



Inauguration speech wrongly demonized free trade

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Picking up where he left off during the presidential campaign, President Trump made economic nationalism a central theme of his inauguration speech. Using dark language and imagery, he referred to shuttered factories and workers left behind, and asserted that from now on it will be "America First."

To this end, he vowed to "protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs," and claimed that "[p]rotection will lead to great prosperity and strength." And he set out two simple rules to accomplish all this: "Buy American and hire American."

For supporters of trade liberalization and an open economy, this speech was alarming. The U.S. economy is much stronger when people can trade freely across borders.

Americans benefit from increased competition from foreign producers, which leads to lower prices and higher quality products.

By contrast, restricting trade, through protectionist tariffs and other barriers, will lead to a stagnant and inefficient economy. Domestic industries use such measures to keep out foreign competition, thereby increasing their profits, but making American consumers worse off.

The effects are felt by everyone, although they are most significant for those with low incomes and less money to spend.

Such a heavy focus in the inauguration speech on economic nationalism, and the harsh rhetoric used, may suggest that protectionist actions from the Trump administration could be swift and forceful.

Many trade law specialists have recently been discussing the scope of the president's discretion to impose tariffs, and this speech suggests that everyone should be worried about where U.S. trade policy might go.

At the same time, we need to keep in mind that words are not actions. Rhetoric is easy, but governing is complex. The leaders of Trump's trade team have been selected, but many of the key political posts still need to be filled.

There will have to be internal debates among the many and varied Trump advisers and appointees on which specific trade actions to take. Before we panic, we should wait and see what actions are proposed. Things might not be quite as bad as we fear.

Trump mentioned the principle of Buy American. To many people, this is just common sense. Aren't we better off if we buy from our friends down the street than from someone on the other side of the world?

But when you think the issue through, you realize that the answer is no. For one thing, by limiting your buying options, you are likely to spend more money on lower quality products.

For someone who complains about the U.S. government paying too much for products, as Trump often does, looking at the higher expense of excluding foreign competition from U.S. government purchases might convince him to change his mind.

In addition, when America buys American, that encourages Canada to buy Canadian, China to buy Chinese, etc. In other words, other countries will all be buying less from America! Clearly, that is bad news for American businesses, which sell a lot of products around the world.

When speaking to an audience of supporters, this kind of rhetoric can generate applause. But as a matter of economic policy, it does not make much sense.

Deep down, one suspects that Donald Trump knows all this. This is why his own companies invest abroad and import many products. The economy is a global one and businesses and consumers are better off because of it.

This is how Trump practices business. Hopefully he will decide to govern this way as well. When he moves beyond sound bites and into policy formulation, we may see a more balanced approach to trade than has been apparent so far.

Supporters of trade liberalization should definitely be concerned by the tone of the inauguration speech, but remember there will be a team of people, with wide ranging experience and a lot of past support for trade liberalization, making policy.

What they come up with may not live up to any free market ideal, but it may be not nearly as bad as what we heard on Friday.

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