



The Daily Dish

Trump and Trade

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Eakinomics: Trump and Trade

In the run-up to imposing steel and aluminum tariffs at the end of March, the Trump Administration appears to be on a full-scale charm offensive to sell its approach to trade policy. The argument seems roughly to be:

1. We are not protectionists risking a trade war (“We come in peace,” Peter Navarro said yesterday on CNBC).
2. The United States has agreed to bad trade deals; we can use tariffs as a strategic lever to get better terms from our trading partners.
3. U.S. tariffs will, thus, lead to a better trading system for both the United States and the rest of the world.

It’s an appealing narrative, but might not persuade everyone.

To begin, how do we know that we have “bad trade deals”? The usual explanation is that the United States is running a trade deficit with the country in question (say, Germany), and this deficit is presented as *prima facie* evidence of bad dealmaking. But that is all wrong. Trade deals are not about how much you export and how much you import. (Note: business deals are about how much you pay and how much you get, which is one reason even successful business people have a learning curve when they enter the government.) Trade deals are about the rules by which trades are conducted. Myriad individual decisions, by firms and households in response to those rules and other economic incentives, result in a trade surplus or deficit. And bilateral deficits are especially meaningless. (The fraction of economists who believe in bilateral deficits as a useful indicator of anything is equal to Peter Navarro divided by the number of Ph.D. economists.) The overall deficit is driven by decisions to spend more than is produced in the United States. Once the aggregate incentives are set, squeezing down one bilateral deficit will just cause another to pop up elsewhere.

The second issue is the notion that tariffs are a clever strategy. As with most things, this notion is hardly new — witness [this](#) coverage of the Clinton Administration’s embrace of the same ideas. And it runs the risk of simply inviting retaliation (as the Europeans have already promised regarding the steel and aluminum tariffs). That is the dangerous part, because it could end up with a permanently higher level of tariffs on both sides — leading to lower levels of overall trade. Trade might even be balanced, but both sides would lose. It is as if the United States started out getting 8 packs of Twizzlers and the Europeans getting 10. After the “strategic tariff,” both sides get 4 packs. Trade wars disguised as a negotiating strategy are still a bad idea.

Finally, how will these tariffs lead to a better overall trading system? When one pulls away the shroud, the steel tariffs appear not to be about national security — they are about China. There is reason to suspect that some of the national security decisions by the Committee on Foreign Investment in the United States are really about China. The upcoming “[301 decision](#)” is literally about China. If China is a problem (and it is), then the strategy should be about building a coalition to push China into honoring its international obligations. That was exactly the formulation of the Trans Pacific Partnership that the president dumped immediately upon taking office.

The story about tariffs may be getting better, but the policy is not.