

I Won't Ride the Trump Train Into a Trade War

Colleagues are appalled I support any of his policies. He may offset the good ones with reckless tariffs.



President Donald Trump waves during a rally in Lewis Center, Ohio, Aug. 4. PHOTO: MADDIE MCGARVEY/BLOOMBERG NEWS

By

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Most of my academic colleagues are Democrats. But even the few who are Republicans are for the most part ardent Trump opponents. So I tend to get into trouble whenever I say something positive about administration policies. Common reactions include: “Are you a Trump supporter?” or “How the hell can you be a Trump supporter?” or similar queries that are more colorful.

The truth is the administration has notable achievements. The recent tax reform improved the structure of corporate taxation. This will contribute to long-term investment and economic growth. It will also increase employment and real wages. Tax-rate cuts on the individual side were mostly favorable, enhancing short-term growth prospects in particular. The strong growth of real gross domestic product in the second quarter provides some early evidence of tax reform's success.

Regulatory changes have also been pro-growth, particularly concerning energy, the environment and financial markets. And I have to mention the high quality of judicial appointments. Remarkably, this strong record of accomplishment has occurred despite nearly monolithic opposition from congressional Democrats.

Unfortunately, these successes may now be more than offset by President Trump's irrational trade war. It's a fair point that China and some other countries heavily restrict imports, constrain foreign businesses, and steal advanced technologies. Countering these actions is a worthy goal. But it won't work to punish China and others by curtailing the amounts that Americans buy from them through imports. The underlying mercantilist view—that there is no downside to cutting off imports because our benefits from international trade arise only from what we sell—is, frankly, ridiculous.

Living without foreign-produced goods hurts Americans more than our trading partners. And the calculations only get worse when one factors in the inevitable retaliation. Foreign countries have already begun restricting U.S. exports. They are also entering into free-trade arrangements that exclude the U.S. It is hard to complain about Japan expanding trade with other Asian countries or the European Union, but this expansion comes partly at the expense of U.S. exports.

The fundamental benefits of free trade remain, even if they escape the comprehension of the president and some of his advisers. Trade allows countries to concentrate their effort and production on goods and services for which they have comparative advantage, either because of underlying endowments or because of scale benefits from products in which they have chosen to specialize. It isn't a zero-sum game. Greater international trade benefits the whole world.

At first I thought the president's rhetoric about trade restrictions wouldn't be translated into major action. But it is now clear that he, reinforced particularly by Commerce Secretary Wilbur Ross, is committed to a trade war. This policy constitutes a serious depression risk, analogous to that from the Smoot-Hawley Tariff of the 1930s.

It is possible that actual and threatened tariffs will motivate other countries to join the U.S. in a mutual reduction of trade barriers. Mr. Trump's apparently constructive meeting with the president of the European Commission is a possible example. But there is extreme downside risk, with the most likely outcome being greater trade restrictions and reduced global commerce. In fact, a danger in the recent pleasantries from the Europeans is that they may encourage Mr. Trump to be even more aggressive in his dealings with China and others.

I expected that markets would react sharply to Mr. Trump's trade policies and that a sharp decline in stock prices would help limit how far he could go. While the market has fallen with each threat of a trade war, the overall effect has so far been mild. But Mr. Ross said last month that the administration wouldn't be deterred even if the stock market keeps falling, writing it off as volatile and uninformative. Apparently Messrs. Ross and Trump know better than financial markets and economists about the long-term consequences of trade wars. So far, we have been lucky to avoid a stock-market crash, but we are by no means safe from a future one.

To return to my musings about whether I support Mr. Trump, I recall a long ago assessment I made of President Nixon: He didn't deserve to be impeached for Watergate but did deserve to be impeached for price controls. Similarly, Mr. Trump doesn't deserve to be impeached for his myriad instances of political incorrectness, but he may deserve to be impeached for his trade war.

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