

Protectionism reduces growth

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President Trump's threats of protectionism and trade war have clearly contributed to the turbulence we have seen on the global stock markets since February. And that's right - it's simply bad for both US and global growth.

Normally, economists primarily think of the negative consequences of protectionism as a long-term reduction in productivity growth, which is a result of reduced division of labor between countries. But new economic studies also show that protectionism has the same effect as what economists call a negative supply shock. A negative supply shock is a shock to the economy that increases production costs and therefore leads to a reduction of production and economic activity. This could, for example, be an increase in oil prices (for oil importing countries).

When Donald Trump imposes duties on aluminum imports, the costs of companies using aluminum in production (for example, automakers) increase. And of course, it has a negative impact on growth and employment. The question is whether these effects are larger or smaller than the positive effects on the sectors that are protected by the duties.

Here, recent research clearly shows that the negative effects are greater than the positive effects. Economists Fernando Leibovici and Jonas Crews from the Federal Reserve of St. Louis recently published a study of a number of examples of tariff increases in OECD countries in the 1980s. The study clearly shows that the effects of tariff increases affect both growth and employment unfavorably quite a bit in the first years after the "customs shock."

A similar study published last year by the National Bureau of Economic Research (NBER), conducted by Alessandro Barattieri, Matteo Cacciatores and Fabio Ghironi, comes to the same conclusion – higher tariffs have effects comparable to those of higher oil prices – they reduce production and employment and increase inflation.

We all know that as economists, but it never hurts when empirical research confirms economic theory. On the other hand, there is no reason for great joy in confirming that Donald Trump does not understand economic research and what has been the consensus view among economists for at least 200 years: Free trade is good. Protectionism is bad.

The only thing you can enjoy is that research confirms that if Trump's protectionism works as it normally does, his efforts will reduce American growth, and they will hardly help Trump's re-election prospects in 2020.