

## **Ramesh Ponnuru: Trade, tariffs to affect Trump in 2020**

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December 11, 2018

Volatility in the administration is leading to volatility in the stock market.

When President Donald Trump made it sound as though he had worked out a trade deal with China, or at least a temporary halt in the escalation of hostilities, markets rose smartly. When Trump tweeted that tariffs are wonderful and a fine substitute for a deal, stocks fell even faster.

The market verdict is clear: Trade conflict is bad for the expected value of American companies. But so far Trump has not heeded the market signals. What might make investors blanch even more is that Trump might, from the standpoint of his re-election prospects, be right to ignore them.

That's true even though many of Trump's Republican allies have made a political case against his administration's tariffs that seems, at first glance, like a strong one. These free-trading Republicans have advised Trump that his trade policies endanger the strong economy that is one of his principal political assets. They also point out that the policies are unpopular in themselves. As Scott Lincicome points out in a recent study for the libertarian Cato Institute, public support for free trade has been climbing.

Trump has persisted in waging his trade war anyway, probably out of conviction. To the extent Trump is a true believer in anything, it's in protectionism. His market-roiling tweet spelled out his conviction: When foreign companies sell products to Americans, it's a way for those companies to "raid the great wealth of our Nation." He thinks, too, that those companies pay tariffs, ignoring the likelihood that most of their burden falls on American consumers.

Tariffs typically impose more costs than they yield benefits for the country that imposes them. George W. Bush's tariffs on imported steel were estimated to have destroyed more jobs in steel-using industries than they saved in the steel industry itself. Barack Obama's tariffs on tires imported from China had a similarly negative effect.

Yet presidents have resorted to such tariffs anyway. They have had a variety of motives. In part, though, they were responding to the same political logic that might ultimately make the tariffs pay off for Trump.

The political virtue of tariffs is that while the costs may exceed the benefits, the costs are diffused and the benefits concentrated. (The same pattern holds for many other government policies, such as farm subsidies.) The winners from a tariff generally have a bigger stake in imposing and keeping them than the losers have in stopping them. The losers, such as the people

who would have gotten a job at a car maker if not for tire tariffs, might not even know they are paying a cost at all.

The benefits can be concentrated geographically, too, and in an electorally advantageous way. Trump probably will be following a narrow path to re-election in the Electoral College, one that again runs through the industrial Midwest. He will need the renewed strong support of working-class white voters in Michigan, Wisconsin and Pennsylvania (and might make a play for their counterparts in Minnesota). He probably will need almost all of those voters who backed him in 2016 after backing Obama in 2012.

These voters are not overjoyed by the Republican tax cuts Trump signed into law or the deregulation his administration has implemented. Tariffs are one of the few policies Trump has pursued that directly benefit a lot of them — one of the few ways that he can illustrate that he is fighting for their material interests. In the same way, Bush's steel tariffs, though widely judged to have been an economic failure, might have helped him narrowly carry Ohio, and thus win re-election, in 2004.

A trade war might harm the U.S. economy while also helping Trump in 2020. What's more, an outcome to the trade war that is better for the economy might be worse for Trump.

If tariffs against Chinese imports succeeded in pressuring Beijing to grant stronger protection to American companies' intellectual property, for example, it would be considered a great victory for Trump. But that would create jobs in Hollywood and Silicon Valley. If you're working in a manufacturing plant in Wisconsin, and cheering for Trump's trade policies, would you really be excited about that outcome?

On trade, the president's political interests do not fully align with the country's (or investors') economic interests. The bad news for the market is not just that Trump might have helped himself by starting a trade war. It's also that it's not necessarily in the president's interest to win it.