

Trump's ideas could kill world economy

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At the start of the Great Depression, legislation was introduced in 1930 by Senator Reed Smoot, R-Utah, and Representative Willis Hawley, R-Ore., to increase the protection of American farmers from agricultural imports. This was soon followed by a flood of calls to increase protection of the industrial sector as well. Thus the bill became a means to raise tariffs in all sectors of the economy.

On May 5 of that year 1,028 economists released a signed statement that vigorously opposed the Smoot – Hawley Act. They predicted that it would turn the U.S. recession into a worldwide depression. Even Henry Ford and J. P. Morgan personally pleaded with President Herbert Hoover to veto the bill they called “economic stupidity” and “asinine.” But to no avail.

As predicted, the trade war was on. It provoked an avalanche of foreign retaliatory tariff measures which became a symbol of “beggar-thy-neighbor policies”-- improving one’s lot at the expense of others -- making an already beleaguered world economy much worse. Over the four years the legislation was in effect, overall world trade declined by 66 percent, the depression had worsened, with financial markets crashing and many banks around the world failing.

Economists have for centuries with near unanimity advocated the importance of specialization and trade. Economic growth and the standard of living are promoted when production, both domestically and internationally, is based on relative efficiency and trade is carried out in unrestricted markets.

In addition, we have a mountain of economic evidence, across many countries, of the serious detrimental effects on an economy when a country imposes trade barriers (tariffs, quotas and regulations) to keep imports out.

Today most developing countries have rejected protection in favor of free trade, but Donald Trump is bringing protection back into vogue in this country. But what is truly amazing is that practically everything he says about trade is wrong. It makes one wonder whether he is that

misinformed or just peddling misinformation because he believes this is what the public wants to hear.

In the first place, he seems oblivious to the magnitude and importance of globalization today. A product like the iPhone is designed, marketed and manufactured in a number of countries like a global assembly line. The iPhone which is assembled in China is counted as a U.S. import, although the Chinese earn only about \$6 on each unit. Thus the Trump suggestion of a 35 percent tax on Chinese imports would harm American consumers of iPhones, American manufacturers of some iPhone parts and countries not on Trump's hit list. Moreover, trying to roll back globalization would have dire consequences as it would encourage American companies to move to countries more hospitable to globalization.

Second, Trump rails mostly against three of our largest export markets, Mexico, China and Japan, who annually import from us hundreds of billions of dollars that employ millions of American workers. It is rather surprising that he is neither asked, nor does he bother to tell us, what happens when these countries inevitably retaliate against the strong-arm trade policies he suggests.

Third, it is important to understand that Trump's tariff plan is basically a tax on what Americans buy in discount retail stores. It hurts the low and middle income families (who spend most of their income on basic items) much more than it does the rich ones – thus, it is a regressive tax.

Fourth, it is true that some foreign governments subsidize companies to be able to sell goods to Americans below costs. But why would Americans complain about this kind of philanthropy? It is the taxpayers in these countries who should complain. While this leads to job loss in some industries, it will be more than offset by job gains in other industries as the real income of tens of millions of consumers increase (giving them more money to spend on other goods), and domestic producers benefit from foreign subsidized imported materials and supplies.

Fifth, Trump has argued, "Our trade deficit [buying more from foreigners than we sell them] has been a dangerous drag on our economy." This is absolute nonsense. This trade imbalance (nearly half of which is oil imports) has been with us since the 1970s, and during this time we had long periods of rapid economic growth. In fact, a seminal study by the Cato Institute found the opposite: "Since 1980 the U.S. economy has grown more than three times faster during periods when trade deficit was expanding as compared to periods when it was contracting." What Trump fails to realize is that every dollar we send abroad for imports comes back to buy our exports or be invested here. That is, our "trade deficit" is exactly matched by a "capital accounts surplus."

At a time when most of the world is facing similar economic and political challenges, what is called for is greater cooperation and unity -- not a trade war.