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By DTN's Washington Insider

Here’s a quick monitor of Washington farm and trade policy issues from DTN’s well-placed observer.

NAFTA 2.0 Talks Timeline Is Getting Tighter

Lamenting the latest round of NAFTA 2.0 talks did not get to the point hoped for relative to progress in wrapping up the talks, U.S. Trade Representative Robert Lighthizer said time is running out to get the deal done. Only six of 30 chapters have been agreed upon, according to Lighthizer, who said, "We have not made the progress that many had hoped in this round." He said the three nations "have a month or a month and a half or something to get agreement in principle" before the talks will stall due to Mexico’s July presidential election as well as elections in the U.S. and Canada.

Asked if he would consider suspending the talks for the summer and resume them after the elections, he said: "It’s conceivable that that happens....it’s not irrational to think you would have lower-speed talks... at some point just to kind of keep the talks going." Lighthizer must formally notify Congress 90 days before signing the final NAFTA 2.0 agreement. In addition, once the agreement is signed, the U.S. International Trade Commission must do a study on its economic impact. It has 105 days to complete the report a combined period of 195 days.

Efforts Flounder Temper Steel and Aluminum Import Duties

Before resigning on Tuesday, White House economic adviser Gary Cohn was reportedly summoning executives of U.S. companies that depend on steel and aluminum imports to meet with President Trump this week in an attempt to halt or at least temper his proposed tariffs on imports of steel and aluminum. Yet, Cohn's resignation seemed to reflect a hardened stance by the president.

House Speaker Paul Ryan, R-Wis., has urged Trump to reconsider the tariffs by sharing his concerns personally with the president "on multiple occasions," according to his office.

"We are extremely worried about the consequences of a trade war and are urging the White House to not advance with this plan," Ryan spokeswoman AshLee Strong said in a statement. "The new tax reform law has boosted the economy and we certainly don't want to jeopardize those gains."

And GOP lawmakers are mulling potential legislative action to block the tariffs. House Ways and Means Chairman Kevin Brady, R-Texas, and the panel's Trade Subcommittee Chairman Dave Reichert, R-Wash., have drafted a letter to Trump calling for tariffs that are "narrow, targeted, and focused on addressing unfairly traded products, without disrupting the flow of fairly traded products for American businesses and consumers."

Washington Insider: Tariffs Show Little History of Reducing Trade Deficits

President Trump and some of his key officials have fixed on America's trade deficit—a partial metric that measures trade in goods, but not services. This week, the New York Times has focused on the metrics of trade and notes that only a small group of experts share the view of the administration officials. And, even fewer see tariffs as an effective tool to narrow the gap that is frequently highlighted.

"We lost, over the last number of years, $800 billion a year," the President said in the White House on Monday, while defending his proposed new tariffs against criticism from Republican leaders in Congress. We lost $800 billion a year on trade." He went on to say that the country "lost $500 billion" a year to China, though it was not clear what figure he was citing, given that America's annual trade deficit with China has never climbed beyond $375 billion, NYT says.

Most economists do not see the trade gap as money "lost" to other countries, nor do they worry about trade deficits in goods to a large degree. That's because trade imbalances are affected by a host of macroeconomic factors, including the relative growth rates of countries, the value of their currencies, and their saving and investment rates.

Even those with the President's view tend to agree that there are better ways to reduce the imbalance than through tariffs--which tend to backfire and further widen the trade deficit if other countries impose reciprocal tariffs.

"If you look across countries, there's no evidence that high tariffs reduce your trade deficit," said Joseph Gagnon, a senior fellow at the Peterson Institute for International Economics and a co-author of a 2017 book of policy recommendations on how to reduce trade imbalances.

"The trade deficit is a terrible metric for judging economic policy," said Lawrence Summers, a Harvard economist and former chairman of President Barack Obama's National Economic Council. Summers said tariffs would actually worsen deficits by making American companies that ship steel and aluminum overseas less competitive, and by inviting foreign retaliatory tariffs against other exports.

The tangible source of America's persistent trade deficit with China is consumer goods, but the United States actually runs a trade surplus in services with China, as it does with many other countries, in part by attracting Chinese students to study at American colleges, which counts as an export.

Most other trade experts say bilateral trade deficits are not a good measure of whether countries are living up to their promises on market access, or whether certain countries are better negotiators of trade agreements, the Times says. They compare the global economy to a neighborhood. Consumers might spend a lot of money with a shopkeeper who never buys anything from their store in return, but they also receive money from other customers whose stores they never frequent.

"A bilateral balance doesn't really tell you anything about what the economy is doing," said Scott Lincicome, an adjunct fellow at the libertarian Cato Institute, "just like my bilateral deficit with my grocery store doesn't tell you anything about whether I'm in debt."

Trump's own Council of Economic Advisers, in a report last month, seemed to play down alarms over bilateral trade deficits. "Overall, the United States has a goods deficit and a services surplus with the world. The services surplus is consistent with the structure of the private sector, which has evolved during the last few decades toward more services output as a share of GDP."

Gagnon has a list of recommendations but said one dwarfs all others: reducing America's growing federal budget deficit, which is fueling foreign investment in the United States as the government turns to other nations to finance its spending.

"There are things we could do," he said, "but I hate to recommend them when we're not doing the most important thing, which is bring down our massive fiscal deficit."

Trump, he noted, recently signed sweeping tax cuts that will add an estimated $1.5 trillion to federal deficits over the next 10 years, even after accounting for the faster growth it could bring.

So, not only is there concern about misdiagnosing trade deficits but about impacts of tariffs as well.

For example, in 1929-30, with the Depression already well begun, influential Republicans Senator Reed Smoot and Congressman Willis Hawley pushed through a law raising tariffs on 3,200 items to up to 60%, arguing that imports were causing unemployment and declining industrial activity—a view that did not stand later scrutiny.

Exporters of goods to the U.S. quickly retaliated and trade collapsed. U.S. imports dropped by two-thirds by 1933, and GNP also dropped from $103 billion in 1929 to $55 billion in 1933. U.S. exports fell sharply.

In 1934 the Roosevelt administration repealed the tariffs and trade expanded, leading to the first GATT agreement in 1947 and eventually to the World Trade Organization.

Many in the administration argue now that such negative impacts are not likely, but many, many business people and others—especially in agriculture—disagree. So, the fact that the trade deficits some administration officials highlight are "partial" and that market access and trade overall are important and should be expanded. Thus, this is a debate over language—as well as policy—that should be watched closely as it proceeds, Washington Insider believes.