

# Oh! What a lovely trade war

By Paul Krugman

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Remember when Donald Trump declared that “nobody knew that health care could be so complicated”? It was a rare moment of self-awareness for the tweeter-in-chief: He may, briefly, have realized that he had no idea what he was doing.

Actually, though, health care isn’t all that complicated. And Republican “reform” plans are brutally simple — with the emphasis on “brutally.”

Trump may be the only person in Washington who doesn’t grasp their essence: Take health insurance away from tens of millions so you can give the rich a tax cut.

Some policy subjects, on the other hand, really are complicated. One of these subjects is international trade. And the great danger here isn’t simply that Trump doesn’t understand the issues. Worse, he doesn’t know what he doesn’t know.

According to the news site Axios, Trump, supported by his inner circle of America Firsters, is “hell-bent” on imposing punitive tariffs on imports of steel and possibly other products, despite opposition from most of his cabinet. After all, claims that other countries are taking advantage of America were a central theme of his campaign.

And Axios reports that the White House believes that Trump’s base “likes the idea” of a trade war, and “will love the fight.”

Yep, that’s a great way to make policy.

O.K., so what’s complicated about trade policy?

First, a lot of modern trade is in intermediate goods — stuff that is used to make other stuff. A tariff on steel helps steel producers, but it hurts downstream steel consumers like the auto

industry. So even the direct impact of protectionism on jobs is unclear.

Then there are the indirect effects, which mean that any job gains in an industry protected by tariffs must be compared with job losses elsewhere. Normally, in fact, trade and trade policy have little if any effect on total employment. They affect what kinds of jobs we have; but the total number, not so much.

Suppose that Trump were to impose tariffs on a wide range of goods — say, the 10 percent across-the-board tariff that was floated before he took office. This would directly benefit industries that compete with imports, but that’s not the end of the story.

Even if we ignore the damage to industries that use imported inputs, any direct job creation from new tariffs would be offset by indirect job destruction. The Federal Reserve, fearing inflationary pressure, would raise interest rates. This would squeeze sectors like housing; it would also strengthen the dollar, hurting U.S. exports.

Claims that protectionism would inevitably cause a recession are overblown, but there’s every reason to believe that these indirect effects would eliminate any net job creation.

Then there’s the response of other countries. International trade is governed by rules — rules America helped put in place. If we start breaking those rules, others will too, both in retaliation and in simple emulation. That’s what people mean when they talk about a trade war.

And it’s foolish to imagine that America would “win” such a war. For one thing, we are far from being a dominant superpower in world trade — the European Union is just as big a player, and capable of effective retaliation (as

the Bush administration learned when it put tariffs on steel back in 2002). Anyway, trade isn't about winning and losing: it generally makes both sides of the deal richer, and a trade war usually hurts all the countries involved.

I'm not making a purist case for free trade here. Rapid growth in globalization has hurt some American workers, and an import surge after 2000 disrupted industries and communities. But a Trumpist trade war would only exacerbate the damage, for a couple of reasons.

One is that globalization has already happened, and U.S. industries are now embedded in a web of international transactions. So a trade war would disrupt communities the same way that rising trade did in the past. There's an old joke about a motorist who runs over a pedestrian, then tries to fix the damage by backing up — running over the victim a second time. Trumpist trade policy would be like that.

Also, the tariffs now being proposed would boost capital-intensive industries that employ relatively few workers per dollar of sales; these tariffs would, if anything, further tilt the distribution of income against labor.

So will Trump actually go through with this? He might. After all, he posed as a populist during the campaign, but his entire economic agenda so far has been standard Republican fare, rewarding corporations and the rich while hurting workers.

So the base might indeed like to see something that sounds more like the guy they thought they were voting for.

But Trump's promises on trade, while unorthodox, were just as fraudulent as his promises on health care. In this area, as in, well, everything, he has no idea what he's talking about. And his ignorance-based policy won't end well.