



The Daily Dish

The Phony Trade Strategy

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Eakinomics: The Phony Trade Strategy

For the past 18 months the Trump Administration has provoked international concern by imposing tariffs (import taxes) on steel, aluminum, and goods from China, and by threatening tariffs on imported autos. These actions were taken under the dubious claim of a threat to national security (steel, aluminum, and autos) or without any clear link to changes in trade partners' behavior (China). They produced immediate pain in the United States in the form of higher prices. They damaged relationships and precipitated retaliatory tariffs by long-time allies and trade partners. They created uncertainty about the future of U.S. and global growth, leading firms to pull back on their planned investments.

The administration did not deny this pain. They paid off the farmers (with taxpayer money) to soothe the rural politics and told the remainder of Americans that it was a “good time” to do this because the economy was so strong. But throughout, the American people were told that it was worth it to bear this pain because it would force other countries to agree to better trade agreements that have fewer tariff and non-tariff barriers to trade.

It's a lie.

The proof is the U.S.-Mexico Trade Agreement (i.e., the modernized North American Free Trade Agreement, or NAFTA) touted by the president this past week. When Mexico agreed to sign, did the steel and aluminum tariffs go away? No. Did the agreement sweep away non-tariff barriers to trade? No. Instead, it raised existing content rules, created new ones for minimum content of local steel and aluminum, and imposed a \$16 minimum wage in the auto industry. If the cars don't comply with these requirements, they cannot be freely traded. In addition, hidden in the agreement (and carefully not publicized) are quotas on car imports — the very antithesis of open trade.

The administration is crowing about replacing NAFTA with an agreement designed to make your cars more expensive in perpetuity.

Of course, they are claiming this misses the point; this agreement is good for “labor,” invoking the image of the average guy. Are you better off if you are a mason? No. Plumber? No. Roofer? No. Auto mechanic? No. Firefighter? No. EMT? No. {Fill in job here}? NO.

The administration has misled the nation to the narrow benefit of a dozen robot welders in Michigan. It would have been simpler to write them checks as it did for the farmers.

The evidence is in. The president is not playing a strategic, 3-dimensional trade game. He's a protectionist, pure and simple, running a playbook that has been a historical failure.