

Donald Trump and the perils of voodoo economics

By Barrie McKenna

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Chrystia Freeland has given up trying to hide her exasperation with the Trump administration's conduct in the NAFTA talks.

"This is an administration that is explicitly protectionist, and in many areas the objective quite explicitly is to shrink the trading relationship," Canada's Foreign Affairs Minister told an audience at the Council on Foreign Relations in New York last week.

After six rounds of talks to renegotiate the North American free-trade agreement, Ms. Freeland and her U.S. counterpart, Trade Representative Robert Lighthizer, can't even agree on which country sells more stuff to the other.

The reality is that Canada enjoyed a very small goods trade surplus with the United States in 2016. Add services to the mix and the United States comes out on top with a US\$12.5-billion advantage, according to Mr. Lighthizer's own website.

But numbers and facts no longer have the same power to persuade in the age of Trumponomics.

The confluence of protectionism, hefty tax cuts, a swelling budget deficit and lower immigration all risk working against the economic growth that U.S. President Donald Trump insists he wants.

Ms. Freeland is acknowledging publicly what economists have been saying for a long time: Many of the key features of Mr. Trump's agenda seem to be based on voodoo economics. And it's not easy negotiating with someone who's following a strange and seemingly illogical rulebook.

The notion that the United States would see less trade as a good thing is only part of Canada's challenge. The Trump administration's attempt to engineer a lower U.S. trade deficit risks

destroying established supply chains and making many U.S. manufacturers less competitive.

The United States has also slapped steep emergency tariffs on imports of Chinese solar panels and South Korean washing machines, arguing they threaten national security. And more may be on the way. This will inevitably invite retaliation, making it even more difficult for U.S. companies to sell their stuff to the rest of the world.

The other major pillar of Mr. Trump's economic plan is massive tax relief. There's the US\$1.5-trillion tax cut, plus US\$1.5-trillion in proposed infrastructure spending that Mr. Trump is seeking. The problem is that slashing taxes without curbing spending will run up the deficit and make the government more beholden to foreign investors to finance its debt.

And if it can't find buyers for its bonds, the United States may have to push up already-rising interest rates, putting upward pressure on the U.S. dollar. A stronger currency would punish U.S. exporters and make it easier for Americans to buy cheaper imported goods, which would drive up the trade deficit and the broader current account deficit. That's exactly the opposite of what Mr. Trump insists he wants.

Another contradiction is why the administration would want to pump trillions of dollars of Keynesian stimulus into an economy that shows few signs of needing it. The U.S. economy is running at near-full employment, with the jobless rate at a 17-year low of 4.1 per cent.

So even if Mr. Trump succeeds in repatriating jobs to the United States, it's not clear there will be anyone available to do the work. The pool of

available U.S. workers has been steadily shrinking since the last recession. And the labour crunch will grow more severe as the median of the U.S. population ages and the baby boomers retire.

That would be less of a concern if the United States was opening its doors to more immigrants. Mr. Trump, of course, is moving in the opposite direction. The White House wants to dramatically curtail legal immigration as a tradeoff for granting eventual citizenship to hundreds of thousands of so-called “Dreamers”

– people brought to the United States illegally as children.

You have to feel for Ms. Freeland and the Canadian trade negotiators as they search for common ground with their U.S. counterparts on NAFTA. They can try all they like to offer solutions that benefit both sides on issues such as minimum-content rules for cars. Unfortunately, Mr. Trump and his team are living in a voodoo world, where the object of the game seems to be to inflict maximum pain on the adversary – regardless of the economic fallout.