



The Daily Dish

Trade Basics

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Eakinomics: Trade Basics

I like to think of myself as an understanding person. So I can forgive the testosterone-laced instinct to “stand up” for American workers by slapping tariffs on steel and aluminum. Not smart, but forgivable. I can fathom feeling that one needs to follow through on pandering campaign promises, even if they are tariffs on steel and aluminum. Not smart, but understandable. What will be hardest to stomach are the larger ramifications of these actions – in the form of retaliation, a tougher path to getting the North American Free Trade Agreement nailed down, and damage to our security allies – all of which should have been anticipated.

Unfortunately, President Trump crossed the line from trade-policy folly to trade-policy felony over the weekend. Taking to Twitter on Friday he opined:

When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down \$100 billion with a certain country and they get cute, don't trade anymore-we win big. It's easy!

— Donald J. Trump (@realDonaldTrump) [March 2, 2018](#)

This is the most dangerous sentiment one could imagine. Let's think about “we are down \$100 billion with a certain country and they get cute, don't trade anymore-we win big.” How, exactly could one eliminate a \$100 billion deficit with “a certain country.” People won't just stop trading. Those trade transactions exist because they are the best way to organize supply chains, meet customer demand, or otherwise improve one's life in the United States. We could slap massive tariffs on products from that country. That could drive trade to zero, but the underlying demand would not disappear. Instead, it would be diverted to trade with another country. We will have picked a trade war and accomplished nothing.

Of course, one could try to simply eliminate \$100 billion in trade deficits. But how? The only way to do so is to drive down spending — push households toward higher saving and knock down business investment. The recipe for that is simple: high interest rates, low profits, and poor income growth. In other words, instead of improving on the dismal Obama-era growth record, double down on it. (And it would get even worse when the inevitable retaliation occurs.)

Trump Administration economic policies are inconsistent. Forgivable. Trade wars are dangerous, not “easy to win” and a threat to basic prosperity. Not forgivable. The only way to win a trade war is to not have one.