The Daily Dish

The Eakinomics of Jawboning

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | JANUARY 4, 2017

On Tuesday the Ford Motor Company announced that they have decided to cancel their plans to build a new facility in Mexico and will instead invest $700 million in Michigan. According to Mark Fields, CEO of Ford, the decision is a “vote of confidence” in President-elect Trump’s promise to create a business friendly environment upon taking office later this month. According to Ford, Trump’s team was informed of the decision on Tuesday morning.

This week Senate Budget Committee chairman, Mike Enzi (R-WY) filed a resolution paving the way for the repeal of Obamacare. The resolution introduced by Enzi seeks to use reconciliation to repeal large portions of the health care law and gives members until the 27th of January to turn in their repeal resolutions; the Senate Budget Committee will then merge the proposals.

Eakinomics: The Eakinomics of Jawboning

President-elect Trump is at it again roiling currency and equity markets with his comments on Ford auto production, Mexico, and other topics on international economics. Taken at face value, his basic argument seems to be that “if you are importing, you are losing”, with the implication that it is better to have Ford (and GM, and others) producing in the U.S..

Let’s think about that. Drink your coffee first.

I produce policy education (Eakinomics, AAF insights, op-eds, etc.) which I then use to import the essentials of my lifestyle — Cabernet Sauvignon, ahi tuna salads, dumplings — mostly from PF Chang’s. By Trumpian metrics, I am a big loser (and I’m pretty sure that a lot of other people believe so as well). If I succumbed to the Twitter pressure of the president-elect, I’d stop importing from PF Chang’s and instead head to the kitchen to produce my own food and wine.

This is clearly a recipe (pun intended) for economic disaster, and reminds us of the basic economic gains from trade: I do whatever I do (relatively) well and then trade for those things that others do (relatively) well, with the result that both sides are better off: I get to eat and drink better, and PF Chang's gets to stay open.

So is Mr. Trump just wrong? Not quite, if the economic playing field has been tilted inappropriately by policy choices. For example, if PF Chang's had a targeted subsidy on Michael David reds, shrimp dumplings and my favorite salad, it would distort the culinary playing field and might lure me across the street to eat dinner even though I'd otherwise vint my own reds and make my own dinner. Or, there could be a Doug-specific kitchen tax in my condo that comparably distorts incentives.

In these cases, one might make the argument that the president-elect is highlighting those policy-based distortions by pointing out that production and trade are not as they should be. Indeed, he might get me to admit that I'd like to be cooking and that I plan to start doing so. But notice that unless the underlying incentives are really fixed, over the longer term I will almost certainly revert to eating at PF Chang's again.

Stepping back, the real point is not the sound and fury that is occurring now. It is recognizing that these salvos are simply an opening bid in a larger negotiation that Mr. Trump believes will yield better policies and improved incentives. (On this topic, Jerry Seib has a typically-insightful piece in the Wall Street Journal.) Success, then, is not to be measured by the announcements of Carrier, or Ford, or any other firm. It is by looking at the regulations that are cut back, the taxes that are reformed, the "fair" trade deals that are signed, and other metrics of a better policy environment for economic growth.