

January 14, 2020

The Editor
The Wall Street Journal

Trump's Tariffs Have Failed a Fair Test

Mr. Navarro makes a very unconvincing case for the merits of President Trump's trade policy and ignores defects that will have a long-run negative impact on the US economy ("Give Trump's Tariffs a Fair Test").

Empirical studies have clearly shown that the imposition of import tariffs by the Trump administration have been fully reflected in domestic prices, thus acting in effect as a tax on consumers and the producers of export goods. In addition, the imposition and reversal of tariff increases and threats and withdrawals of future tariff increases have created great uncertainty for business with negative effects on investment. As a result, we saw virtually no growth in real private investment during 2019, while exports of goods and services declined. For the year as a whole, economic growth is estimated at 2 per cent for 2019, well below the Administration's target of 3 per cent.

Mr. Navarro also presents a flawed analysis of the impact of expanded trade with China in the 2000s. While it is true that research by David Autor and others identified the negative impact on employment in certain industries and communities of expanded trade with China after its admission to the WTO, he ignores the fact that this is a case of "partial equilibrium" analysis that he criticizes early in his commentary. When you look at the overall impact of trade with China, you find that there was an increase in production and trade for the United States because of the greater availability of lower cost inputs, as well as a strong consumer benefit (mainly for low-income families) from an increase in the supply and choice of basic household goods. The lesson from this experience is

not that an expansion in import trade with China was bad, but rather that the government's trade adjustment assistance for those workers adversely affected by this expansion was very inadequate.

More generally, to argue that the imposition of tariffs has been beneficial in that it has induced new investment in protected industries makes no sense from an economic point of view if this expansion will impose higher costs on the users of goods from those industries, thereby reducing economic efficiency and consumer welfare. It also reflects a mercantilist point of view that ignores the major, adverse effects of arbitrary trade policy initiatives by the Trump administration on the rules-based multilateral trading system that has been a key foundation for the long-term growth and prosperity experienced by the United States and other advanced countries since the end of World War 2.

Anthony Elson

Mr. Elson is a member of the Bretton Woods Committee and the author of *The United States in the World Economy: Making Sense of Globalization* (2019).