

CITY A.M.

The Trump team tariff rhetoric is one big glaring contradiction

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Last Friday, President Donald Trump imposed \$34bn worth of tariffs on Chinese goods, with China responding in kind.

The US government mainly targeted intermediate products, such as vehicle parts, electrical components, and machinery. But this could be just the start.

A second round of \$16bn tariffs is supposedly in the pipeline for August. Beyond that, the President has even threatened tariffs on Chinese goods of up to \$200bn in the coming years.

We are facing an unprecedented escalation in US trade barriers for the post-war era. Dartmouth University trade historian Doug Irwin has called current policy “the biggest application of tariffs by the US and affecting US trade” since the Great Depression-era.

But listen to the President’s team and supporters, and you will still notice a glaring contradiction in their justifications.

On the one hand, they argue that tariffs are designed to bring other governments to the negotiating table to reduce their own tariffs on US goods.

On the other, they claim that the tariffs are actually good for the economy, because they will increase domestic investment and lead to reshoring of supply chains and manufacturing activities.

Last week, German Chancellor Angela Merkel suggested that she would be open to reducing EU tariffs on cars, following Trump’s threats to raise America’s. This was celebrated by Trump supporters as an example US strength (read, threats) being used to liberate trade worldwide.

In this view, the President is merely seeking to use his bully pulpit to open up highly protected foreign sectors. He’s not a protectionist at all, but wants free trade on a level playing field.

Yet when it comes to the tariffs on steel and aluminium, the administration’s line appears completely different. Indeed, these tariffs were justified, at least initially, on national security grounds, and not because they would “open up a negotiation” about tariff reduction elsewhere.

Trump adviser Peter Navarro has even celebrated (rather dubiously) that the tariffs have led to a new aluminium mill in Kentucky and the restart of steel-making facilities in Illinois.

He claims that these measures are “pro-worker”, and appears completely indifferent to the impact that raising the price of a key input will have for the 6.5m workers in industries which consume steel.

This is not the line of someone who sees tariffs as a temporary and necessary evil to compel a more liberal trading environment from others.

So what is the real view of the administration? Well, the signs are not great.

Everything from Trump’s obsession with economically meaningless bilateral trade deficits, through to his constant focus on manufacturing producers rather than consumers, suggests that “exports good, imports bad” represents the administration’s worldview.

Indeed, the fact that the products selected have overwhelmingly been intermediate goods for manufacturing would imply that the repatriation of whole supply chains is the priority.

This is likely to have worrying implications for how the global trade war plays out.

If you were a free-trader at heart, any failure of tariffs to bring others to negotiate with you might lead you to reassess and change course.

But if instead you see tariffs as a means of reshoring certain activities to the US, then tit-for-tat retaliation will not stop you, but might actually encourage you to go further. Who knows where we might end up?

Paradoxically, the current strength of the US economy worsens prospects for free trade.

Last Friday’s jobs report showed strong job gains at a low level of unemployment, and even more people becoming active in the labour market. Any adverse effects of tariffs on manufacturing jobs have so far not shown up in the aggregate data – in fact, there were 36,000 new manufacturing jobs in June, compared to the 18,000 added in May.

In such an environment, it will be difficult to discern the negative impact that imposing taxes on the import of particular products will have, which will likely prolong their use. Then, when the broader economy is suffering, entrenched interest groups will lobby hard for the maintenance of the tariffs, especially if long-term investments have been made predicated on their existence.

The obvious question for free-traders in the Republican party is just how far this trade war has to escalate before the claim that it is about opening up negotiations ceases to be credible.

At the moment, the administration is trying to claim simultaneously that tariffs will be good for the economy, but also that its real aim is no tariffs at all.

On which side will congressional Republicans stand when that contradiction becomes obvious?

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