And the Trade War Came



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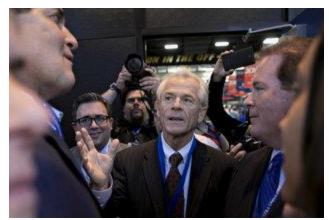
Donald Trump got within striking distance of the White House — or, more precisely, Comeyand-Putin range — thanks to overwhelming support from white working-class voters. These voters trusted his promise to bring back good manufacturing jobs while disbelieving his much more credible promise to take away their health care. They have a rude shock coming.

But white workers aren't alone in their gullibility: Corporate America is still in denial about the prospects for a global trade war, even though protectionism was a central theme of the Trump campaign. In fact, the only two causes about which Mr. Trump seems truly passionate are supposedly unfair trade deals and admiration for authoritarian regimes. It's naïve to assume that he'll let his signature policy issue slide.

Let's talk means, motive and consequences.

You might imagine that a drastic change in U.S. trade policy would require congressional approval, and that Republicans — who claim to believe in free markets — would put on the brakes. But given G.O.P. spinelessness, that's unlikely.

In any case, the <u>relevant legislation</u> gives the occupant of the White House remarkable leeway should he choose to go protectionist. He can restrict imports if such imports "threaten to impair the national security"; he can impose tariffs "to deal with large and serious United States balance-of-payments deficits"; he can modify tariff rates when foreign governments engage in "unjustifiable" policies. Who determines whether such conditions apply? The executive himself.



Peter Navarro, center, was chosen by President-elect Trump to lead a new White House office overseeing American trade and industrial policy.

Now, these provisions weren't intended to empower a president to reverse decades of U.S. trade policy, or engage in personal vendettas. You can guess, however, how much such niceties are likely to bother the incoming administration, which is already talking about <u>using its powers</u>. Which brings us to the question of motive.

Why would a Trump administration impose restrictions on imports? One answer is those working-class voters, whose supposed champion is set to pursue a radically antiworker domestic agenda. There's an obvious incentive for Mr. Trump to make a big show of doing something to fulfill campaign promises. And if this creates international conflict, that's actually a plus when it comes to diverting attention from collapsing health care and so on.

Beyond this, it's clear that the <u>incoming commander-in-chief really believes that</u> <u>international trade is a game in which nice guys finish last</u>, and that America has been taken advantage of. Furthermore, he's <u>picking advisers</u> who will confirm him in these beliefs.

Oh, and don't expect attempts by experts to point out the holes in this view — to point out, in particular, that the image of a predatory China, running huge <u>surpluses</u> by keeping its currency <u>undervalued</u>, is years out of date — to make any impression. Members of the Trump team believe that all criticism of their economic ideas reflects a <u>conspiracy</u> among think tanks that are out to undermine them. Because of course they do.

So what will happen when the **Trump tariffs come?**

There will be retaliation, big time. When it comes to trade, America is <u>not that much of a superpower</u>— China is also a huge player, and the European Union is bigger still. They will respond in kind, targeting vulnerable U.S. sectors like aircraft and agriculture.

And retaliation isn't the whole story; there's also emulation. Once America decides that the rules don't apply, world trade will become a free-for-all.

Will this cause a global recession? Probably not — those risks are, I think, exaggerated. No, protectionism <u>didn't cause the Great Depression</u>.

What the coming trade war will do, however, is cause a lot of disruption. Today's world economy is built around "value chains" that spread across borders: your car or your smartphone contain components manufactured in many countries, then assembled or modified in many more. A trade war would force a drastic shortening of those chains, and quite a few U.S. manufacturing operations would end up being big losers, just as happened when global trade surged in the past.

An old joke tells of a motorist who runs over a pedestrian, then tries to fix the damage by backing up — and runs over the victim a second time. Well, the effects of the Trumpist trade war on U.S. workers will be a lot like that.

Given these prospects, you might think that someone will persuade the incoming administration to rethink its commercial belligerence. That is, you might think that if you have paid no attention to the record and character of the protectionist in chief. Someone who won't take briefings on national security because he's "like, a smart person" and doesn't need them isn't likely to sit still for lessons on international economics.

No, the best bet is that the trade war is coming. Buckle your seatbelts.