Donald Trump says trade wars are ‘good, and easy to win.’ He’s flat-out wrong

By Henry Farrell

In a tweet Friday, President Trump said that trade wars were “good, and easy to win.”

Trade has benefits — even when you are running a trade deficit

Trump’s argument is causing turmoil on stock markets. It is also based on a fundamental misunderstanding of how trade works. Here’s what you need to know.

This is what President Trump doesn’t understand. He seems to think that a big deficit means that other countries are winning and America is losing. Hence, he argues that it makes sense for the United States not to trade with countries with which it is running big trade deficits.

However, this would involve America cutting off its nose to spite its face. By withdrawing from trade with those countries, America would no longer be able to reap the benefits of trade’s efficiencies. Consumers would pay higher prices for goods. Furthermore, many American manufacturers would probably be hurt, too. Manufacturing these days often involves global supply chains, in which manufacturers source basic inputs or components from overseas suppliers. Blocking trade with some countries would disrupt these supply chains, causing enormous trouble and possible job losses.

Trade is still political

This does not mean that trade benefits everybody. When trade increases, some domestic industries and some social groups win, while others lose. This point sometimes gets lost in public debate. As Robert Driskill points out, economists have a tendency to gloss over the fact that actual free trade agreements involve winners and losers. Economists often scorn their opponents as Luddites — but the original Luddites had a point. They were weavers working in a free market system whose livelihood was destroyed by economic innovation. The sophisticated case for free trade involves compensation paid by the winners to the losers, as some economists have come to recognize.

For example, the United States used to have a much bigger domestic steel industry, which employed workers with good wages...
pensions. As international trade increased, U.S. firms that use steel benefited from cheaper suppliers. However, domestic steel producers found it hard to compete, and many of them went out of business. U.S. steel workers found themselves losing jobs, and many of them saw their pensions evaporate into thin air.

In theory, the winners from increased trade could have compensated the losers. In practice, that didn’t really happen in the United States. The United States has a “trade adjustment assistance” program for workers who have lost their jobs because of trade. However, it is very poorly funded, and its assistance is difficult to get.

This may help explain the backlash against trade

As Jeffry Frieden notes in a new working paper, U.S. voters have become increasingly dubious about international economic integration since the 2000s. This may be partly driven by the unwillingness of the winners from increased trade to compensate the losers, and by the consequences this has had for America’s political geography. This has had consequences for politics. As Frieden summarizes the academic research.

These trends have had a clear political impact. Increased trade, in particular with China, has caused some regions to lose jobs and see reduced wages. The political effects are multifarious. Affected regions are more politically polarized. Their legislators tend to vote in more protectionist directions. They were more likely to swing their votes toward Donald Trump in the 2016 presidential election.

Trump is riding that backlash

Trump’s arguments may be based in an inability to comprehend the workings of international trade. That doesn’t mean that they might not be popular with his voters. After all, workers in the industrial Midwest have seen their local economies crater as a result of increased trade. As Frieden points out, this doesn’t just hurt their pocketbooks, but their communities, too.

Factory closings increased unemployment and underemployment, lowering wages and labor force participation. Local economic problems reduced local-government tax revenue, so that local public services deteriorated.... As the community’s economic base eroded there were devastating social effects, including a rise in alcoholism, opioid abuse, and suicidality.

Conventional economics would predict that Trump’s policies will do little to revive these communities, and may indeed further harm them. Brewers are already complaining about how increased aluminum prices will hurt their businesses (and perhaps employment). Car manufacturers are likely to suffer, too. However, trade has become a sufficiently divisive political issue that these problems may not matter as much as one might think for voters’ perceptions.

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