

Trump's Trade Policy—A Reductio ad Absurdum

Before and since becoming president, Donald Trump has consistently maintained that the U.S. trade deficit in general—and the trade deficit with China in particular—is bad for Americans. As he says, again and again, Americans “lose” by importing goods from abroad and gain by exporting goods to foreigners. His tariff increases and newly imposed tariffs have been aimed, or so he claims, at reducing the U.S. trade deficit and thereby cutting Americans’ “losses.”

Economists and people with an elementary understanding of economics have condemned this view from the beginning as folly and as harmful to the economic well-being of Americans and foreigners alike. But the president and his advisors have ignored or shrugged off such criticism, dismissing it as at variance with what people can see plainly with their own eyes, such as increased employment in certain firms benefiting from tariff-hobbled foreign competition.

So, let's consider the president's trade policy in, as it were, its very best light. Suppose, then, that the government succeeded in eliminating the trade deficit entirely. Residents of the USA would continue to sell huge quantities of goods to foreigners but buy nothing at all from foreign sellers. The trade deficit would be not only diminished but wiped out and replaced by a huge trade surplus. Trumpian triumph!

Note, however, that such an outcome would be impossible to sustain for long even if it could be attained (which in fact it could not). Foreigners would be spending huge quantities of dollars to purchase goods from Americans, but they would have no means of earning dollars because Americans would not be buying anything from them. Foreigners could continue to make such purchases only if they received dollar credits from foreigners. But lenders would have no incentive to lend dollars to the Chinese, say, when they knew that the Chinese would have no ability to repay the loans because they would have no means of earning dollars in the future by sales to Americans. So a big U.S. trade surplus requires that totally implausible assumptions be made about international transactions in general and international lending in particular.

But apart from such practical difficulties and impossibilities, a Trumpian trade triumph, even if it could be achieved, would be a horrible objective to attain. Americans would be employing labor services, natural resources, and other productive inputs to produce goods and shipping them to foreign buyers. In exchange, they would receive nothing but bank account balances. Such a deal! Surrendering huge volumes of valuable goods and receiving in return larger numerals in people's bank account statements, more dollars that could not be used to purchase anything, no matter how important or desirable, from abroad—all such purchases having somehow been stopped by a harebrained government

and the economic ignoramus in charge of it.