



The Daily Dish

Reciprocal Trade Act

DOUGLAS HOLTZ-EAKIN | JANUARY 15, 2019

Eakinomics: Reciprocal Trade Act

[Media reports indicate](#) that the Trump Administration is attempting to garner support for its draft legislation entitled The Reciprocal Trade Act (RTA). (This is perhaps supposed to be reminiscent of the Reciprocal Tariff Act signed by FDR in 1934.) The proposal would permit the president to impose tariffs on products “if the president determines” that either tariff or non-tariff barriers on the products are higher than those of the United States. While Congress would have to be notified, and negotiations with the country triggered, there would be no power for Congress to overturn such a tariff. This is an enormous expansion of presidential power. At present, the United States can unilaterally increase tariffs only on products that are being dumped — imported below cost — and President Trump has also invoked national security justifications for tariffs on steel and aluminum.

The RTA is not a good idea. Its basic problem is that the president already has been delegated too much authority. The Constitution [vests](#) tariff policy with Congress; it should provide the president with no more discretion. The RTA continues the administration’s mistaken approach to trade — in particular, its claim that tariff policies are the source of the trade deficit. First, the external deficit stems from the fact that the United States invests more than it saves. As a result, it borrows the residual from abroad and the flow of funds into the United States makes the dollar more valuable, imports cheaper, and exports less attractive. Imposing a tariff does not change the gap between saving and investment; it just further appreciates the dollar and causes the same deficit to consist of fewer imports and fewer exports. Moreover, due to the success of large multilateral efforts like the World Trade Organization, the United States is not out of line with its competitors. In broad terms, the tariff burdens are comparable across our trading partners.

Finally, Trade Promotion Authority permits the president to engage in bilateral trade talks, so there is no need for another mechanism to engage in talks, especially if doing so requires the imposition of tariffs that may very well violate existing trade agreements. Becoming a (more) unreliable trade partner is not an effective policy.