The Washington Post

Maybe car executives can teach Economics 101 to Trump

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March 13, 2018

The Wall Street Journal reports:

> European auto executives are warning that if President Donald Trump imposes prohibitive tariffs on automotive imports they could be forced to curb investment in their U.S. factories in the event of a trade war, which would threaten American jobs. . . .
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> German car makers last year shipped 762,000 vehicles from their U.S. factories, of which more than 60 percent were exported to the [European Union], China and Southeast Asia, Mexico and Canada, according to the German Automotive Manufacturers' Association.
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> The German manufacturers employ around 36,500 Americans at their factories in South Carolina, Alabama and Tennessee. If U.S. exports face retaliatory tariffs and it becomes more difficult to sell U.S.-made cars abroad, European auto makers would likely have to shift production to Mexico or even bring it back to Europe.

You may recall that Chancellor Angela Merkel of Germany tried to explain this to Trump in 2017 with no success. She's still at it, and is making clear the European Union will be compelled to take proportional countermeasures if Trump follows through. Last week she told reporters: "I don't want to use martial language — that doesn't help us get any further. It would ultimately be detrimental to everyone. No one would win such a competition." In other words, Mr. Trump, you *don't* "win" a trade war.

For one thing, American cars will get more expensive, as much as $300 by some estimates. And given that car prices have been steadily rising, many buyers — especially if interest rates go up — will be inclined to forgo purchases. ("Any additional rise could be tough to swallow for customers, potentially hurting the auto industry at a time when sales are slowing because lenders have tightened underwriting standards and discounts have gotten smaller.") As prices escalate in a trade war raging across many sectors, workers will demand higher wages. The non-virtuous cycle of inflation will heat up.

The worry over automobile production is no secret or surprise; this is how trade works. Trade is one half of the equation (dollars going out) — the other being foreign investment (dollars coming in) in the United States. (I am confident that Gary Cohn, the former head of the National

Economic Council, understands this, and might even have tried to explain it to Trump, but look what happened to him.)

John H. Cochrane of the Hoover Institution and the Cato Institute explained:

> "The rest of the world sells us more than we sell them. But the rest of the world uses every cent of the extra dollars it gets from that trade to invest in the U.S. and to buy our government bonds. If we sell the whole world exactly as much as they sell us every year — in other words, if there were no overall U.S. trade deficit — we're the ones who would have to start saving much larger amounts of our incomes in order to invest in U.S. companies, give mortgages to people to buy houses, and to fund the governments' $1 trillion deficits."

Cochrane is understandably frustrated. "Why is this so hard to understand? Tariffs, like all protection from competition, are great for the protected business and its workers, at least for a while. . . .But protection only helps one business at the expense of all the others, and at the expense of consumers, and the damage is worse than the gain." Yes, politicians like Trump sell snake oil all the time, and this is some of the oiliest.

And Cochrane rightly points out that "some of the blame belongs to economists as well. The words 'deficit' and 'imbalance' make it sound like something is wrong with trade." I would add that the media also hypes the trade deficit, as if some great calamity has occurred when it goes up. This is also the case in which the "victims" (unemployed steel workers) are identifiable, while the winners (all consumers, the millions employed by foreign-owned companies) are not. The former get our attention, while the latter are ignored.

It is no coincidence that, presently, our trade deficit is very high and our unemployment is very low. The United States is a good place to invest, and could be better if we invested in infrastructure, trained workers, etc. That is why around 7 million Americans have jobs with foreign companies here in the United States.

Mark J. Perry at the American Enterprise Institute points out:

> "The steady increase in the U.S. trade deficit over the last nearly half-century to a peak of $770 billion in 2006 before falling to an average of $500 billion during the last decade has been accompanied by a steady increase in the value of US household net worth, which has increased more than four-fold in inflation-adjusted dollars since 1970. . . .
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> Despite a $570 billion trade deficit last year that Trump is always complaining about and threatening to address because it's 'very one-sided and unfair' and a form of 'rape' when it comes to China, the US stock market reached record highs in 2017, bringing the net worth of American households to a new record-high of [$99 trillion]."

Put simply, Perry reminds us: "Over almost half a century since 1970, the correlation between the increasing trade deficit and the rise in US household net worth is amazingly high at 0.92."

Trump is either too dense to understand this, or is too determined to pander to his low-information voters. Either way, it is those voters who will be hurt the most if Trump gets his way.