

Biden's Protectionism: Trumpism with a Human Face

The president's "worker-centric" trade policy amounts to special-interest favoritism.

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As Joe Biden was beginning his presidency, I wrote in these pages that his economic policies would likely follow, rather than depart from, those of his predecessor, Donald Trump. (See "Joe Biden's Economic Agenda: An Early Appraisal," Spring 2021). Concerning international trade specifically, I wrote that Biden was "likely to continue Trump's policies" How do these predictions stand 18 months later?

In some cases, there have been positive developments. The Biden administration has stopped openly targeting market economies and friendly countries with trade-war measures. It settled a 17-year dispute with the European Union over subsidizing the manufacture of large aircraft. There have been some other encouraging bits and pieces. Still, Biden has kept many of Trump's protectionist measures and has even added to them.

THE CASE OF CHINA

Under Trump, the average U.S. tariff on Chinese imports increased from about 3% to nearly 20%. A tariff is a tax that typically falls on the consumers of the importing country, Americans in this case. The Biden administration has not expressed any clear intention of eliminating the China tariffs. They violate the rules of the World Trade Organization (WTO), of which the U.S. government had been the main supporter for six decades. One rumor is that if the administration did abolish or reduce some visible tariffs on consumer goods (shoes, for example), it would increase less visible tariffs on industrial goods.

According to some observers, the Biden administration is debating the launch of a formal (Section 301) investigation into subsidies China provides state companies under its state capitalism regime. Paradoxically, the more the U.S. government bosses around American importers and investors, the more it resembles the economically authoritarian Chinese regime. According to *The Economist*, "the Biden approach looks less like a retreat from Mr Trump's brawl with China and more like a professionalisation of it."

POLITE TRUMPISM

One difference between the two presidents is that Biden practices what former WTO Appellate Body judge James Bacchus calls "polite protectionism." There are no longer any angry tweets or absurd claims, but Trump's "national security" tariffs on aluminum and steel from friendly countries, or the "voluntary restraints" later "negotiated" with them, generally remain in force. It should be noted the new tariffs on aluminum and steel were not really targeting China since there was already little of these products imported from that country because of previous protectionist barriers.

In general, the Biden administration's interest in trade appears motivated by the environmental, labor, and other restraints it can impose on trade agreements. There is no real effort to liberalize trade. For example, recent trade discussions with the United Kingdom produced pious generalities about the importance of "worker-centric trade" and "work[ing] to develop more durable and inclusive trade policies that demonstrate that trade can be a force for good and create more opportunities for people and gender equity" (to quote from the joint statement issued after the meeting), but nothing about abolishing government-created



obstacles to trade. Likewise, the new Indo-Pacific Economic Framework offers a palaver of pieties about things like “supply chains” instead of pursuing the benefits of trade. (See “Dispelling Supply Chain Myths,” Summer 2022.)

Very early in his presidency, Biden issued three executive orders expanding the domestic content requirements in government procurement. “Biden Out-Trumps Trump,” affirmed a *Wall Street Journal* editorial.

The \$280 billion CHIPS and Science Act that Biden recently signed into law subsidizes domestic producers of microprocessors and generously distributes political pork and corporate welfare, all in the name of national security. The legislation also heavily subsidizes scientific research and provides additional funding to related federal agencies, continuing the unproductive stop-and-go, haphazard money-throwing that has characterized federal intervention in this field. (See “Much to Criticize, Much Left Uncriticized,” Summer 2014.) If the whole plan were not so disorganized, it might look like Chinese industrial policy, which the U.S. government criticizes as protectionist. A *Wall Street Journal* editorial noted that the spending spree “will help the U.S. compete against China only if you believe that the key to success is a larger federal bureaucracy and more political allocation of capital.”

The Biden White House has not pushed Congress into reau-

thorizing the Generalized System of Preferences (GSP), which expired at the end of Trump’s presidency. Created in 1974, the program offers the unilateral elimination of tariffs, up to a certain point and under certain conditions, on some 5,000 products imported from 119 developing and poor countries. It covers less than 1% of American imports but benefits American consumers as well as exporters in poor countries. As of last summer, the House and Senate were slowly negotiating a bill to reauthorize GSP, but it would impose new labor and environmental conditions on the trading partners.

FREE-TRADE AGREEMENTS

A long-standing economic argument is that free trade agreements are overrated; a nation can unilaterally open its borders to imports, benefiting domestic consumers. A good example is—at least until recently—Hong Kong. The more a country imports, the more it will automatically export (or receive foreign investment). Otherwise, where would it get the foreign currency needed to import? Or, from an American viewpoint given the dominant dollar, what would the foreign exporters do with the dollars they get if not to indirectly exchange them for local currencies with people who want to import from America or invest here?

The residents of a country are generally better off if they are free to import, whatever the restraints that foreign governments impose on their own subjects’ economic freedom. Some economists, however, claim that free trade agreements are helpful because they restrain one’s own government’s protectionist temptations. (See “How’s Your Trade War Going?” Summer 2018; “Free Trade and Prosperity,” Summer 2020; “Logic, Economics, and Protectionist Nationalists,” Fall 2020.)

The most important free trade agreement for Americans is the United States–Mexico–Canada Agreement (USMCA), which the Trump administration negotiated to replace what Trump said was a “terrible” North American Free Trade Agreement. Notice that the name of the new agreement does not include the words “free trade.” The USMCA is more protectionist than its predecessor. (See “Is NAFTA 2.0 Better than Nothing?” Winter 2018–2019.) Biden’s trade representative, Katherine Tai, has praised the restrictive USMCA for its environmental and labor provisions and boasts that the administration has invoked some of them. Their practical effect is to prevent poorer Mexican workers from effectively competing with their American counterparts to the benefit of American consumers.

Biden has indicated that he does not want to reenter the Trans-Pacific Partnership that was shunned by Trump and rechristened the “Comprehensive and Progressive Agreement

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for Trans-Pacific Partnership” by the 11 remaining partners. In reality, this sort of treaty is more managed trade than free trade. But for the trade unions that support and lobby Biden, there is still too much free trade involved.

WTO / A cogent economic argument can be made that the WTO is not necessary to promote international trade; again, a country can simply open its borders to imports. (See “Protectionism by Any Other Name,” Fall 2014.) But an argument can also be made that international trade rules can constrain nations into respecting their own citizens’ contractual freedom to import. The attack on international trade rules launched by Trump and continued by Biden has made the latter argument more plausible.

Besides violating the WTO’s international trade rules, Trump incapacitated the organization by refusing to replace departing judges on its Appellate Body. The Biden administration has continued this boycott, although with a softened stance and a goal of reaching “substantive progress” in 2024. When there is a risk of freer trade, we get ambiguous talk, procrastination, and no meaningful action.

A model for Europe? / The Trump and Biden administrations’ trade phobia has contributed to making America a sort of protectionist model for Europe. The EU recently acquired new protectionist powers and is working on creating more, such as retaliation against countries whose governments limit foreign competition on domestic tender offers and restriction of exports in emergencies. The *Financial Times* has suggested that these measures are partly a response to Trump’s tariffs on steel and aluminum and to Biden invoking the Korean War-era Defense Production Act to threaten export restrictions on vaccine ingredients.

DIFFERENT BUT CONTIGUOUS SWAMPS

Trump’s protectionist policies catered to American manufacturers and their workers. Biden’s main political clientele is American trade unions and their members. The two presidents are splashing around in two different protectionist “swamps,” but there is much overlap between the two. Large trade unions often cater to employees of manufacturing corporations—for example, the United Steelworkers and large steel manufacturers, or the United Auto Workers and Detroit car makers. All these are special interests.

Biden claims to be defending “workers’ rights” (higher salaries and union rights) in foreign countries that trade with America—Mexican workers, for example. In fact, he is harming those workers to protect his domestic labor clientele. Foreign workers involved in trade with America would be better served if the U.S. government let them and their employers compete with their American counterparts based on what each finds his comparative advantage. To consider a domestic parallel, forcing Mississippi firms to pay the same wages as California firms would benefit the workers and business owners in the latter state, not those in the former.

Special interests in action / Why is the left, represented by Biden, as protectionist as the right, associated with Trump? Answering this question will allow us to see how special domestic interests are working against American consumers’ interests. It is true that in American history, the Democrats and Republicans have often switched sides on trade, but their very capacity to switch confirms rather than contradicts the natural tendencies of both sides. (See “Patriotism as Stealing from Each Other,” Winter 2017–2018.)

The first reason why both the left and the right tend to be protectionist is that special interests, whether corporations or trade unions, can organize more easily and influence government policy more effectively than the dispersed interests of individual consumers. Whether on the left or the right, a government is inclined to satisfy these special interests if it can do so.

Consider the three-year tariff that, in early 2018, the Trump administration levied on imported washing machines. The petitioner was Whirlpool Corporation, the main U.S. producer of washing machines and dryers. A press release from the U.S. trade representative vowed that “the Trump Administration will always defend American workers, farmers, ranchers, and businesses in this regard.” The list did not include American consumers.

During its first year, the tariff increased the price of these appliances by 25% and cost American households an estimated \$1.5 billion. Net of \$82 million in customs revenue, this cost corresponds to \$817,000 per job created. The tariff also increased shareholders’ profits in the (small) domestic industry. The reason, of course, is that the reduced foreign supply pushed up the price of domestically produced washing machines by as much as the price of the imported ones: it is the very reasons why the domestic industry wanted the tariff. A back-of-the-envelope calculation suggests that the tariff may have raised domestic producers’ profits by \$500 million. The \$1.5 billion cost of the tariff is several times higher than the estimated benefit of less than \$600 million for both workers and corporate shareholders. (See “Putting 97 Million Households through the Wringer,” Spring 2018. See also “The Production Relocation and Price Effects of US Trade Policy: The Case of Washing Machines,” by Aaron Flaaen et al.)

This is a general phenomenon well known to economists: in the political game, the concentrated benefits to workers and firms defeat the larger but very dispersed costs to consumers. It is a reason why both Trump and Biden favor producers, not consumers. Thus it should not be surprising that, on January 14, 2021, Biden extended the washing machine tariff for another two years. The petitioner for the extension was Whirlpool, again.

Similarly, in February Biden renewed the expiring tariffs that Trump imposed on imported solar panels and parts two years before. Biden did slightly reduce them, but any tariff is higher than no tariff at all. (Moreover, an ongoing Commerce Department investigation could raise them again on Chinese-made panels.) The tariff extension was requested by the small U.S. solar manufacturing industry while it was opposed by the more numerous U.S. installers. (It should be noted that, after protests from solar

installers and environmental groups, the administration did recently *temporarily* exempt solar imports from the main exporting countries in Southeast Asia, but not from China.) Biden also invoked the Defense Production Act to boost domestic manufacturing of solar components.

In the Spring 2018 *Regulation* article cited above, I wrote, “Whirlpool and solar panel manufacturers are likely to beg for new protectionist measures at the end of the tariff period.” Sure enough.

Other examples of the protectionist swamp exist. The Trump tariffs on steel were supported by the U.S. steel industry and the United Steelworkers union. Most domestic producers of primary aluminum approved of his aluminum tariffs.

What the Biden administration calls its “worker-centered” or “worker centric” trade policy benefits both incumbent corporations and part of the 6.1% of the private labor force that is unionized. American consumers pay the price. And, ultimately, all workers will be harmed by greater government control of the economy, not to mention that they are also consumers who suffer from trade conflicts and foreign retaliation.

Moreover, if Biden were not Trump 2.0, we would have expected him, after abolishing the protectionist measures of his predecessor, to take at least a few not-too-big initiatives to advance free trade. For instance, he could have advocated for the repeal of the Jones Act, which has protected the American merchant marine against foreign competition for more than a century, rendered it uncompetitive, and increased the cost of domestic shipping for Americans. Or he could have stopped the decades-long conflict over the importation of Canadian softwood lumber, restoring Americans’ economic freedom to buy their lumber and build their houses at the best prices they can find. Of course, he would have met strong resistance from corporate interests, but could he not have argued that his original policy was consumer-centric?

IDEOLOGY AND ECONOMIC LITERACY

Ideology is a second reason why the left and the right naturally tend to be protectionist. Both sides fundamentally believe in the superiority of collective choices over private choices; their only disagreement is over who gets to make the collective choices. They believe in “fair trade,” not free trade. At best, they imagine that what is fair is what a numerical majority wants. At worst, the left defines fairness in terms of legal privileges to favored workers and the right defines it in terms of legal privileges to favored capitalists.

Economic illiteracy is a third reason that pushes both the right and the left to espouse protectionism. Both sides tend to think of international free trade, and often domestic free trade too, as a race to the bottom in environmental damage, work conditions, or something else—a “global race to the bottom,” in the words of the U.S. trade representative. They think that trade is a zero-sum game or perhaps even a negative-sum game: what one party wins, the other party loses, or else they both lose. Left unexplained is why anybody would consent to an exchange if he thought it would make him worse off than before.

Just like Trump’s trade representative, Robert Lighthizer, Biden’s Tai is a lawyer patently ignorant of basic economics. She has apparently gone so far as to claim that tariffs are not taxes paid by American importers. In fairness, the importers usually pass those taxes onto American consumers in the form of higher prices. (There are rare exceptions, but that’s a long discussion.) That Tai was unanimously confirmed by the Senate suggests that economic literacy is not more common on Capitol Hill than in the White House.

BIDEN-TRUMP ENTANGLEMENT

Contrary to the people who claim to “run the economy,” ordinary citizens and typical voters cannot be blamed for remaining rationally ignorant of the causes and consequences of protectionism. Their individual votes have a near-zero chance of changing the outcome of an election. If individual voters mistakenly vote against their own interests, there will be no consequence for them. Informed voting requires time and other resources (education, research, and such), so individual voters usually vote blind. Fortunately, some individuals, like the readers of this article, try to understand social, economic, and political issues by gathering information, but we cannot expect most people to do this.

Through lobbying, activism, demonstrations, and political contributions, special interests have the equivalent of more than a single vote and can extract much from government. They thus find it worthwhile to get organized and look out for their interests. We saw that Whirlpool, solar panel manufacturers, and the United Steelworkers did just that. As a politician, Biden has as much personal interest as Trump had in catering to protectionist special interests. Their entanglement is thus not surprising. This provides an argument for a government with limited scope, even if democratic.

The Economist wrote that Biden’s “economic strategy for dealing with China looks a lot like a refinement of the bare-knuckle competition started by Mr Trump.” The same can be said for Biden’s protectionist trade policy. Bacchus, a former Democratic congressman, observed in a recent Cato Policy Analysis that “in the Biden administration, there is no commitment to free trade. ... And, not least, there is the continuation and intensification of the previous self-destructive tendency toward managed trade and industrial policy.”

Like his predecessor, Biden does not have the theory, the concepts, the words, or the culture to think in terms of free and voluntary exchange. Our remaining hope for the short run is that the rumored dissension on protectionism within the White House will result in some minor loosening of the Trump-Biden entanglement. R

READINGS

- “Biden and Trade at Year One: The Reign of Polite Protectionism,” by James Bacchus. *Cato Policy Analysis* no. 926, April 26, 2022.
- “The Production Relocation and Price Effects of US Trade Policy: The Case of Washing Machines,” by Aaron Flaaen, Ali Hortaçsu, and Felix Tintelnot. *American Economic Review* 110(7): 2103–2127 (2020).