than Product A. In this environment, what would be the consequences of this decision? With the tariff policy, the main aggrieved is the consumer since he experiences price inflation as the best market purchase alternative is damaged in the market. In this case, the best alternative was Product B, for a price of 15 euros. However, after the tariff policy, your best alternative is Product A, for 20 euros, which means a greater mobilization of your resources to acquire the same good. Given that Product B is no longer the best option for consumers, there is a destruction of competitive employment, linked to Product A, that is, a job that had a greater facility or ability to offer a product to the market, at a cost of comparatively minor production. In other words, the efficient producer loses.

It is interesting to assess the dynamic effects when applying this type of measure. The price difference between both products implies an opportunity cost. With the protectionist policy, the consumer must mobilize a greater amount of resources to acquire exactly the same. This price differential would have meant savings, which could have been used to demand other consumption or capital goods to provide greater welfare. If there is a technological improvement that allows producing a lower cost, protectionist policies will seek to harm these technological advances. In fact, in full technological revolution, many states seek to protect certain sectors before the emergence of the so-called collaborative economy that has improved consumer alternatives. In conclusion, protectionist policies not only harm consumers and competitive employment in the short term, but also impede the process of creative destruction that allows us to free up resources to exploit new sectors or new ways of knowledge, not yet developed, which implies a position contrary to the progress and improvement of societies.

Is it good for the United States?

"We have to protect our country and our workers," Donald Trump has consistently said to justify the imposition of protectionist measures. However, the argument that imposing substantial tariffs will safeguard or even promote employment is far from unanimous. This decision is "likely to cause damage not only outside the United States but also to the US economy itself, including its manufacturing and construction sectors which are heavy users of aluminum and steel. Had already explained the IMF after the promulgation of taxes in these sectors. US agricultural federations have recently lamented that in trying to protect steel and aluminum producers, Donald Trump was paving the way for retaliation that would severely affect other sectors such as agriculture. They now fear taxes on their exports to the Asian giant (soybean, sorghum, farmed pigs). In 2002, President Bush imposed steel taxes that remained in effect for 18 months. During this period, some 200,000 American jobs had suffered from this protectionist measure, remember the economists of Oxford Economics. But the association of American industrialists said that these taxes on steel and aluminum already showed beneficial effects on employment in the US steel industry, with the creation of some 3,000 jobs.

Dangers for the global economy

Protectionism is therefore not necessarily a miracle cure for the crisis and can also generate many tensions at the international level. This is particularly the case with the latest announcements from President Trump. European and Chinese leaders have risen up against these commercial attacks. In particular, they threatened the US President with equivalent trade reprisals against imports of US goods in the event of effective application of these customs duties. A protectionist escalation is therefore to be feared, which could be harmful for the world economy.

International relations could therefore be largely affected by American protectionism. Only dialogue can overcome this growing problem in order to find economic and trade agreements that suit each party. The meeting between Emmanuel Macron and Donald Trump in the United States last week may be the premise of an easing of trade tensions between Europe and the United States.

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