

Tariff man has become deficit man

By Paul Krugman

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Republicans hate deficits. Or at least that's what they claim.

Republicans in Congress spent the entire Obama administration inveighing against budget deficits, warning incessantly that we were going to have a Greek-style fiscal crisis any day now. Donald Trump, on the other hand, focused his ire mainly on trade deficits, insisting that "our jobs and wealth are being given to other countries that have taken advantage of us."

But over two years of unified G.O.P. control of government, a funny thing happened: Both deficits surged. The budget deficit has hit a level unprecedented except during wars and in the immediate aftermath of major economic crises; the trade deficit in goods has set a record.

What's the significance of this tide of red ink?

Let's be clear: Neither the budget deficit nor the trade deficit poses a clear and present danger to the U.S. economy. Advanced countries that borrow in their own currencies can and often do run up large debts without drastic consequences — which is why the debt panic of a few years ago was always nonsense.

Yet Trump's twin deficits tell us a lot about both the tweeter in chief and his party — namely, that they're both dishonest and ignorant.

About the dishonesty: Is there anyone left who believes that Republicans ever really cared about debt and deficits? The truth is that the phoniness of their fiscal posturing should have been obvious all along.

In any case, at this point it's undeniable that their fire-and-brimstone debt rhetoric was nothing but a pose, an attempt to weaponize the

deficit as a way to block and undermine President Barack Obama's agenda.

The moment they had a chance, the very politicians who grandstanded about the need for fiscal responsibility rammed through a huge tax cut for corporations and the wealthy — a tax cut that is the main reason for the exploding budget deficit.

Oh, and the tax cut has utterly failed to deliver the promised investment boom. Companies didn't use their giant windfall to build new plants and raise productivity, they used it to buy back a lot of stock, passing the gains on to wealthy investors.

What about the ignorance? As many people have pointed out to no avail, Trump is all wrong about what trade deficits do. True, at times of high unemployment deficits can cost us jobs. But in normal times they don't reduce overall employment, nor do they make us poorer.

On the contrary, other countries are sending us valuable goods and services, which we're paying for with pieces of paper — paper that pays very low interest rates. Who's winning, again?

Beyond that, however, Trump is completely wrong about what causes trade deficits in the first place. In fact, his own policies have provided an object lesson in the falsity of his vision.

In the Trumpian universe, trade deficits happen because we made bad deals — we let foreigners sell their stuff here, but they won't let us sell our stuff there. So the solution is to throw up barriers to foreign products. "I am a Tariff Man," he proudly proclaimed.

The reality, however, is that trade deficits have almost nothing to do with tariffs or other

restrictions on trade. The overall trade deficit is always equal to the difference between domestic investment spending and domestic saving (both private and public). That's just accounting.

The reason America runs persistent trade deficits isn't that we've given away too much in trade deals, it's that we have low savings compared with other countries.

Tariffs can, of course, reduce imports of the goods subject to the tariff, and hence reduce the trade deficit in that particular industry. But it's like pushing on a balloon: You can squeeze it in one place, but it will just inflate by the same amount somewhere else. The process through which this conservation of deficits takes place can vary, although a stronger dollar, which hurts exports, is usually one major channel. But the basic result, that tariffs don't actually reduce the overall trade deficit, is clear.

Sure enough, the Trump tariffs of 2018 did, in fact, lead to a sharp fall in imports of the goods

subjected to tariffs. But imports of other goods rose, while exports performed poorly. And the overall trade deficit went up substantially, which is exactly what you should have expected. After all, that big tax cut for the wealthy reduced national savings.

And the supposed cause of the deficit isn't the only thing Trump gets wrong about trade policy. He also keeps insisting that foreigners are paying his tariffs. In reality, prices received by foreign exporters haven't gone down. Prices paid by U.S. consumers have gone up, instead.

Again, the swelling trade deficit doesn't pose any immediate threat to the U.S. economy. And even the Trumpian trade war has probably done only limited economic harm; the main damage is to U.S. credibility.

But Trump's twin deficits show that his party has been lying about its policy priorities, and that he is completely clueless about his signature policy issue. Luckily, a great nation like America can survive a lot, including dishonesty and ignorance at the top.