

Paul Krugman Explains Why Trump's 'Stupid Trade War' Is Such a Terrible Idea

"So this is a remarkably stupid economic conflict to get into."



Photo Credit: Photo by Ed Ritger

As the United States gears up for a full-on trade war with key allies, economist Paul Krugman has a stark warning for President Donald Trump: It's not going to go well.

In a column¹ posted Thursday evening, Krugman argues that Trump's trade war — which he once said should be "easy to win" — will be bad for many Americans, including many that see the president as their defenders.

"So, the trade war is on," Krugman begins. "And what a stupid trade war it is."

"[T]it-for-tat trade retaliation will hurt a lot of American workers (and especially farmers), quite a few of whom voted for Trump and will now find themselves feeling betrayed," he notes.

He also argues that Trump's view of international trade is overly simplistic. Slapping tariffs on a few industries isn't an isolated action, and it will have ripple effects across the economy. This is because, as Krugman explains,

"it's a matter of complex value chains, which the Trump trade war will disrupt. This will produce a lot of American losers, even if they aren't directly employed producing exported goods."

Even more worrying for Trump is that prices across the board could rise if the trade war "spirals" further. The Republicans sold their giant tax giveaway to corporations based on minor, temporary cuts for individual payers, but even these measly gains could evaporate if prices rise. That could be disastrous for the GOP heading into the midterms.

And in international political terms, Krugman argues, Trump may be underestimating the downsides to his actions. Many people in other countries *really* hate Trump, which means they will likely push their leaders to stand up to him. Don't expect Canadian Prime Minister Justin Trudeau to back down easily.

One thing Krugman doesn't mention, though it is implied by this last point, is that the non-economic consequences of the trade war could also be disastrous.

¹<https://www.nytimes.com/2018/05/31/opinion/oh-what-a-stupid-trade-war-very-slightly-wonkish.html>

Trump currently needs allies desperately for many of his foreign policy efforts: putting pressure on North Korea, constraining Iran, and countering China.

By engaging in a trade war with our allies, Trump weakens the relationships that are crucial to pursuing these objectives.

The Conscience of a Liberal



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Opinion

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Oh, What a Stupid Trade War (Very Slightly Wonkish)

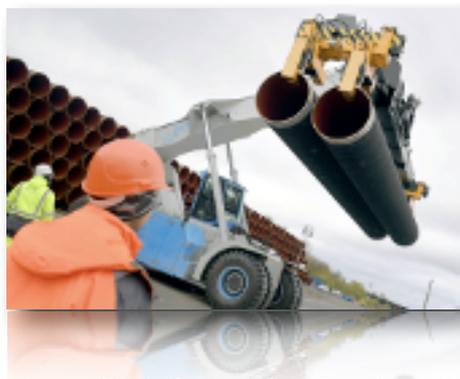


Image : Steel pipes being uploaded for transport in Sassnitz, Germany. Credit Stefan Sauer/DPA, via Associated Press

So, the trade war is on². And what a stupid trade war it is.

My regular column for tomorrow is about health care, but I felt I needed to weigh in on this idiocy, and not just on *Twitter*.

The official – and legal – justification for the steel and aluminum tariffs is national security. That's an obviously fraudulent rationale, given that the main direct victims are democratic allies. But Trump and co. presumably don't care about telling lies with regard to economic policy, since that's what they do about everything. They would see it as all fair game if the policy delivered job gains Trump could trumpet.

Will it?

OK, here's the point where being a card-carrying economist gets me into a bit of trouble. The proper answer about the job-creation or -destruction effect of a trade policy – any trade policy, no matter how well or badly conceived – is basically zero.

Why? The Fed is currently on a path of gradually raising interest rates, because it believes we're more or less at full employment. Even if tariffs were expansionary, that would just make the Fed raise rates faster, which would in turn crowd out jobs in other industries: construction would be hurt by rising rates, the dollar would get stronger making U.S. manufacturing less competitive, and so on. So all my professional training wants me to dismiss the jobs question as off-base.

² Lire 

But I think this is a case where macroeconomics, even though I believe it's right, gets in the way of useful discussion. We do want to know whether the Trump trade war is going to be directly expansionary or contractionary – that is, whether it would add or subtract jobs *holding monetary policy constant*, even though we know monetary policy won't be constant.

And the answer, almost surely, is that this trade war will actually be a job-killer, not a job-creator, for two reasons.

□ First, Trump is putting tariffs on intermediate goods – goods that are used as inputs into the production of other things, some of which themselves have to compete on world markets. Most obviously, cars and other durable manufactured goods will become more expensive to produce, which means that we'll sell less of them; and whatever gains there are in primary metals employment will be offset by job losses in downstream industries.

Playing with the numbers, it seems highly likely that even this direct effect is a net negative for employment.

□ Second, other countries will retaliate against U.S. exports, costing jobs in everything from motorcycles to sausages.

In some ways this situation reminds me of George W. Bush's steel tariffs, which were motivated in part by hubris: the Bush administration thought of America as the world's unchallengeable superpower, which we were in military terms; they failed to recognize that we were by no means equally dominant in economics and trade, and had a lot to lose from trade conflict. They quickly got schooled by an angry European Union, and backed down.

In Trump's case I think it's a different kind of illusion: he imagines that because we run trade deficits, importing more from other countries than they sell to us, we have little to lose, and the rest of the world will soon submit to his will. But he's wrong, for at least four reasons.

□ First, while we export less than we import, we still export a lot; tit-for-tat trade retaliation will hurt a lot of American workers (and especially farmers), quite a few of whom voted for Trump and will now find themselves feeling betrayed.

□ Second, modern trade is complicated – it's not just countries selling final goods to each other, it's a matter of complex value chains, which the Trump trade war will disrupt. This will produce a lot of American losers, even if they aren't directly employed producing exported goods.

□ Third, if it spirals further, a trade war will raise consumer prices. At a time when Trump is desperately trying to convince ordinary families that they got something from his tax cut, it wouldn't take much to swamp whatever tiny gains they received.

□ Finally – and I think this is really important – we're dealing with real countries here, mainly democracies. Real countries have real politics; they have pride; and their electorates really, really don't like Trump. This means that even if their leaders might want to make concessions, their voters probably won't allow it.

Consider the case of Canada, a small, mild-mannered neighbor that could be badly hurt by a trade war with its giant neighbor. You might think this would make the Canadians much more easily intimidated than the EU, which is just as much an economic superpower as we are. But even if the Trudeau government were inclined to give in (so far, top officials like Chrystia Freeland sound angrier than I've ever heard them), they'd face a huge backlash from Canadian voters for anything that looked like a surrender to the vile bully next door.

So this is a remarkably stupid economic conflict to get into. And the situation in this trade war is likely to develop not necessarily to Trump's advantage³.

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³ <https://www.mtholyoke.edu/acad/intrel/hirohito.htm>