



Huge deficit should turn 'Tariff Man' Trump into the 'Free Trade Crusader'

Simon Lester

March 6, 2019

The Commerce Department reported Wednesday that 2018's trade deficit was higher than 2017's, which was higher than the trade deficit in 2016. In fact, the 2018 trade deficit set a record of \$891.2 billion for merchandise trade, with a \$621 billion deficit for goods and services overall.

President Trump has spent his first two years in office complaining about the trade deficit, imposing higher tariffs and haranguing countries into opening their markets. And yet the trade deficit keeps rising. What gives?

In simplest terms, the answer is that the trade balance is tied to broader macroeconomic factors, and trade policy and tariffs have only a limited impact.

For example, at the core of Trump's economic policy was a badly timed Keynesian stimulus: The administration cut taxes and increased spending. This can boost the economy in the short-term, and a booming economy means Americans buy more goods, including imported goods.

Combined with slowing growth in the economies of big trading partners, such as the EU and China, it is easy to see how the U.S. trade deficit is rising during a time of increased U.S. protectionism.

President Trump has:

- imposed tariffs under traditional mechanisms such as anti-dumping, countervailing duties and safeguards;
- used national security as an excuse for tariffs on steel and aluminum;
- imposed tariffs on about half of Chinese imports; and
- announced that he will raise tariffs on certain Indian and Turkish products by kicking them out of a program that lowers tariffs on imports from developing countries.

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The lessons the Trump administration should draw from all of this are that it is not worth worrying about the trade deficit and that protectionism does not help. Bilateral trade deficits are particularly irrelevant, but even the overall trade deficit is not very important.

If your economy is growing steadily, and unemployment is at decades-long lows, you should simply enjoy the success. Obsessing about trade deficits makes no sense in this economic situation.

Rather than reducing the trade deficit, tariffs will only put the current economic success at risk. They disrupt the operations of many U.S. business that rely on imported goods as inputs for their production, and they raise prices for consumers.

On the other hand, it does make sense to push for lower trade barriers from our trading partners. There are some countries out there with high barriers, and reducing those barriers would help U.S. producers who export. Trade agreements where both sides lower their barriers are a tried-and-true method of this kind of trade liberalization.

The problem is that the Trump administration has not pushed very hard for new trade agreements that lower trade barriers. It is two years into this administration, and we are just starting to see negotiations with the EU and Japan (and they are not looking very promising at this point).

Those initiatives should have been taken immediately. Instead, the administration spent a lot of time renegotiating the North American Free Trade Agreement (NAFTA) and a bit of time renegotiating the U.S.-Korea Free Trade Agreement, neither of which achieved much in the way of new liberalization and actually raised tariffs in some cases.

So far, Trump's approach to trade policy has been as much about branding as anything else. He feels as though NAFTA is a bad brand, and he wants to rebrand it with a new name. That may be good politics, but unless trade barriers are reduced, the exercise is not very useful.

Another flaw in the Trump administration's approach is that it has been attacking all trading partners, including our close allies, instead of focusing on the main problem areas. Most countries agree that China engages in a range of bad trade practices and is not playing a role commensurate with its growing economic power.

But instead of working with allies in a coordinated effort to take on China, the administration has imposed tariffs on steel and aluminum imports from those allies, based on a specious argument about "national security."

That has led to retaliatory tariffs and litigation and has undermined the ability to work with those allies to address problems with China.

A president who declares himself a "tariff man" may not be interested in any of these facts or arguments. Nevertheless, the evidence is clear: The economy would be better off if Trump took off his "Tariff Man" costume and put on a "Free Trade Crusader" cape.

Simon Lester is the associate director of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies.