

The Delusion of a Win-Win Trade War

It is no surprise that President Trump's trade war has many supporters. An understanding of the law of comparative advantage has never been a prominent feature of people's knowledge in the USA or anywhere else. And special interests have honed their propaganda over centuries of angling for the use of government power to protect them from foreign competition, maneuvering to pick the pockets of consumers in their own country.

But even as Trump spouts venerable fallacies to justify and seek support for his destructive trade policies and related ad hoc actions, he and his supporters have sometimes offered a strange defense of their tactics: they purport to be seeking, at the end of the game, universal free trade, a world in which all countries have abandoned tariffs, quotas, subsidies, and other government intrusions in international exchange. In Wilsonian terms, they claim to be waging the trade war to end all trade wars. The idea is that by raising U.S. tariffs, they will induce other governments to lower and ultimately eliminate their own.

Of course, this rationale may be nothing more than wily claptrap, tossed out as a rhetorical bone to Republicans who favor freer trade. The administration's actions to date certainly give no indication that it is aiming at global free trade. On the contrary. So the Wilsonian gambit may consist of nothing but hot air.

But if Trump and his trade advisers actually take this tactic seriously, they are deluding themselves.

First, and surely obviously, U.S. tariff increases will not induce other governments to lower their own, but to raise them, as the EU, China, Mexico, Canada, and other trading partners have already demonstrated. That's why it's called a trade war—because the “enemy” shoots back. History has shown repeatedly, most notably in the early 1930s, in the wake of the Smoot-Hawley Tariff Act of 1930, that such trade wars only spiral downward, choking off more and more trade, despoiling the international division of labor in accordance with comparative advantage, and thereby diminishing real income in all the trading countries.

Second, the prospect of the U.S. government's ever abandoning tariffs is slim to none. Tariffs are the classic example of government interventions with concentrated benefits and dispersed costs. This character makes them attract great support from protected special interests and little opposition from the general public—including other producers—when they are enacted or extended. They are easy for politicians to put in place and diabolically difficult for anyone to eliminate. Although the costs are great—much greater than the benefits for the economy as a whole—hardly anyone's costs are great enough to justify mounting a potent political attack on the tariffs.

People who get tariffs put in place to protect them in the first place are well positioned to marshal strong opposition to any political attempt to eliminate these taxes on consumers who buy from competing, foreign suppliers. Consumers rarely know anything about why foreign goods are priced as they are, and producers, in general, are usually not affected enough by tariffs on imported raw materials and components to justify well-funded politicking against them.

Third, even if the trade-war tactic eventually gave rise to a general abandonment of tariffs and other trade restrictions, this outcome would not necessarily mean that the trade war had been a win-win conflict. Of course, a completely free-trading world would be a wonderful, highly beneficial situation, but the question would remain: were the benefits of attaining this result by means of a trade war great enough to justify bearing that war's undeniable costs?

And make no mistake: this trade war is already proving highly disruptive and destructive. Firms unable to sell to their usual customers abroad are reducing production and laying off workers; firms faced with much higher costs of obtaining foreign raw materials and components for their products are acting likewise.

Moreover, the uncertainty about what the president will do next in conducting his allegedly good war is weighing heavily on entrepreneurs and managers, who are reacting normally to such uncertainty by hunkering down, delaying or canceling investments and new hiring. The greater the uncertainty, the greater the economic paralysis. Back in the 1930s, such regime uncertainty played a major role in prolonging the Great Depression.

Fourth, as trade and trade-related income decline because of the U.S. trade war and other countries' reactions to it, even U.S. and foreign firms whose products may not have been subjected to increased tariffs or other restrictions will suffer, simply because a world with reduced income will demand fewer imports in general. A trade war makes the whole world less efficient; the world economy as a whole produces less output and pays out less income to the producers than it otherwise would. Poorer people make poorer customers for all U.S. firms that sell abroad and for all foreign firms that sell in the USA.

The foregoing considerations are only a few of the many that weigh against the initiation and continuation of a trade war. Trump says such wars are easy to win. In this regard, he apparently doesn't even understand what winning means. The supposition that such a war can be won is a delusion. A trade war may serve Trump's political ambitions by appealing to supporters ignorant of economics and easily bamboozled by anything wrapped in the flag, but the idea of a win-win trade war is the height of folly so far as economic rationality is concerned—not to mention its further suppression of economic liberties already being crushed by taxes and regulations. In fact, the only way to win a trade war is not to fight one.