The Daily Dish

Assessing the Economic War with China

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Eakinomics: Assessing the Economic War with China

Protestations from White House advisor Peter Navarro notwithstanding, the imposition of tariffs on imports from China are taking their toll on the U.S. economy. The impact comes in three forms. The first is the simple act of raising taxes (tariffs are taxes on imports), something no clear-headed administration would ever argue is pro-growth. AAF's Jacqueline Varas estimates that the latest round of tariffs (a 10 percent rate on the remaining un-tariffed Chinese goods) raises the total cost on the U.S. consumer to $100 billion annually. (Weirdly, observers applauded the decision to impose only part of the tariffs in September and defer the remainder to December; deferred bad news is still bad news.) The second is the retaliation by China against the sale of U.S. products. The poster child for this suffering is the American farmer. The final is harder to see and quantify, but takes the form of increased protectionism around the globe ("If the United States is doing it, why don't we?"), reduced global trade, more anemic global growth, and the costly re-structuring of supply chains. The upshot is simply bad news for economic growth.

The trade war has also broadened out to a dangerous currency war with China. This an extremely short-sighted misstep, that follows directly from the administration's misguided focus on the bilateral trade balance with China. If the bilateral balance matters, then — supposedly — the bilateral exchange rate is a tool of economic policy. Unfortunately, exchange rates are not set by fiat, but by market conditions. The value of the dollar reflects productivity, growth, interest rates, and inflation in the United States relative to its trading partners. A government can lean against these forces temporarily, but you can't fool mother nature and exchange rates will adjust. Even worse, however, is setting the precedent of naming China as a currency manipulator. This raises the specter of having the United States named as a manipulator for something as simple as conventional monetary policy.

Finally, the administration appears prepared to broaden the fight to tech companies, supply chains of U.S. firms and the aspects of economic policy. But to what end?

Ultimately, it is best to view the policy through the lens of politics. China is (properly) extremely unpopular and no challenger will dispute the president's desire to challenge their conduct. So it is unlikely that any of the policy moves will actually be a political football in 2020. But even if there is not a recession, the economy will be a central issue, and the president is placing the risky bet that the cumulative impact of these policy missteps will not damage his electoral chances.