The Washington Post

Tariffs threaten the economy and sink stocks

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The Post's Heather Long reports:

On Monday evening as most of America was focused on separating migrant children from their parents at the border, [President] Trump announced he was slapping a 10 percent tariff on another $200 billion of Chinese imports. The president said if China chooses to retaliate (as it has with past actions), he'll follow up with tariffs on yet another $200 billion of Chinese goods. There's no timeline for when these latest tariffs would go into effect, but Trump is clearly still hungry for more aggressive action when it comes to trade. . . . If Trump does implement the threatened $200 billion in tariffs on Chinese goods, his trade "skirmish" would bring the total number of goods to which tariffs are being applied to about 10 percent of U.S. imports, a substantial escalation.

That has many economists, business leaders, farmers and economically literate Americans worried. As the Wall Street Journal reports, "global markets convulsed Tuesday after [Trump] called for further tariffs against China, the starkest sign yet that the threat of a trade war — once dismissed by many investors as unlikely — is rising again. . . . Indexes in major exporters Germany and France slid, while the Dow Jones Industrial Average tumbled 1.5%, on course for its largest one-day fall of the month. Meanwhile, the dollar rose and government bonds rallied, sending the yield gap between the 2- and 10-year Treasury notes to its narrowest level since August 2007. A narrowing yield gap often indicates a pessimistic outlook among investors."

Even before the recent escalation, farmers in Iowa, the heart of Trump country, were panicking. According to the Des Moines Register:

Perhaps Iowa farmers' biggest fear is becoming a harsh reality: The escalating U.S.-China trade dispute erupted Friday, with each country vowing to levy 25 percent tariffs on $50 billion in goods. U.S. and Iowa agriculture is caught in the crossfire, with farmers selling $14 billion in soybeans to China last year, its top export market. Soybeans are among hundreds of U.S. products China has singled out for tariffs. The U.S. has an equally long list that includes taxing X-ray machines and other Chinese goods. Iowa farmers could lose up to $624 million, depending on how long the tariffs are in place and the speed [with which] producers can find new markets for their soybeans, said Chad Hart, an Iowa State University economist.

More casualties in Trump's war against economic reality.

Meanwhile, a new group named Republicans Against Tariffs has launched with an introductory ad:

It's doubtful any of this will affect Trump much, and it is far from clear that either he or his team have the skill to figure a way out of the corner they've painted us into. The Cato Institute's

Daniel J. Ikenson recommends a sort of grand bargain: “Congress abandons its legislation to block ZTE, which gets back in business (with conditions); the U.S.-China tariff war is called off; China signs purchasing orders for $100 billion to $200 billion of U.S. exports; the steel and aluminum tariffs on Canada, Mexico, and the [European Union] are removed; and the NAFTA negotiations are restarted and concluded before the midterms. This gives Trump two major pyrrhic victories that will reinforce his greatness to his base.” Of course that will not address the actual problem we have with China — theft and extortion of American intellectual property — but, then again, Trump has no concern for solving real-world problems. It is all about making him seem tough in the moment and pumping up the white, non-college-educated portion of his base that wrongly thinks its economic woes are related to China (rather than insufficient skills, automation, refusal to address infrastructure decay, etc.)

Let’s remember this is a self-created crisis based on Trump’s misguided notion that trade deficits mean we are losing. Moreover, this all comes at a time when U.S. exports are climbing, and the trade deficit Trump obsesses about is narrowing. “The nation’s international trade deficit in goods and services decreased to $46.2 billion in April from $47.2 billion in March (revised), as exports increased and imports decreased,” the U.S. Census Bureau reported recently.

Trump wants more credit for the economy. As his trade policies take effect, though, we will better see the difference between the Barack Obama economy and the Trump economy. Fairly or not, the president is going to take the blame if, as most economists predict, a trade war shaves 0.4 percent off GDP growth that is struggling to get to 3 percent.