

Opinion: This threat of a trade war is the opposite of ‘drain the swamp’

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On Thursday, President Trump made a trade policy announcement, of sorts, with all his usual clarity. Before an audience of steel and aluminum executives, he said he would impose tariffs of 25% on steel and 10% on aluminum, and that these tariffs would last “for a long period of time.”

This is about as far from draining the swamp as trade policy could possibly get. Trump is going directly to special interests (i.e. business executives), and giving them favors at the expense of the rest of the country.

There are still many details to fill in on what all of this actually means. Trump’s announcement comes in response to a Commerce Department report, which found that steel and aluminum imports have impaired national security. That report listed several options for imposing either tariffs or quotas, on some or all countries.

Trump’s announcement just gives a general tariff figure, and doesn’t specify which countries it applies to. Translating Trump’s off-the-cuff remarks into actual policy can often be a challenge, and will be in this case as well.

Part of the challenge for the administration will come from the pushback the tariffs are sure to get from U.S. trading partners, from Congress, and from U.S. businesses that use steel and aluminum. Key U.S. allies have already indicated that they will retaliate immediately.

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A predictable target for this kind of retaliation is U.S. agriculture, which our trading partners often single out when responding to protectionist U.S. actions. Members of Congress from farm states will likely be put under pressure to fight back against these tariffs.

Also caught in the crosshairs will be U.S. industries. Many U.S. producers, such as car makers, which accounted for 26% of demand for steel in the U.S. in 2017, use these products as inputs in their finished products, and when tariffs are imposed and lead to increased prices, their competitiveness suffers. It may be that the biggest impact from these tariffs is to put U.S. producers at a disadvantage in comparison to their foreign competitors, which means job losses

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More broadly, the decision to impose tariffs on the basis of national security carries grave risks for the international trading system. Foreign governments could, and probably will, challenge these tariffs at the World Trade Organization. However, there is a broad and vaguely worded exception for security issues in WTO rules, which gives a lot of deference to governments who invoke this justification. As a result, the U.S. might be able to avoid a WTO ruling against it.

But a win in such a case could lead to a much broader loss for the trading system. If the U.S. invokes national security here, on such a flimsy basis (the U.S. still produces a lot of steel and aluminum, and many imports come from trusted allies such as Canada, South Korea and Mexico), other countries are likely to follow suit and copy this approach.

Governments are constantly looking for a rationale to justify their protectionism. To date, everyone has generally avoided the open ended loophole of “national security” as a justification. But with the U.S. having opened the door, other governments may decide to rush through. We may spend the next few years fighting off a proliferation of trade restrictions justified as national security measures.

\President Trump seems to truly believe in his cause, and it may take actual implementation and subsequent failure of a protectionist trade policy to cure him of his misconceptions. Nevertheless, there is still time to push back. As of right now, these tariffs are just words. Trump said some things, but no action has been taken. As a result, it is worth it for everyone to make their case against these actions.

Other governments can make clear to the Trump administration how serious they are by announcing possible retaliatory measures now. Congress can assert its constitutional power over trade, through direct communication with the White House, and even through legislation designed to take back some power it had previously delegated to the executive branch. And the broader business community needs to make clear to the administration how badly it could be hurt by this.

There has been lots of talk of “trade wars” recently. This may be the start, but let’s keep fighting for peace nonetheless.

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