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President Trump should trust Wharton School instincts on trade

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Last weekend, President Trump offered perhaps one of his best ideas to date, which is a tariff- and subsidy-free G7.

Since long before he was even a presidential candidate, Trump has been a consistent critic of international trade agreements. As president, he has taken to using tariffs and threats of tariffs in protest of what he considers unfair trade practices that disadvantage the United States.

It was somewhat surprising then for Trump to suggest the elimination of tariffs and subsidies between the United States and other G7 nations, which include Britain, Canada, France, Germany, Italy and Japan.

“You want a tariff-free, you want no barriers, and you want no subsidies, because you have some cases where countries are subsidizing industries, and that’s not fair,” he said.

“So you go tariff-free, you go barrier-free, you go subsidy-free. That’s the way you learned at the Wharton School of Finance.”

It’s not clear how serious Trump is about the idea of eliminating tariffs and subsidies, but the notion of truly free trade, rather than the managed trade of agreements like NAFTA, is one to get behind.

Protectionism, as the late, great economist Milton Friedman once said, only protects consumers from low prices.

Tariffs might be beneficial to select companies and industries, but they sacrifice the competitiveness of far more others.

As one estimate from The Trade Partnership recently put it, Trump’s tariffs on steel and aluminum imports are likely to result in 16 lost jobs for every job created by them. That’s 400,000 jobs at stake for the sake of maybe helping American steel and aluminum producers produce far fewer jobs.

There's nothing smart about America shooting itself in the foot for the sake of protecting select industries from global competition. Yet that's what Trump has unfortunately put America on the course of doing, with the resulting trade war merely harming everyone involved.

"In a so-called trade war, driven by reciprocal increases of import tariffs, nobody wins, one generally finds losers on both sides," as International Monetary Fund Director Christine Lagarde recently said.

While it is true that other countries subsidize industries in their own countries and use tariffs to make those industries more competitive in their own countries — for example, Canada's tariff on dairy — it must be noted the United States does the same thing, including monstrosities like the farm bill.

When Trump "points to European auto tariffs, the Europeans can point to U.S. truck tariffs," notes Simon Lester at the Cato Institute. "And then they can keep going down the list: Buy America procurement policies, the Jones Act, barriers to trade in legal and medical services, anti-dumping abuses, etc."

Trump's solution of just repealing all subsidies and engaging in truly free trade is the right way to go.

As a 2010 study from the European Centre for International Political Economy estimated, the repeal of tariffs between the European Union and the United States could produce dynamic welfare gains of up to \$86 billion for the EU and \$82 billion for the US.

Trade isn't a zero sum game. With greater trade, the world becomes a wealthier and more peaceful place. To get there, world leaders, including Trump, must reject self-defeating protectionist policies and embrace truly free trade.