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U.S. Trade Debates: The Case For and Against Trade Restrictions

Background

The 116th Congress is positioned for continuing oversight of the Trump Administration's evolving trade policy. Congress' role in trade policy stems from a number of overlapping responsibilities, beginning with Article I of the U.S. Constitution, which grants Congress the "power to lay and collect taxes, duties, imposts, and excises" and "to "regulate commerce with foreign nations." In some areas, particularly in tariffs and trade negotiations, Congress has delegated certain authorities to the President. Over the past year, the Trump Administration has made greater use of these authorities to impose tariffs on some U.S. imports and advocate for what it considers to be "free," "fair," and "reciprocal" trade. These developments have intensified congressional interest in trade policy and analysis of the impact of trade restrictions, including U.S. tariffs and their effects.

Effects of Trade Liberalization

Since World War II (WWII), the United States has been a driving force in removing trade barriers across the globe and constructing an open and rules-based global trading system through a wide range of international institutions and agreements. The effects of these efforts on the U.S. economy and the mechanisms by which trade has affected U.S. growth are difficult to quantify. This is partly due to the challenges associated with disentangling the effects of trade liberalization from those of other domestic and global economic developments. Nevertheless, most economists contend that in the aggregate the economic benefits of reducing restrictions to trade outweigh the costs.

Reducing trade restrictions tends to lower prices and increase the variety of goods and services and provides U.S. firms with export opportunities. Studies show that U.S. firms engaged in trade often achieve greater productivity and pay higher wages and benefits to their workers. While the net payoff is substantial, the reality is that trade liberalization and globalization have presented both opportunities and challenges for the United States.

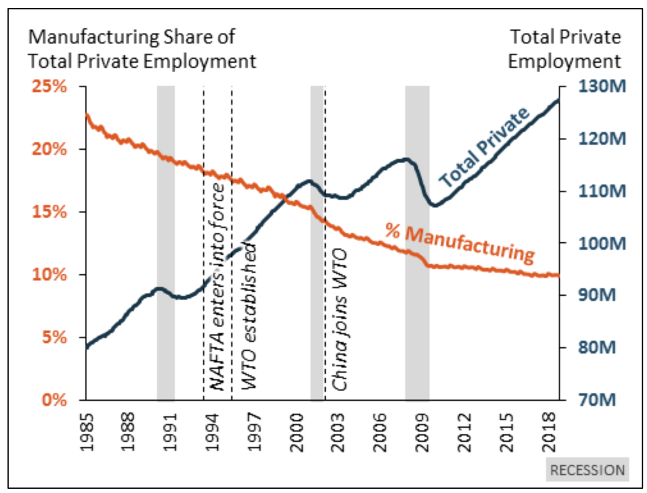
Because the gains from trade tend to be more widely dispersed than the losses, they are often not readily apparent or well understood. Some groups argue that globalization has not been inclusive, benefiting some more than others. They point to job losses, stagnant wages, and rising inequality among some groups as indicators of the negative aspects of trade liberalization, although the causes of these trends are highly contested.

The Trump Administration and some Members also contend that while past trade negotiations and agreements have lowered or eliminated U.S. trade restrictions, they have failed to address effectively foreign protectionist practices and enhance reciprocal market access for U.S. firms and workers. In their view, some countries "play by different rules" and conduct their economic and trade policies based on priorities that differ from—and often undermine—those of the United States. Additionally, while the impact of trade liberalization is multifaceted and in some cases disruptive, the growth of global value chains—combined with changes related to technology, labor productivity, consumer preferences, and broader economic factors—have also transformed some U.S. industries.

Debates over Trade Restrictions

Arguments for increased tariffs and other restrictions on trade come in several forms, but most are not compelling on economic grounds alone. Economists argue that protectionism imposes costs on the economy as a whole that exceed any potential benefits. These costs arise from implementation and enforcement, higher prices, inefficient resource allocation, and foreign retaliation. Three common arguments for trade restrictions are evaluated below.

Figure 1. U.S. Employment Trends



Source: CRS with data from the U.S. Bureau of Labor Statistics.

"Trade Destroys Jobs"

Some argue that trade restrictions are needed to save jobs. The economic reality is that jobs are constantly being created and replaced as some economic activities expand and others contract, and trade—like other market forces—contributes to this process. While some workers may benefit from trade (e.g., those who get higher-paying jobs when exporters expand their production), others bear the costs (e.g., those who are displaced because of import competition).

During the current U.S. economic expansion, for instance, employment has grown by almost 20 million jobs and the unemployment rate has fallen from 10.0% to 4.0%, while at the same time U.S. merchandise imports have increased nearly 50% in nominal terms (**Figure 1**). In addition, the expansion of production increasingly requires advanced technology but relatively less labor. As a result, for many products, labor-intensive activities like assembly have moved abroad, while high-value added activities such as design, product development, and distribution have remained in the United States.

Economic theory suggests that while the degree to which an economy is open to trade affects the mix of jobs within it, trade openness has little impact on the overall or total level of employment. Specifically, trade affects the mix of jobs because workers and capital shift away from sectors in which they are less productive relative to foreign producers and toward other existing and new ones. (This leads to higher productivity and thus higher wages for workers able to shift into employment in expanding sectors.)

In a large, dynamic economy like that of the United States, the main influences on total employment are sometimes more a function of such factors as workforce availability, labor market regulations, taxes, interest rates, education, skills, age, and long-term technological chances, rather than something intrinsic to the increase of imports due to trade liberalization and greater competition.

"Trade Creates Inequality"

Some analysts and policymakers argue that globalization and trade liberalization—especially after China's entry into the global economy—have contributed to declines in the real wages of U.S. workers and growing disparity in wealth in the United States. Despite intense focus on this issue in the academic literature, there is no clear consensus on the net effects of trade on wage and wealth inequality.

While trade may have a short-run impact on income inequality in some cases and in some sectors of the economy, over the long term, many researchers have found that a wide range of factors within the economy determines the distribution of income, with trade generally judged to be less significant. While the overall effects may be relatively small, a growing body of literature also highlights challenges in workers' ability or willingness to move to new sectors when their jobs are lost or wages are dampened due to import competition.

In addition, the slowdown in real wage growth and increased wage inequality may be the result of slow U.S. productivity growth and the bias in technological change toward greater use of higher skilled workers throughout the economy—tending to pull up their wages relative to those of the less skilled. Other factors that may have contributed to wage decreases are de-unionization and a falling real minimum wage. Most economists, therefore, agree that policies aimed at supporting individuals affected by increasing trade openness—particularly efforts related to education and retraining—are vital to ensuring that the gains are broadly shared and growth is inclusive.

"Unfair Practices Undermine the Benefits of Trade"

Some Members and analysts contend that trade restrictions can be used to address the challenges associated with "unfair" foreign trade practices. A longstanding objective of U.S. trade policy has been to reduce and eliminate these practices to achieve a "level playing field" for U.S. workers, firms, and industries. Practices deemed "unfair" include government subsidies and other injurious import practices that may violate World Trade Organization rules, weak protection of intellectual property rights, cyber theft, ineffective labor and environmental laws or enforcement, anti-competitive behavior by state-owned enterprises, and other measures designed by governments to support their domestic industries at the expense of foreign firms and workers.

Although their effects cannot be easily quantified, economists generally agree that practices like these may distort U.S. and global markets. At the same time, many of them also agree that raising trade barriers to counter these practices (or attempt to induce their removal)—while often allowed under U.S. laws and WTO rules—may ultimately lead other countries to adopt restrictive trade policies of their own, increasing protectionism that could undermine economic growth and the rules-based global trading system.

In the past, U.S. leadership in this system has enabled the United States to shape the global trade agenda in ways that both advance and defend U.S. interests. Many analysts contend that continuing to pursue such an approach at the multilateral level might be more effective in addressing or remedying the adverse effects of "unfair" trade practices than unilaterally imposing tariffs or other trade barriers.

"The Trump Administration strongly believes that all countries would benefit from adopting policies that promote true market competition. Unfortunately, history shows that not all countries will do so voluntarily. Accordingly, we also have an aggressive trade enforcement agenda designed to prevent countries from benefiting from unfair trading practices."

The President's 2018 Trade Policy Agenda, March 2018.

Issues for Congress

Most economists assert that the U.S. costs and benefits linked to an increasingly interconnected global economy run in many directions. They argue that retreating from global trade and increasing trade restrictions may not address the underlying causes of the adverse effects of trade on some groups, and may jeopardize economic growth. Research has shown that increased protectionism is ineffective as a means to address these effects.

Protectionism imposes costs that often outweigh the benefits and has unintended negative effects, not only on U.S. consumers that purchase imported goods, but also on U.S. industries that use those goods as inputs to their own production and that employ workers. In some instances, protectionism can lead companies to shift production out of the United States—either because of higher input costs or to avoid retaliatory barriers imposed by U.S. trading partners.

Since WWII, an overarching goal of the United States has been to preserve its high standard of living by remaining innovative, productive, and competitive, while safeguarding those who may be left behind in a fast-changing global economy. Congress may consider policy responses that support this goal and reduce or soften the hardships and costs from trade. These responses or tools, which economists generally find to be more effective than protectionism, include areas such as education, social safety nets, adjustment assistance for workers and firms, and tax, regulatory, and innovation policies. They affect the overall U.S. economic climate and, as components of public policy, are subject to congressional action.

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