The New York Times

ECONOMIC SCENE

Trade Wars Can Be a Game of Chicken. Sometimes, Literally.

By Eduardo Porter

March 13, 2018

Here's a little known fact: One of the reasons the Ford F-Series pickup acquired its perch at the very top of the sales ranks of cars and trucks in the United States more than 36 years ago had a lot to do with chicken.

The story: Hoping to fend off a surge of cheap American chicken into West Germany, in 1962 the European Common Market tripled the tariff on the birds to about 13.5 cents a pound. The United States struck back, of course. It imposed tariffs on brandy, a popular French export, and dextrin and potato starch to hit the Dutch.

To take aim at West Germany, and please its friends in the United Automobile Workers union, it clobbered the commercial Volkswagen bus with a 25 percent levy on light trucks.

Though the other retaliatory tariffs were lifted long ago, the chicken tax on light trucks — much higher than the typical 2.5 percent tariff on cars — remains in place. It is not a coincidence that light trucks account for 82 percent of the vehicles sold by the three big Detroit automakers.

The smell of a trade spat is back in the air. Since President Trump announced last week that he would impose tariffs on foreign steel and aluminum in the name of national security, pundits have been fretting about what other countries might do to the United States in return. Could this be the start of a free-for-all, tit-for-tat commercial conflagration that could put an abrupt halt to worldwide economic growth?

That is, of course, a possibility. But it is not the only risk. The new tariffs will inflict damage on the American economy even absent retaliation from abroad. If history is any guide, Mr. Trump is proposing to protect the homeland by shooting it in the foot.

The closest parallel is the moment in 2002 when President George W. Bush decided that, for the umpteenth time, domestic steel makers deserved a hand and imposed tariffs of 8 to 30 percent on a variety of steel products from many countries.

Imports from the affected countries plummeted, of course. But others — in steel categories not covered by the safeguard and from excluded countries protected by preferential deals — surged. Overall steel imports increased 3 percent over the next 12 months. Employment in the American steel industry kept declining. And according to one study, by the time the tariffs were lifted in 2003, higher steel prices had cost 200,000 jobs in steel-using companies, more than all the jobs in the steel industry itself.

Undeterred, President Barack Obama did roughly the same thing. After complaints about surging imports, he put tariffs on Chinese tires. Presumably nobody told him that American tire makers no longer produced the kind of low-grade tires exported by the Chinese. In any event, imports from other countries jumped 20 percent after the tariff was imposed. And the price of all imported tires rose by 18 percent, on average.

Gary Clyde Hufbauer and Sean Lowry at the Peterson Institute for International Economics calculated the additional cost to consumers at $1.1 billion — or about $900,000 per tire job saved. But the wages of workers whose jobs were saved amounted to about 5 percent of that.

The lesson is not that protectionism is porous. It is. And it can be gamed. Until a few years ago, Ford attached rear seats and rear windows to the Transit Connect vans it imported from its plant in Turkey. Once they had gone through customs — paying the 2.5 percent tariff on passenger vehicles instead of the heftier 25 percent levied on commercial vans — the seats and windows were ripped out and recycled.

The critical takeaway is that the distortions brought about by trade barriers impose a cost on the economy. It might not be easy to spot before the fact, but it tends to be more substantial than whatever fleeting gains protectionism can bring about to the protected.

Think of the multifiber agreement, which until its demise at the end of 2004 allowed the United States to impose individual quotas on thousands of pieces of apparel — cotton diapers from China, trousers from Guatemala. The rationale was to protect one of the lowest-wage industries in the country from lower wages in the developing world. A study by the United States International Trade Commission cited by the Dartmouth economist Douglas A. Irwin in his 2002 book, “Free Trade Under Fire,” concluded that it had raised apparel prices by 18 to 24 percent, imposing a particular burden on poor households.

Sometimes the cost can squelch an industry. A 63 percent tariff on advanced flat-panel screens for laptop computers in 1991 helped drive a stake through the heart of the American laptop industry itself. Japan’s Toshiba stopped making laptops in the United States. Apple moved production to Ireland. An IBM spokesman called the decision “an eviction notice from the U.S. government to the fastest-growing part of the U.S. computer industry.”

Similarly, the ring of protection around the sugar industry almost killed it instead. Hoping to protect a price floor for sugar of 16.75 cents a pound even as world prices sank, in the 1980s Washington resorted to increasingly stringent import quotas that drove domestic sugar prices up to five times the world average.

Clever Canadian firms sent sugary cake mixes to the United States — where the sugar was extracted. Other countries grabbed on to the tactic. In 1985, Washington put emergency quotas on all imports of sweetened cocoa, cake mixes and edible preparations. South Korean noodles — with 0.002 percent sugar content — were snagged in the dragnet. So was kosher pizza from Israel.

Then the unthinkable happened: Coke and Pepsi decided to replace expensive sugar with much cheaper high-fructose corn syrup. From 1980 to 1987, the share of sugar in American sweetener consumption, previously 65 percent, dropped to 47 percent.

“In the longer term, this market reaction to the sugar program may indeed threaten the economic viability of the entire sugar industry in the United States,” the economist Anne O. Krueger noted in an analysis of the sugar supports.

Sugar quotas are still around, nonetheless. Candy makers including Hershey and Ferrara have moved factories offshore. In 2006, the International Trade Administration concluded that for each sugar growing and harvesting job saved between 1997 and 2002, three confectionary manufacturing jobs were lost.

Sugar quotas even undermined American policy to counter narcotics trafficking. The Central Intelligence Agency concluded that falling sugar exports encouraged farmers in Jamaica and Belize to switch to marijuana.

Mr. Trump might look back fondly at that long-ago chicken tax. In the 1980s, Detroit did everything it could to fend off Japanese automakers. It persuaded the Reagan administration to force the Japanese into “voluntary” export restraints on cars — raising car prices for American consumers.

Nothing was as successful as the chicken wall. It eroded over time. S.U.V.s were ultimately allowed into the United States as cars. Japanese automakers started making monster pickups and S.U.V.s in the United States, too. Still, fewer than a quarter of cars sold in the United States are made in America. The share for light trucks is 54 percent.

But there was a cost: more expensive pickup trucks, for starters, not to mention the discarded seats and windows from Ford’s Transit Connects. The tariff also successfully kept smaller, low-margin trucks from competing with the less-efficient models made at home. Alongside low gasoline prices and easy fuel-economy standards, Detroit’s love affair with trucks arguably gave the United States the least fuel-efficient fleet in the industrial world.

If gasoline prices were to rise — say, in an effort to combat climate change — a gas-guzzling domestic auto industry could prove a weak link in the nation's security.

Email: eporter@nytimes.com
Twitter: @portereduardo

A version of this article appears in print on March 13, 2018, on Page B1 of the New York edition with the headline: The Costs of Trade Fights Old and New