The Daily Dish

One Step Forward…

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Eakinomics: One Step Forward…

The passage of the Tax Cuts and Jobs Act (TCJA) is a step forward for the pace of long-term U.S. economic growth. It reduces the tax-based distortions to the location of business decisions, thereby enhancing the likelihood of innovation, investment, productivity growth, and real wage growth in the United States. So it is a bit mystifying why the same Trump Administration appears unwilling to apply the same lesson to international trade economics.

The North American Free Trade Agreement (NAFTA) levels (not perfectly, of course) the playing field among Canada, Mexico and the United States. Yesterday, however, Canadian officials sounded the alarm over the rising likelihood that President Trump would withdraw from the pact. The near-term consequences of such a move would be unambiguously negative — equity markets would dip, consumers would face higher prices, and supply chains would be disrupted and production would be damaged. These are exactly the opposite effects of the TCJA.

One of the sticking points in the current negotiations over altering the pact is the Trump Administration insistence on higher U.S.content in auto production. Think about it: An automaker could easily produce a car with 100 percent domestic content right now, but it does not do so because the economics are unattractive. The Administration proposal is to use trade policy to force production into a less efficient configuration, just the way that the now-repealed corporate code pushed production, intellectual property, and economic activity into less efficient configurations outside the United States. That is—exactly the opposite effects of the TCJA.

The TCJA was one step forward. NAFTA withdrawal would be one step back. Why?