

Trump's Tariff Mistake

By RAMESH PONNURU, *The National Review* 15/03

A minor motif of the defenses of President Trump's new tariffs on imported steel and aluminum has been a challenge to the critics: What's your alternative solution to the problem?

That the question is asked is a sign that a positive defense of the tariffs has been elusive. It is not seriously disputed that these tariffs, like the ones that President Bush imposed on steel imports and President Obama imposed on Chinese tire imports, will inflict net harm on the economy, especially by raising the price of inputs that American companies use. Those who wish to defend the tariffs, whether out of support for Trump or skepticism of free trade, will naturally be drawn to change the subject from their costs and benefits. Asking the question throws the critics off balance, too, because it is not at all clear what the problem is that the tariffs are meant to solve.

What problem can it solve ?

If the problem is the threat to our national security from weakened aluminum and steel industries, there is no true solution because the problem is imaginary. Secretary of Defense Jim Mattis has stated that the military needs only 3 percent of U.S. production of steel and aluminum. He has also expressed concern about the tariffs' effects on our allies. The Pentagon officially advised against global tariffs on steel and against any immediate action against aluminum imports.

If the problem is instead that manufacturing employment has declined, then it too has no solution. Manufacturing employment has declined in the U.S. for decades, and is now declining nearly everywhere in the world, because of automation and other improvements to productivity. The new tariffs may themselves cause a slight further decline: American steelworkers who work for foreign companies may lose their jobs; companies that use steel and aluminum may shrink, or at least not expand as much as they otherwise would.

Perhaps the problem is that the steel and aluminum industries specifically have been weakened by imports. If we accept this definition of the problem, direct federal subsidies to the industries would probably be a superior alternative to tariffs. Such subsidies would not handicap industries that use steel and aluminum. But the case for putting the rest of the economy at the service of American makers of steel and aluminum, whether through tariffs or subsidies, is weak. U.S. steel production has been stable for decades. A laid-off steelworker deserves our sympathy and support, but no more than a laid-off employee of any other industry.

Many defenders of the tariffs portray them as a response to the problem of unfair foreign practices in the steel and aluminum industries, or in trade generally: to countries that deny our exporters access to their markets, or subsidize their producers, or sell below cost. The case for retaliatory tariffs in such cases is not as strong as it may at first appear. They might be justified as a way to deter other countries from adopting or keeping practices that injure us. But they run the risk of piling one harm to our economy (the harm from our own tariffs) on top of another (the harm from other countries' practices).

Other solutions exist

Anyway, we have many options for responding to other countries' provocations that make more sense than what Trump is doing. Trump's tariffs are not at all targeted at countries based on their trade practices. They would instead apply to nearly all countries. (Imports from Mexico and Canada will be exempt, but their exemptions will be reviewed every 30 days; and a somewhat confusing presidential tweet suggested that Australian imports will also be exempt.) If unfair trade practices are the problem, the solution should be tailored to it. We could use existing

fair-trade laws to impose specific tariffs on countries that have acted badly, preferably preceded by bringing cases against those countries at the World Trade Organization. Trump has said that the WTO is stacked against the U.S., but we bring more complaints to the organization than any other country and almost always win when we do.

Many supporters of the tariffs cite the need to combat Chinese mercantilism in particular. There is a good case that action on this front is overdue. But that case does not amount to any kind of argument for Trump's tariffs, which make it harder to mount an effective response to China. Since China supplies only 3 percent of our steel imports, the tariffs do not harm it. To the extent that they raise the global price of steel, they help it. The tariffs also isolate us from countries that agree with us about certain Chinese practices. Now the European Union is planning to impose tariffs on American exporters rather than cooperating with us to counter the Chinese theft of Western intellectual property. An actual strategy against Chinese mercantilism would involve bringing more cases against it at the WTO — China typically complies with adverse rulings from that body — and taking coordinated action with other countries concerned by it. Many American policymakers from both parties spent years trying to strengthen our hand against China by building a trade alliance across the Pacific Ocean but excluding it. President Trump, unfortunately, rejected this Trans-Pacific Partnership.

Then again, perhaps the problem to which the tariffs are an attempted solution is our trade deficit with other countries. Whether the trade deficit is a problem at all is a contested question. Trump trade officials have claimed that the trade deficit subtracts from economic growth, but that claim is based on an elementary misunderstanding of accounting formulas. Gross domestic product excludes imports because it is designed to measure how many goods and services are produced in America, not because imports shrink our economy. Nor does there appear to be any correlation between trade deficits and economic growth, both of which sometimes grow together and sometimes shrink together. Large trade deficits are compatible with low unemployment rates — such as the ones that, as the president has frequently noted, we currently enjoy.

Tariffs do not reliably shrink trade deficits, either. What the accounting formulas actually suggest is that if we want to reduce trade deficits, it may be more effective to do what we can to increase American savings. The trade balance is mathematically equivalent to the gap between saving and investment: A country with more investment than saving, such as ours, will have a trade deficit. Trump-administration policies that increase the federal budget deficit are therefore widely expected to boost the trade deficit too.

An issue that is mostly political

America's working class is beset by serious problems that have received increasing attention in recent years, justified attention that has come in large part thanks to President Trump's political rise. Wage stagnation, rapidly rising rates of opioid abuse, and declining rates of familial stability all seem to be intertwined. Life expectancy has even fallen among white women without college degrees.

What to do about all of this is an extremely taxing question. Making people in the construction industry get new jobs because the cost of steel has risen is surely not part of any answer. Nor is making people who work for bourbon distilleries get new jobs because their industry has been hit by retaliatory tariffs. One small but simple thing that the government could do to make things better is to call off these tariffs.

There remains, however, one problem to which the tariffs are a plausible though not foolproof solution. If you were a Republican president whose election had depended on white working-class voters who consider you different from other members of your party; if, further, you had governed exactly like any other Republican up to this point; if you had no real ideas for helping these voters and were not especially interested in finding any; and if you knew that a lot of these voters like the sound of protection from imports: Then the tariffs would have a great deal of rational appeal.

President Trump may not be quite so Machiavellian. It is more likely that he has always been skeptical that free trade furthers American interests. But his instincts may have led him, not for the first time, to a solution to a thorny political problem for himself.