



## **On the Trade Deficit: Why Trump's NAFTA renegotiation could harm the U.S.**

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September 13, 2018

Within the current climate of trade talks, there are many common misconceptions that arise to justify protectionist policies. It has long been accepted that NAFTA — the North American Free Trade Agreement — is the gold standard for free trade deals. And though it's not perfect, President Trump should not dismantle it.

Trump and his base rely on several catchy talking points when arguing for protectionism. And without an understanding of economics, they might seem reasonable. At his rallies, Trump often repeats statistics about the U.S.'s trade deficit and uses rhetoric that leads voters to believe trade can be harmful to our country. He also regularly refers to the U.S.'s industrial base as a hollowed out artifact. This is why the U.S. is better off without NAFTA, according to Trump. He said he's dismantling it in pursuit of a "better deal" — one that just so happens to attack individual liberty and undermine the economy.

The trade deficit is often the first talking point protectionists refer to when arguing for tariffs, or other barriers to trade. Running a deficit is not a bad thing. As an example: Just about every Hillsdale student has a trade deficit with the college. Each student imports one four year education from the college. Assuming the students don't work for the college, the students export nothing to the college. This means that by the end of each school year, students who pay full tuition are left with a trade deficit of \$38,578 with the college. Students often fund this by taking on personal debt. Despite this, students decide that the investment in the education we receive is more beneficial than the debt we take on to fund it. We do this because we hope to work for a company that we can export our labor to in the future.

Similarly, American individuals make the decision to spend money abroad on imports. The difference is the money spent abroad must return to the United States. This is the case because people only accept dollars because they expect to be able to spend them in the U.S. Foreigners spend these dollars on one of two things. U.S. exports, or U.S. investments. The exports are subtracted from the deficit, the investments are not. This means every dollar in the deficit is a foreign dollar invested in our capital. By having a deficit more people are investing in the U.S. than the U.S. is investing abroad. This is beneficial to the United States. People abroad are putting more money into U.S. capital because we are a safe investment. This shows stability in our economy, rather than undermining it.

Trump would also have voters believe trade is beneficial to one side and harmful to the other. This isn't true. Since Adam Smith's "Wealth of Nations," the economic community has accepted that specialization and trade create wealth for the trading parties. The founders understood this, ensuring that the states could freely trade with each other without tariffs. The founders did, however, create national laws that were protectionist in nature. This is one of the biggest logical inconsistencies of the founding. Since each state has its own economy, some states will run a deficit with others. Using protectionists' logic, states should place tariffs on the other states they run a deficit with to build up their domestic industry. But this would never work. Instead, states take their comparative advantage and specialize in industries that cost them the least and then trade for goods other states have an advantage in. In doing this, everyone becomes wealthier. America is better off when its citizens are free to trade with others without government interference. This is true whether or not the people we trade with are in our country or not.

Protectionists also argue the U.S.'s industrial base is being completely hollowed out and wages are decreasing. A quick look at the numbers show this to be false. According to data from the St. Louis Federal Reserve, the total industrial production index of the U.S. has increased by 58 percent and the American real median household income has increased by more than 14 percent since NAFTA was enacted. More numbers from the Cato Institute reveal that manufacturing within the U.S. increased to a record \$2.24 trillion in 2017, reflecting a 1,936 percent increase in manufacturing production since 1953. Technological improvements have contributed to this radical increase in the productivity of labor, to be sure, but foreign investment has helped that, allowing for more capital and technological innovation.

Renegotiating NAFTA to balance the trade deficit is not necessarily beneficial to the U.S. If Trump continues his protectionist policies, more harm than help could come to domestic producers and consumers. Free trade may only be a policy, but it is a policy built on individual freedom and self-interest. When properly directed, these two things lead to better outcomes for all Americans and for the world. That is to say: I'm not buying what Donald Trump is selling.