



Analysis | Trump’s notion of an ‘easy’ trade war defies the historical record of protectionism

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In agitating for a trade war, President Donald Trump may have forgotten William Tecumseh Sherman’s adage that “war is hell.”

The Civil War general’s observation can be apt for trade wars, which may create conditions for a shooting war.

Trump sent this spoiling-for-a-fight tweet Friday: “When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down \$100 billion with a certain country and they get cute, don’t trade anymore-we win big. It’s easy!”

But history suggests that trade wars are not easy.

The president’s argument, in essence, is that high tariffs will force other countries to relent quickly on what he sees as unfair trading practices, and that will wipe out the trade gap and create factory jobs. That’s his motivation for announcing that the U.S. will impose tariffs of 25 percent on steel imports and 10 percent on aluminum imports.

The record shows that tariffs, while they may help certain domestic manufacturers, can come at a broad cost. They can raise prices for consumers and businesses because companies pass on at least some of the higher costs of imported materials to their customers. Winning and losing isn’t as simple a matter as tracking the trade gap.

The State Department’s office of the historian looked at tariffs passed in the 1920s and 1930s to protect farms and other industries that were losing their markets in Europe as the continent recovered from World War I. The U.S. duties hurt Europe and made it harder for those countries to repay their war debts, while exposing farmers and consumers in the U.S. to higher prices. European nations responded by raising their tariffs and the volume of world trade predictably slowed by 1934.

The State Department says the tariffs exacerbated the global effects of the Great Depression while doing nothing to foster political or economic cooperation among countries. This was a diplomatic way of saying that the economic struggles helped embolden extremist politics and geopolitical rivalries before World War II.

Nor have past protectionist measures saved the steel industry, as Trump says his tariffs would.

The United States first became a net importer of steel in 1959, when steelworkers staged a 116-day strike, according to research by Michael O. Moore, a George Washington University

economist. After that, U.S. administrations imposed protectionist policies, only to see global competitors adapt and the U.S. share of global steel production decline.

As it happens, America's steel industry has received government protection from foreign competition for decades. Washington has muscled other countries into agreeing to limit how much of their steel could enter the United States or has accused them of dumping steel at unfairly low prices.

"You had voluntary import restraints under Reagan, quotas under Carter, anti-dumping [cases] under Bush 1," says Dan Ikenson, director of the libertarian Cato Institute's Center for Trade Policy Studies.

In 2002, President George W. Bush imposed tariffs on steel imports to help a struggling steel industry. A study sponsored by steel-consuming companies found that those tariffs cost 200,000 American jobs by driving up the costs for companies that buy steel and forcing them to lay off employees.

As of mid-2017, the U.S. government was imposing 149 different restrictions on steel imports.

And in a further illustration of how previous trade sanctions have failed to stop a steady drop in America's steel jobs, when the 2002 tariffs were imposed, U.S. steel companies employed 169,000 workers. They've since lost 32,000 jobs, a 19 percent drop.

"The steel tariffs and quotas have never done much to protect the industry in the long run," says Kent Jones, an economist at Babson College and the author of "Politics vs. Economics in World Steel Trade." "Employment in the industry has declined constantly."

Trump has brought a little-used weapon to his fight to protect steelworkers: Section 232 of the Trade Expansion Act of 1962. This provision authorizes the president to restrict imports and impose unlimited tariffs on national security grounds. The thinking is that a healthy industrial base is crucial to the nation's military, even though to many trade analysts, the administration's case looks weak.

Since the United States joined the World Trade Organization in 1995, it has pursued only two such investigations. On both occasions — a 1999 case involving oil imports and a 2001 case concerning iron ore and steel imports — Commerce declined to recommend sanctions.

Still the WTO gives countries broad leeway to define their own national security interests and could prove reluctant to declare Trump's steel tariffs a violation of global rules. If so, other countries might go outside the WTO and retaliate against the United States, perhaps by using national security as a justification for imposing their own tariffs.

"Nobody wins a trade war," says Babson's Jones.