NATIONAL REVIEW

Protection Racket

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Advocacy for free trade can sometimes be dogmatic and utopian. It can overstate the contribution that reducing trade barriers makes to the spread of peace and democracy. It can ignore the harm that liberalized trade does to particular workers, industries, and communities. It can assert, dubiously, an absolute right to trade, positing that governments should never interfere in voluntary economic transactions.

People who want to raise trade barriers — by, for example, imposing higher tariffs to discourage the purchase of imports — can sound pragmatic by contrast. Often they say that they are themselves free traders, just not doctrinaire ones. Thus President-elect Donald Trump and his trade advisers say they are for trade deals, just smarter ones than the U.S. has been making over the last several decades. But while the case for freeing trade can be exaggerated, the case for protectionism frequently traffics in outright misconceptions.

One: The U.S. practices "unfettered free trade." Both Bernie Sanders and Joe Scarborough have used this terminology. It's true that by historical standards, the U.S. government leaves trade relatively free. But there are some fetters. We levy 25 percent tariffs on imported light trucks, for example, and slap quotas on imports of cotton. The U.S. International Trade Commission reports that we impose more than 300 special protective duties, including nearly 200 on iron and steel products. A Credit Suisse report says that from 1990 through 2013, the U.S. imposed more trade barriers than any other country. (I'm indebted to a post by Scott Lincicome of the Cato Institute for these points.) Incoming White House chief of staff Reince Priebus recently said that we should reconsider "this obsession with free trade." It's not an obsession our government exhibits.

Two: Trade deficits hurt the economy, and reducing the trade deficit would help the economy. Wilbur Ross, Trump's nominee for commerce secretary, says it's "Econ 101" that a trade deficit "weakens our economy." Gross domestic product is calculated by adding together consumption, investment, government spending, and exports, and then subtracting imports; Ross reasons that increased imports therefore reduce GDP. Along with Peter Navarro, another Trump adviser, Ross has written that we can eliminate our $500 billion trade deficit and our economy will be $500 billion larger.

That's a non sequitur. GDP, as the acronym suggests, tries to measure the value of what is produced here. So it has to exclude imports. Since some imports are counted as consumption and some as investment, the way to exclude them is to subtract them. Even as a matter of accounting, then, the argument is wrong.

Imports add to economic welfare; that's why people buy them. Ross is assuming that imports are always substitutes for domestic production. On this assumption, levying tariffs on imported steel would not harm any American companies that use steel: They'd buy the same amount of steel at the same price from domestic producers, and be just as efficient as before. In the real world we should expect some combination of reduced purchases and increased prices, along with lower productivity.

Large trade deficits have often accompanied strong economic growth; so have rising trade deficits. The U.S. trade deficit grew through the 1990s, for example. Attempts to link trade deficits to the loss of manufacturing jobs are not persuasive, either. The European Union has a trade surplus, but it is losing those jobs too. (Higher productivity has been killing manufacturing jobs nearly everywhere.)

A more sophisticated argument against trade deficits holds that they weaken "aggregate demand," as Keynesians put it, since money sent abroad is no longer circulating here, and since central banks may not always be able to counteract this effect by running a more expansionary monetary policy. Whatever the merits of that theoretical argument, though, it cannot apply today. The Fed has been tightening monetary policy: It raised interest rates last year and this year, and says it expects to keep raising them. If it wants a looser policy, it can cut them instead.

Three: New research has strengthened the case against free trade. A study released earlier this year suggested that trade with China had caused more job losses than previously believed — perhaps a quarter of all manufacturing-job losses between 1991 and 2007. But it also suggested that this job loss could partly be attributed to China's growing more efficient by privatizing state-owned enterprises and cutting tariffs on inputs its producers imported, and it suggested that the impact of trade with China on jobs is already in the rear-view mirror. The details of the analysis do not point in the direction of raising American tariffs now.

Four: We can cut the trade deficit while making America more attractive to foreign investors. Trump took credit when a Japanese bank announced it would invest in the U.S. But if our trade deficit declines, then so must our net inflow of capital. That's just math. Trump has tweeted that by putting tariffs on companies that move jobs overseas, he is signaling that America is open for business. But either it will be less open to foreign investors or American investors will have to find more opportunities abroad. (This effect is another reason that Ross's use of the formula for GDP is misleading: These shifts in capital flows would affect consumption and investment.)

Five: Changing the tax code will eliminate the trade deficit. The Trump advisers' promise to eliminate the trade deficit is largely based on the idea that many other countries' tax codes discriminate against us. Those countries have value-added taxes that apply to their imports but exempt their exports — a "backdoor tariff," the advisers say. They want the World Trade Organization to crack down on the practice. They're wrong: A tariff discriminates between imports and domestically produced goods in an attempt to discourage the purchase of the former.

Value-added taxes apply to both, covering domestically consumed goods regardless of their origin.

Other Republicans, including Speaker of the House Paul Ryan, want to move toward a business consumption tax that treats trade the way value-added taxes do: exempting exports and applying to imports. While moving toward a consumption tax might be a good idea for other reasons, economic theory suggests that border adjustment would cause the dollar to appreciate and leave the trade balance unchanged.

Six: Trump has a mandate to raise trade barriers. Polling on this subject is equivocal, with several polls suggesting that Americans look favorably on trade and are even mildly supportive of the much-maligned Trans-Pacific Partnership (which Trump has vowed to kill). The Chicago Council on Global Affairs found that while Trump's core supporters are less likely than most Americans to say that globalization has been "mostly good for the United States," even 49 percent of them agree.

The polling does not show a great deal of public interest in trade policy. Gallup regularly asks people to name the greatest problem facing the country. In October, right before the election, 10 percent said "race relations" or "racism"; 7 percent said "immigration" or "illegal immigration"; 4 percent said "health care." Add up "foreign trade" and the "trade deficit," and you get an asterisk: Less than 1 percent of respondents brought up the topic.

Trump and some of his advisers have strong views on trade and are in a position to act on them. But those views are not well founded, and the country is not clamoring to see them put into practice.