

Trade war, what is it good for? Absolutely nothing

By Paul Krugman

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We've known all along that Donald Trump is belligerently ignorant about economics (and many other things). But up to this point that hasn't mattered much. He took office amid a sustained recovery that began under his predecessor, and that recovery had already lifted the U.S. economy to the point where "normal" policy rules apply: interest rates are above zero, monetary policy is effective again, so short-term economic management is in the fairly reliable hands of the Federal Reserve, not the chaotic Trump White House. What the president didn't know couldn't hurt us.

But there was always reason to be concerned about the possibility of crisis — either a crisis created by outside forces, like some kind of financial collapse, or one created by the administration itself. In that case the Fed's rationality wouldn't be enough. And it's starting to look like we have a trade policy crisis on our hands.

Trump has always had a thing about trade, which he sees the way he sees everything: as a test of power and masculinity. It's all about who sells more: if we run a trade surplus we win, if we run a trade deficit, we lose:



Donald J. Trump 
@realDonaldTrump

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When a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. Example, when we are down \$100 billion with a certain country and they get cute, don't trade anymore—we win big. It's easy!

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This is, of course, nonsense. Trade isn't a zero-sum game: it raises the productivity and wealth of the world economy. To take a not at all random example, it makes a lot of sense to produce aluminum, a process that uses vast

amounts of electricity, in countries like Canada, which have abundant hydropower. So the U.S. gains from importing Canadian aluminum, whether or not we run a trade deficit with Canada. (As it happens, we don't, but that's pretty much beside the point.)

It's true that trade deficits can be a problem when the economy is depressed, and unemployment is high. That's why I, like many other economists, wanted us to take a tougher stance on Chinese currency policy back in 2010, when we had around 9 percent unemployment. But the case for worrying about trade deficits, like the case for running budget deficits, has largely evaporated now that unemployment is back to 4 percent.

So we can't "win" a trade war. What we can do is start a cycle of tit-for-tat, and when it comes to trade, America — which accounts for 9 percent of world exports and 14 percent of world imports — is by no means a dominant superpower.

A cycle of retaliation would shrink overall world trade, making the world as a whole, America very much included, poorer. Perhaps even more important in the near term, it would be highly disruptive. We live in an era of global supply chains: just about everything produced in America (and everywhere else) uses inputs produced in other countries. Your new car may well have a chassis assembled in the U.S., an engine and wiring system made in Mexico, electronics from Korea and China, and, of course, steel and aluminum from Canada.

Could we produce cars without all those imported components? Yes, given time. But getting from here to there would be a huge mess: hundreds if not thousands of factories would have to close or convert over to other uses. Never mind the net loss of jobs from a

full-scale trade war, which would in the end probably be a relatively small number. The point instead is that the *gross* job losses would be huge, as millions of workers would be forced to change jobs, move to new places, and more. And many of them would suffer losses on the way that they would never get back.

Oh, and companies on the losing end would lose trillions in stock value.

So the idea that a trade war would be “good” and “easy to win” is surpassingly stupid. And the way Trump seems to be starting his war is

also remarkably stupid: start by protecting goods that are inputs to industries that employ far more people than those being protected? Do so in the name of national security — a justification that is, for good reason, almost never invoked — when the biggest source of those inputs is that hostile foreign power Canada?

In themselves, these tariffs aren’t that big a deal. But if they’re a sign of what future policy is going to look like, they’re really, really bad.