Trade facts vs. Trump's crazy talk

By Barrie McKenna
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Political junkies are accustomed to spin, obfuscation and the occasional lie.

But that's nothing compared with the crazy talk that has become U.S. President Donald Trump's stock-in-trade.

Here is Mr. Trump talking about how Japanese authorities unfairly try to keep U.S. cars out of their market:

"It's called the bowling ball test; do you know what that is?" Mr. Trump asked bemused donors at a private fundraising event week. "That's where they take a bowling ball from 20 feet up in the air and they drop it on the hood of the car, and if the hood dents, then the car doesn't qualify. Well, guess what, the roof dented a little bit, and they said, nope, this car doesn't qualify. It's horrible, the way we're treated. It's horrible."

The truth is there is no bowling ball test. Japan does not lob bowling balls or any other objects at imported cars. The White House later dismissed Mr. Trump's anecdote as a joke.

It was in the same speech that Mr. Trump bragged about lying to Prime Minister Justin Trudeau about the Canada-U.S. trade balance in a private meeting. Mr. Trump insisted Canada has a trade surplus with the United States, even though his own government's statistics show the U.S. enjoyed small goods-and-services surpluses with Canada in 2015, 2016 and 2017.

Indeed, Mr. Trump and other U.S. officials continue to peddle the fiction that the United States has a trade deficit with Canada.

And that's the mess the world is in as the Trump administration takes a series of very real protectionist swipes at its main trading partners. On one side, there are facts. On the other, the delusional rants of a President who doesn't know what he's talking about, or simply lies.

It would all be hilarious if trade was not at the heart of Mr. Trump's agenda. Trade helped fuel his surprise election win. And it is now the centrepiece of his economic policy.

Mr. Trump and his top advisers on trade – Commerce Secretary Wilbur Ross, Trade Representative Robert Lighthizer and director of trade and industrial policy Peter Navarro – have been unambiguous in what they want. Their objective is to shrink, if not eliminate, the large U.S. trade deficit with the world, which hit a record US$568-billion in 2017.

The trade-deficit narrative is behind Mr. Trump's renegotiation of the North American free-trade agreement, the pending tariffs on imported steel and aluminum, plus a series of other planned and threatened protectionist measures against China and others.

And while the U.S. trade deficit is real, Mr. Trump is dead wrong about what causes it, and hence, what to do about it.

The President and his advisers equate the deficit to an economic loss for the United States. That, in itself, is a dubious notion. Conventional economic theory suggests that a large and persistent trade deficit can stifle growth, kill jobs and devalue a country's currency. That is not what's happened in the United States, which has enjoyed a strong dollar and thriving economy in spite of running large trade deficits since the 1970s.

Mr. Trump argues that the rest of the world is ripping off the United States by applying much higher tariffs and other barriers than Washington does. The solution, therefore, is to level the playing field by raising U.S. tariffs.

Again, the facts don’t line up with Mr. Trump’s narrative. Average U.S. tariffs on imports are not substantially different from those of most its trading partners, with the exception of China and Mexico. U.S. tariffs average 2.9 per cent. That compares with 2.6 per cent in Europe, 3 per cent in Canada and 3.5 per cent in Japan, according to a research note by JPMorgan. China’s has average tariffs of nearly 8 per cent and Mexico 6.1 per cent.

Tariff differentials account for a tiny share of the U.S. trade deficit. And the effect of tariffs is dwarfed by movements in the U.S. dollar, which has risen nearly 30 per cent on a trade-weighted basis since 2011. This makes everything the United States sells in the world more expensive and imports cheaper.

The other culprit is the massive and growing U.S. budget deficit – the result of chronic overspending and undertaxing. Washington must borrow ever-larger sums to cover the gap, much of it from foreigners. This influx of foreign cash swells the trade deficit and drives the U.S. dollar even higher.

Crazy, but true.