The Daily Dish

Just When I Calmed Down

DOUGLAS HOLTZ-EAKIN | DECEMBER 5, 2019

Eakinomics: Just When I Calmed Down

It has taken a bit for me to adjust to President Trump's trade policy. Just when I thought having the globe's two largest economies locked in a sumo-cum-mudwrestling match was no longer threatening, I made the mistake of listening to the trade-issue rundown by AAF's Jacqueline Varas. You should too (sedative alert!).

Let's see. The United States-Mexico-Canada Agreement (USMCA aka NAFTA 2.0) still awaits ratification. Earlier this year, USMCA was one of three issues I was sure that Congress would act on in a bipartisan fashion (privacy legislation and drug prices are the others). Now, it looks like none of those will be 2019 items. (As an aside, the administration has dragged the length of domestic monopoly rights for brand-name biologics into the USMCA. Combining drug pricing with trade should make things *waaaaay* easier.)

Oh, also recall that Argentina and Brazil escaped the steel tariffs by agreeing to quotas on their exports to the United States – or so we thought. The president tweeted that he is imposing steel and aluminum tariffs on Brazil and Argentina in response to their currencies' relative depreciations, a move that will increase consumer costs by about $750 million per year. While he asserted that this was pure currency manipulation, in Argentina, the depreciation is because of economic crisis, political instability, and the government's recent decision to stop propping up the Argentinian peso. In Brazil, the depreciation is due to weak economic conditions. Brazil recently intervened to *increase* the value of the Brazilian real. Oh, and at the same time, the president is actively pressuring the Federal Reserve to devalue the dollar – i.e. to manipulate the currency. (As an aside, the steel tariffs were originally justified on national security grounds. In tweet-tariffing Argentina and Brazil, the president invoked the distress of American farmers, which sounds more like an electoral security issue.)

Another slow-moving crisis that is coming to a head is that the World Trade Organization (WTO) dispute resolution will cease to function after December 10. The United States keeps blocking appointments to the appellate body, and after that date it will no longer have enough members to rule on appeals or be able to enforce its rulings. (As an aside, the WTO process sure looked like a good idea when it was ruling against illegal European subsidies to Airbus.)

Finally, if no deal with China is reached by December 15, tariffs on the remaining Chinese imports will go into effect – increasing nationwide consumer costs by $24 billion annually. Where there have been rumors of reversing both the September 1 and December 15 tariffs. (As an aside, the reality is that after over 18 months of trade war with China, the United States has nothing to show for it but higher prices to American consumers.)

Whew. That's a horrific outlook. Good thing I left out the possibility of a new 301 investigation into the EU that could lead to auto tariffs and the recently launched skirmish over the French digital services tax.