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The tax cut has done nothing for economic growth

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Republicans insisted that the tax cut would not expand the debt and would spark an economic boom. Neither of these things happened.

We already knew from the Congressional Budget Office's recent report that the debt has swelled. Now we know that growth in the first quarter of 2018 was tepid. The Wall Street Journal reports:

Economic growth was slower at the beginning of this year than the government previously reported, as consumers pulled back spending and the housing market weighed down output.

Gross domestic product, a broad measure of the goods and services produced across the U.S., expanded at a seasonally and inflation-adjusted annual rate of 2% in the first quarter, the Commerce Department reported Thursday. That was weaker than an earlier estimate of 2.2% growth.

Republicans will assure us that next quarter, by gosh, we'll see an economic explosion. But here is the rub: The cause of the lagging growth was consumer spending. As President Trump's tariff war hits the price of consumer goods, consumers are unlikely to be buying more; they will buy less because goods will be more expensive.

Obama's former car czar Steven Rattner writes, "Since mid-February, when the Commerce Department first recommended imposing tariffs on imported metals, prices for steel in the United States have been rising sharply and are now 38% above where they stood at the end of 2017. That may be good news for domestic companies that produce the metal, but for American companies that rely on steel as in input, higher prices will be felt. (Comparatively, steel prices in the United States are now more than 50% higher than in both Europe and China.)" He continues, "Moreover, the tariffs could well have the counterproductive effect of costing more jobs than they save or create. That's because steel using industries employ more than 10 times as many workers as steel producing industries."

Moreover, the American heartland, deep-red America, is already feeling it. "China has dramatically slowed its purchases of American soybeans, causing prices to drop by 15% in just one month," Rattner notes. "Soybeans may not sound like an important product, but they are our largest agricultural crop as well as our largest farm export. Perhaps not coincidentally, Mr. Trump won 8 of the 10 top soybean producing states, including Missouri, Indiana and North Dakota, all home to Senate Democrats targeted by Republicans in the mid-term elections."

This is precisely why protectionism never works. We impose tariffs, in effect a tax on foreign sellers. They curtail purchases of our goods and retaliate with more tariffs — taxes — on our goods. We fuel inflation (prices go up), impose economic hardship on consumers and prompt businesses that rely on exports to lose money, forcing them to lay off workers, relocate outside the United States or even shut down. This is the downward spiral that transformed the 1929 stock crash into the Great Depression.

The irony is that Trump has now — via his tax and trade policies — definitively taken on responsibility for their results. Daniel J. Ikenson of the Cato Institute observes:

[Trump] has departed from more than 80 years of US trade policy continuity, charting a new and deeply troubling course. Although Trump is not the first president to blame foreign trade practices for problems real and imagined, he may be the first to believe that protectionism is essential to making America great. He is certainly the only head of state ever to tweet that "trade wars are good, and easy to win." Trump's trade policy is motivated by a toxic blend of ignorance, petulance and nationalist grievance.

In practice, this is how it works:

In 2017, US goods imports totaled US$2.2 trillion — of which US$1.1 trillion were purchases of raw materials, intermediate goods and capital equipment — and US goods exports totaled US$1.5 trillion. If Trump were to impose, for example, a 10 percent across-the-board tariff on all imports, producer costs would rise by roughly US$110 billion (or 10 percent of US$1.1 trillion). Commensurate retaliation abroad would reduce US export revenues by roughly US$150 billion (or 10 percent of US$1.5 trillion). Together, the increased costs and reduced revenue would amount to a US$260 billion reduction in manufacturing-sector profits. Last year, the US manufacturing sector's profits were US$550 billion, so a 10 percent import levy alone could end up cutting profits nearly in half. When Trump claims that protectionism will revitalize manufacturing and bring back jobs, one can only wonder where he thinks the investment will come from without the profits his tariffs will chase away.

The results of a burgeoning debt and trade war will unfold in the months ahead, but those cheering Trump for sticking to his guns are, as Ikenson puts it, "complicit in the unenlightened, provocative and possibly unhinged trade policy that Trump has wrought." Congressional Republicans, who have failed to counteract the tariffs by reclaiming their trade authority and who passed a debt-generating tax bill, will be held equally responsible if the economy slows. That's a problem for 2018 and an even bigger problem for 2020 when the consequences of Trump's policy are plain for all to see.