



## **No, Mr. President, you don't have the 'better ideas' on trade**

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In an interview with The Economist earlier this month, President Trump provided a noteworthy answer to the question, “Do you think you’ve permanently changed the Republican Party’s position on trade?”

Trump's response: “No. Because there’ll always be someone that comes along with another idea but it’s not a better idea. We have the better idea.”

Unfortunately, the president’s proposals on trade simply don’t qualify as “better ideas.” If actually put into practice, they would impose large costs on U.S. consumers, on businesses that utilize imports and on exporting firms likely to be hit by other countries’ retaliatory actions. They also would undermine American freedoms by curtailing the fundamental right of people to engage in commerce.

One of the president’s ideas is to apply “massive”, “reciprocal” tariffs to punish countries that have trade surpluses with the United States. Lashing out at other nations may be viscerally satisfying, but instituting new tariffs certainly does not guarantee that the targeted country will implement desired reforms.

Experience from the Smoot-Hawley Tariff Act of 1930 suggests other countries are likely to respond by retaliating against American exports. That sad episode featured tit-for-tat tariff increases that shrank global trade by two-thirds from 1929 to 1934, thus serving to deepen and lengthen the Great Depression.

Economists have understood for decades that a country always reduces its economic welfare by implementing trade restrictions. Fortunately, better ideas are available that would expand economic opportunities and raise American living standards. Here are some suggestions:

First, give up on the obsession with bilateral trade deficits and surpluses. Bilateral trade flows certainly can be influenced by government policies, but they also are driven by underlying economics. All countries — even the United States — are relatively better at doing some things

than others. Each nation should follow David Ricardo's advice and specialize in activities at which it has the strongest comparative advantages, then trade to obtain other needed goods and services.

Second, recognize that the overall U.S. trade deficit is not determined by trade policies, either in this country or overseas. By definition, a nation runs a current account deficit whenever it invests more than it saves. The trade deficit is the largest component of the U.S. current account. If the White House wishes to reduce the trade deficit, it should focus on policies to increase savings or to reduce domestic consumption. The best way to do this would be to eliminate the federal budget deficit.

Third, abandon the impulse to raise tariffs to levels that would be reciprocal to high tariffs imposed by some nations. It's true that U.S. tariffs are relatively lower than those of many other countries. World Bank data show that the average applied U.S. tariff in 2010 (the most recent year with comparable data) was 1.57 percent, while the global average was 2.69 percent.

Average tariffs are low because most products enter the United States with zero duty. The real distortions to global trade come from high levels of protection on certain politically-favored products. For instance, the United States tightly protects its sugar market through a system of tariff-rate quotas. The current gap between the world market price and the U.S. price for raw cane sugar indicates an effective level of protection in excess of 60 percent.

If sugar-exporting countries were to follow Trump's playbook and apply reciprocal 60-percent tariffs against U.S. shipments of other goods, American exporters of airplanes and soybeans suddenly could find themselves cut off from traditional overseas markets. As the world's third-largest merchandise exporter, many U.S. industries would be vulnerable to retaliation imposed by other nations.

Fourth, have more faith in Adam Smith's "invisible hand." Open and competitive markets provide more opportunities for people to earn their livings, to invest and to pursue their dreams. Capitalism spurs economic growth; government protection for favored industries slows it down. Instead of imposing new import tariffs, the Trump administration should strive to expand economic freedom by eliminating trade barriers in this country and around the world.

Fifth, acknowledge that the economy is changing at an unsettling pace. Globalization leads to some job losses, although many more are due to robots and computers. Regardless of the cause, displaced workers could benefit from adjustment assistance that provides access to education, training and relocation services.

President Trump has demonstrated an admirable ability to change positions once he sees things in a different light. He should reconsider his approach to trade, seeking policies that would work with economic forces instead of fighting against them. If he was to explain to the country how free trade would help to reassert American greatness, many people would be willing to support him. Then the president would be able to say correctly, "We have the better idea."

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