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# Trump's tariffs deny reality of golden age

HENRY ERGAS THE AUSTRALIAN 12:00AM January 23, 2017

“Protection will lead to great prosperity and strength.” With those eight words, placed at the heart of his inaugural address, Donald J. Trump, 45th President of the US, ended America’s long-standing commitment to an open, rules-based, trading system.

To lament that decision is not to ignore the distortions the system suffers.

For all of President Xi Jinping’s rhetoric, the reality is China subsidises inefficient state-owned firms, allowing them to export at prices that bear little relation to economic costs. And China is hardly the only sinner, as the barriers the US, the EU and other countries erect to trade in agricultural products show.

Nor is it to deny the adjustment costs that international trade can impose. As study after study finds, workers who lose their jobs when large plants shut suffer persistent drops in income, health and self-respect, which adjustment assistance does little to offset. Moreover, the costs of adjusting to international trade can be greater than those inflicted by domestic competition, as imports can more readily wipe out an entire activity, eliminating the value of the skills its employees have developed.

But it would be wrong to overstate those effects. It was not trade that left “rusted-out factories scattered like tombstones” across the industrial powerhouses that stretched from Pennsylvania to Iowa; it was the shift of economic activity to America’s south and west, where costs were lower and population growth faster.

The rust-belt states are now even less attractive than they were, as infrastructure has decayed, skills atrophied and crime rates increased. For those woes, there are no easy remedies; what is certain is that raising trade barriers will not cure them. And it is equally certain that tariffs and quotas will ultimately do the US more harm than good.

That is not merely because of time-tested verities: that protection allows high-cost industries to expand at efficient industries’ expense, reducing national income; that retaliation compounds the damage; and that instead of helping workers, protection more often boosts profits, while consumers shoulder its costs.

Rather, the greatest harm comes because protection rewards firms that are good at lobbying, rather than at producing, while shifting investment from productive activity into influence-peddling. Little wonder countries such as China are chronically corrupt: in a system that doles out favours, including protection from competition, the returns to corruption are high, so that is where the smart money goes.

It is well and good for Trump to promise to “drain the swamp” he claims is Washington, DC. But there is no surer way of transforming that swamp into a cesspit than to make buying politicians the royal road to prosperity.

There is more to it. “A nation is only living as long as it is striving,” Trump rightly said. Yet what could be more antithetical to striving than scurrying for shelter?

Some commentators argue Trump is merely trying to frighten countries such as China into removing obstacles to US exports. But that hardly explains his attacks on Mexico, Canada and Germany, which removed those obstacles decades ago.

Nor can anyone claim any longer that his rhetoric should not be taken seriously: this was, after all, a speech attacking those who say one thing and do another. Rather, we owe it to the new President to believe that when, clenching his fist, he said “now arrives the time for action”, he meant what he said.

The risk is that others will believe it too. There are words that, once uttered, live on like germ cells in the political narrative of the age. Jarring at first, then accepted as normal, they become the focal point against which expectations are framed and decisions taken.

Nowhere is that more likely than with bellicose calls to economic nationalism.

If each country believes others will turn inward, the logic of escalation will make those beliefs into self-fulfilling prophecies. However imperfect it may have been, US post-World War II commitment to a liberal trading order helped avert those breakdowns; with that commitment gone, the international system is a darker, more menacing place.

It is hard to see why that would be in the US’s interest, much less consistent with putting “America first”.

The future is unknowable, but history is on the side of arithmetic. And the arithmetic suggests the world’s largest economy, greatest foreign investor, and leading producer of intellectual property would not escape unscathed from a global trade war.

That such a trade war would heighten geopolitical tensions, making every other conflict harder to resolve, only underscores the point.

Those risks carry little weight in Trump's constituency. Revolutions don't need a god, Eric Heffer wrote; what they can't do without is a devil. This one has found its devil in the US's trading partners.

That may be understandable: its troops have never had to cope with a trade war. And who remembers now that far from "ripping the wealth" of middle-class families "from their homes", the dramatic postwar reduction in US trade barriers, from 60 per cent to about 5 per cent, coincided with the golden age of the American dream?

US leadership played a key role in opening the world trading system. Now, with the Trans-Pacific Partnership dead, the North American Free Trade Agreement threatened, and the Doha Round forgotten, it may play a key role in slamming the door shut.

The world's greatest democracy is better than that. It deserves to remain that way.

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Steve and Ann Murad and their children are not Republicans — not primarily, anyway — they are Trump's people.

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