SFGATE

The false choice on tariffs

Jennifer Rubin

April 10, 2018

If you listen to Trump administration spinners you would think there is a binary choice for American policymakers: Engage in blanket tariffs that ignite a trade war with China (and possibly other countries), or do nothing. In many instances, doing nothing is fine. The trade deficit, contrary to President Trump's bloviating, is not a bill to be paid, nor is it necessarily bad. We are enjoying reasonable growth and near full employment while our trade deficit grows. Moreover, those dollars we send overseas to buy foreign goods do come back to the United States when foreigners buy our debt and/or invest in America (e.g., by building plants here that employ U.S. workers.)

Nevertheless, there is a grain of truth in the whirlwind of smoke Trump is blowing around. As Cato Institute's Simon Lester points out, countries forcing American companies to share technology or stealing our technology outright is entirely unacceptable. But, he added, we don't need tariffs to address this conduct:

> The difficulty here is that some of this behavior violates [World Trade Organization] rules, while some may not, as WTO rules don't cover everything. There's a good case to be made that the forced technology transfer imposed on foreign investors does violate the rules; but some of the cybertheft issues may not be covered.
>
> For the behavior that is covered by WTO rules, the answer is easy: File more WTO complaints. . . . WTO complaints against China are pretty effective. The system is far from perfect, and sometimes governments do not comply immediately and fully, but overall it works and China complies as well as other governments do.

Beyond the issue of intellectual property, China's state-owned enterprises (SOEs), Lester argues, "often don't behave in a market-oriented way." He explains, "Unfortunately, the WTO does not have extensive rules on SOEs. The best approach here is to add new trade rules on SOEs, so as to require these entities to behave in a manner consistent with commercial principles. The Trans-Pacific Partnership has some detailed rules on this, and although China was not a member of the TPP, there was the possibility that it would join, or that the SOE rules in there could be used as a model for applying such rules to China in a different trade agreement." Alas, Trump pulled out of TPP.

Other economists have pointed to a range of options for the United States to address its legitimate complaints about China's practices. Former auto industry czar Steven Rattner writes that "it is hard to imagine a more confusing and disruptive way to handle it. Let's not forget that China is the largest single holder of Treasury debt, with about $1.2 trillion. Imagine if they woke up one day and decided to start selling." Instead, he recommends a series of steps:

- Reengage in the Trans-Pacific Partnership. This would have created an alliance of free trading nations, mostly in Asia, and deliberately excluding China.

- Work with other nations, as we do on many issues, to take a multilateral approach to China, rather than a unilateral approach.

- Push harder for the WTO to discipline China and if necessary, suspend or expel them from the organization.

- Reconsider the border adjustment tax, which would have helped our overall balance of trade problem.

- Get our own house in order — for example, by bringing down our budget deficit, which sucks in imports and capital to finance our debt.

One does not have to support all of them to see there are reasonable measures that should have been exhausted before Trump rashly chose to engage in threats that may launch an unwinnable trade war.

The administration's spinners are having a difficult time passing the straight-face test with knowledgeable business and media people. Larry Kudlow, Trump's newest national economic council director, during a harried performance on CNBC on Monday, kept insisting that he is a free trader, and that so is the president. Jim Cramer, Kudlow's former colleague, seemed at pains to try to talk Kudlow and Trump down from the edge of a trade war, suggesting a "coalition of the willing" to sit down to negotiate with China. Cramer chided Kudlow, "There is no way tariffs are pro-growth." Kudlow launched into another unconvincing and rambling discourse on Trump's pro-trade vision. CNBC's David Farber practically pleaded with Kudlow to try other responses such as WTO suits.

Kudlow could not conceal his discomfort in defending a protectionist trade stance that he has spent his career criticizing. He might do well to stop spinning (the markets aren't buying what he's spinning anyway), stay off CNBC (Trump doesn't seem to watch that channel) and start advocating for some of the reasonable alternatives economists are recommending. Otherwise, he'll lose whatever respect he has acquired over the years and be party to a disastrous policy escapade that will go down as one of the dumbest, antigrowth moves in modern history.