



## **The trade war to end all trade wars will end in economic carnage**

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One hundred and four years ago this August, the war to end all wars broke out. It was a war that nobody wanted. The world stumbled in to it almost by accident and then could not get out.

"Wars are easy to win," leaders thought. "We'll be in Paris (or Berlin) by fall." They were equally wrong and equally befuddled once the trenches filled with bodies.

This August, the trade war to end tariffs looms, and the world seems to be stumbling towards an economic calamity that nobody wants, propelled by similar entanglements.

What is the objective? You can't win a war unless you know what you want and when to stop. That principle is true of a trade negotiation. How can China or Europe agree to do what we want, if they have no idea what will be enough for us to call the war off?

Many free marketers hope that the president wants a world with no tariffs or trade barriers. To give him his due, our president is unpredictable and has achieved some remarkable negotiating successes by appearing to be crazy. A world of no tariffs would be lovely. But I'm dubious this is the goal.

Yes, during the Group of Seven summit he said, "...everybody takedown your barriers. No barriers, no tax." Yes, the cease-fire statement with European Commission President Jean-Claude Juncker said, "We agreed today ... to work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods."

But parse the latter carefully. "Non-auto" means protect cars and trucks, where we maintain a 25-percent tariff. "Industrial" means not agriculture. "Goods" means not services like banking, of which we exported \$863 billion in the second quarter. "Work toward" means a vague long time from now.

And then the president reiterated his view that we "lost \$817 billion on trade last year." His view that importing more than we export and letting foreigners invest the extra dollars in the U.S. amounts to "losing" on trade is far more consistent than his recent free-trade conversion.

As long as the U.S. saves less than we invest, the trade deficit cannot end. That goal is a recipe for endless war.

President Trump took a tour through steel country. He did not say, "I'm glad you're working. But in six months I hope to pull all these tariffs down, and see all of you unemployed and this mill shut down again. But don't worry. Once we get China to defend intellectual property, Google, Facebook and Goldman Sachs will be making such a bundle in China it will be worth it for the country."

As this story illustrates, tariffs, once imposed, are devilishly hard to escape. Once our steel and aluminum industries and their workers get used to tariff protections, what president can take them away?

Once the Chinese have retaliated with their tariffs and their industries have grown used to protection, how can they take them away?

The whole post-WWII order was built around this difficulty - by creating multinational institutions, we slowly help countries to say to their protected industries, "Look, it's going to be hard, but we can't be part of the world and protect you anymore."

The result was the greatest increase in trade and prosperity the world has known. If Trump's bluff fails - or if it was not a bluff to begin with - that accomplishment is lost.

Politics gets used to tariffs as well. Tariffs, and tariff waivers and subsidies to counteract tariffs are handed out pretty much at the whim of the administration. It won't take long for politicians to figure out this is a great way to reward friends and to punish enemies. Once in place, that is another reason why ending the tariff war will be so much more difficult.

Wars go on without end when they sink into a cycle of revenge and retaliation. Trade wars too. China and Europe's tariffs retaliate against ours. We retaliate against those. As in the great war, it gets much much worse before exhausted antagonists give in.

"We can do stupid, too," said Junckers on tariffs. And he has. Send the boys over the top into machine gun fire once again.

That's where we are heading. After three or four rounds of retaliation and revenge, we have large tariffs and quotas, and so do Europe and China. The economy starts sinking, unemployment starts rising, and now it's harder still to get rid of them.

The multinational institutions that supported the low-tariff world are destroyed. Politicians and political parties rediscover the usefulness of trade policy to demand support.

Historians debate whether individuals matter or whether great forces of history sway events. Our trade war surely reflects the ideas and will of one person, our President Donald J. Trump. His Rasputins, Navarro and Ross, are only there by his will and invitation.

But why does he have this power? America is supposed to be a country of laws and institutions, exquisitely designed to constrain the power of one individual. Tariffs are a tax on imports. Why does the president have unilateral power to impose a tax? The president can't change income taxes.

The answer is, because the Congress handed him that power. In the wake of the Smoot-Hawley disaster, Congress gave the administration wide latitude to impose tariffs and import quotas. Congress got to look protectionist, but count on administrations not actually to do anything terrible. That gamble just failed.

Our trade law basically says that the administration should impose tariffs if any industry is hurt. But what industry is not hurt by competition from abroad? The national security provisions under which the Trump administration is acting are even vaguer.

By now, both parties ought to be sick of the imperial presidency. Congress: Take back the power to impose tariffs. Or at least write reasonable statutes: that tariffs and quotas may only be imposed if consumers are harmed.

If national security is at risk, let defense ask for money and choose whether it prefers a new aircraft carrier or an old steel mill.

Yes, I know, Congress is driven by partisanship and squabbling. Well, ladies and gents, if this is like August 1914, you will look mighty silly when it's over.

The rest of the world: If you recognize it's stupid, don't do it. Strengthen your multilateral institutions. Don't turn Brexit into a mercantilist nightmare. TPP countries, enact a free-trade zone. Ignore provocation rather than retaliate stupid with self-inflicted stupid. Grow, and let us beg to rejoin you.

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