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THE WEEKEND INTERVIEW

Why Trump's Protectionism Is Futile

The president is wrong to attribute industrial decline to foreign competition, and the rising dollar is likely to cause the trade deficit to rise.

By Tunku Varadarajan

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Stanford, Calif.

President Trump may not be a friend of international trade, but he's a gift for a trade economist. Douglas Irwin has just hauled himself across the country from his perch at Dartmouth College to lecture on the president's trade policy. His talk is titled "Exercise in Futility." The next day, he and his massive suitcase will fly west to Singapore for more lectures on the same insistent theme.

The president is clobbering allies and adversaries alike with protectionist tariffs, and it seems everyone wants to hear from Mr. Irwin, 55, who last year published "Clashing Over Commerce," a history of U.S. trade policy. We're sitting in a little office in the shadow of Stanford's Hoover Tower, named for the president who signed the Smoot-Hawley Tariff in 1930, America's last exercise in unabashed protectionism.

Mr. Irwin is at pains to point out the differences between the two men. "Trump has escalated the rhetoric on trade to something we've never seen in previous presidents," he says. "Even Herbert Hoover never bad-mouthed other countries and said we're being manipulated and taken advantage of, and we're losing." Sure, Hoover would "always talk about the need to protect domestic industry from foreign competition—but in a very dispassionate, neutral way."

Mr. Trump may be the first openly protectionist president since Hoover, but what Mr. Irwin finds most frustrating about him is that "he never really defines what a 'better' trade deal is. His judgment of trade comes down to the trade balance, which he uses as a sort of ledger, as a businessman would, rather than think more broadly about the national economic impact of trade." It is impossible for every country to run a trade surplus, but "Trump thinks about trade in these zero-sum terms, about whether there's profits or losses, and he views exports as good and imports as bad."

That may be because Mr. Trump "comes from the casino industry, the real-estate industry, where you either get the project or not; you either win against the house or you lose against the house." He fails to see that in international trade, imbalances "aren't an indication that one country is beating another, or that one is 'winning' and the other's 'losing.' " Mr. Trump's rhetoric and vocabulary are "not the way economists think about trade at all."

Yet the world must reckon with the trade-deficit-phobic president and advisers such as Commerce Secretary Wilbur Ross and especially Peter Navarro, director of the White House National Trade Council. Invoking the national-security provisions of the Trade Expansion Act of 1962, known as Section 232, Mr. Trump has just imposed steel tariffs on a range of countries, including many military allies. Mr. Irwin is aghast. "This is a huge and unwarranted slap," he says, "sure to bring retaliatory blowback against American exporters. And thus a triple-harm: It hits U.S. steel-consuming industries and U.S. exporters, and hurts national security by alienating friends."

Mr. Trump has also signaled that he will use Section 232 to impose tariffs on imported automobiles and auto parts. Under what earthly scenario are Japanese cars a threat to U.S. national security? Mr. Irwin treats the question as rhetorical and explains that the statute is "the easiest, least reviewable way in which a president can impose tariffs. Like steel, national security seems to be just a pretense for what is pure protection."

There is no import surge putting America's automobile industry at risk, Mr. Irwin says. To the contrary, "the domestic industry is at a high level of capacity utilization." In 2017, 56% of American-bought light vehicles were domestically produced. The breakdown among imports: 22% from Canada and Mexico, 11% from Japan, and 8% from Germany and South Korea. That adds up to 97% of cars that were either made in America or "came from neighboring countries or those we have an alliance with—not enemies or sources of supply that might be threatened in an emergency." If Defense Secretary Jim Mattis "did not think there was a national case for steel, it's hard to think the defense establishment would believe there's a national-security case for imposing tariffs on cars."

Steel is a leitmotif in President Trump's narrative of trade-driven industrial decline. But the steel industry, Mr. Irwin says, isn't "being decimated by import competition. Imports as a share of domestic consumption are pretty stable—we produce 73% of all the steel we consume. So it's not as though we're completely dependent and we've lost that industry."

ILLUSTRATION: ZINA SAUNDERS

The U.S. has lost steel *jobs,* but Mr. Irwin says that's because the domestic industry has become more productive. "In 1980, it used to take 10 worker-hours to produce a ton of steel. Today, it takes less than two worker-hours. So even though we're producing the same amount of steel, or even more, we use many, many fewer workers to produce that steel."

That old newsreel image of workers mixing metals next to furnaces is far from today's reality, which consists of "one or two engineers who are adjusting dials in a highly mechanized place." Bringing back those blue-collar jobs "is just not in the cards," says Mr. Irwin, who attributes the president's insistence otherwise to nostalgia —"reflecting back on American greatness after World War II, and trying to recapture those days. Wilbur Ross had a lot of ties to the steel industry."

Even Messrs. Ross and Navarro, "have never fully articulated their protectionist arguments," Mr. Irwin says. "I have the sense that they both have protectionist instincts rather than well thought-out strategies." Both men "seem to pine for yesteryear when the big industries were autos and steel, and there was no foreign competition in sight. They seem very uncomfortable in the irrevocably globalized world of today, in which growth sectors are based on high-tech and intellectual property." Mr. Navarro, he continues, thinks free trade arguments are "outmoded," and has a particular animus against China.

Few economists would disagree that the U.S. has serious problems in its economic relationship with China, and Mr. Irwin points out that matters have become worse as China has "moved away from a more market-oriented approach" under President Xi Jinping, "who's embracing a more mercantilist approach, or even an overtly protectionist one in parts of his 'Made in China 2025' initiative"—Beijing's master-plan to bolster its high-tech industries.

The U.S., Mr. Irwin says, needs strong allies in Europe and Asia to "counter China when it violates the letter or spirit of its World Trade Organization commitments, and the Trump administration has done little to cultivate such allies. Instead, it seems bent on alienating them."

Mr. Navarro, author of a book called "Death By China," takes a different view. He has spoken of "repatriating the supply chain, bringing it all back home," in Mr. Irwin's paraphrase. "While this hasn't become explicit administration policy, it does reflect Navarro's broader anti-globalization sentiment. If undertaken, it would tear apart the system of trade the U.S. has sought to create over the past 70 years."

As for Mr. Ross, Mr. Irwin says he seems to emphasize reciprocity "quite a bit" and he "likes to pick instances in which U.S. tariffs are lower than those in Europe or Asia." For example, Mr. Ross juxtaposes the 10% European Union tariff on cars with the U.S. tariff of only 2.5%—but neglects to mention the 25% U.S. tariff on trucks. "If he were really concerned about higher foreign tariffs, he'd propose a free-trade agreement with such countries, bringing all tariffs down to zero," Mr. Irwin says. That would be "pure reciprocity, and presumably a 'winner' for the U.S., since other countries would have to cut their tariffs more than the U.S. would." Instead, Mr. Ross pushes for raising tariffs on U.S. imports, which "handicaps downstream user-industries by inflicting higher costs on them and pushes up prices for consumers."

Mr. Irwin acquired his penchant for free trade when he studied at Columbia, where Jagdish Bhagwati was his doctoral adviser. Mr. Bhagwati, 83, still teaches economics at Columbia, and Mr. Irwin points to his "seminal contribution to trade theory, which was to delink free trade from laissez-faire, as well as to point out that countries will grow more rapidly by exporting rather than through import-substitution."

Mr. Irwin's other inspiration is Cordell Hull, "a deeply underrated figure." Hull was the longest-serving U.S. secretary of state, in office from 1933 to 1944. He was awarded the Nobel Peace Prize in 1945 for helping to create the United Nations and he was, Mr. Irwin says, "one of the creators of the postwar international trade architecture. His view was that world trade dovetailed with world peace."

What would Hull have made of Mr. Trump's tariffs? "He would be horribly dismayed," Mr. Irwin answers, "and would contend that a turn toward a more protectionist America would make the world a more dangerous place by increasing economic friction and fragmenting alliances." Hull would also "lament the loss of American leadership in trade relations as a rejection of the 'destiny of history.'"

The U.S. must now contend with China, which is pushing hard to usurp America's global leadership—and not merely in the sphere of trade. China has a "strategic blueprint for where it wants to go," Mr. Irwin says. "Trump, in contrast, has these trade instincts but no plan." The obsession with reducing the bilateral deficit with China appears to have blinded the administration to the need to address "the real structural problems we should be talking about, like protecting intellectual property, transparency, whether you need to partner with a Chinese firm if you go in as a foreign investor, and the rule of law."

America's relationship with China, one might say, is unprecedented in history, being the first example of two world powers that are so interdependent in trade even as they grapple for global supremacy. "The two economies are intermeshed in terms of supply chains," says Mr. Irwin, "as well as in the direct investment that U.S. firms have made there." Unlike Japan in the 1980s, which moved very quickly to accommodate the U.S. when President Reagan threatened protectionism, "China has a lot of threat points that would enable it to retaliate against the U.S."

Mr. Trump would like to see the trade deficit go down and U.S. manufacturing revived. But "his macroeconomic policies are almost guaranteed to lead to larger trade deficits, not to a smaller one," Mr. Irwin says. Since Mr. Trump took office, the U.S. has cut taxes and raised government spending, so that the fiscal deficit is going up. The trade deficit often shadows the fiscal one, because exports get crowded out when the Federal Reserve tightens credit and the dollar appreciates. "We're then going to get capital inflows from abroad," Mr. Irwin says, "and the trade deficit is going to go up."

So, thinking of trade as a process of "reaching these deals, where China agrees to buy more, doesn't add up to a lower trade deficit if you have these big macroeconomic forces moving exactly in the opposite direction." Mr. Irwin predicts that Mr. Trump "is going to be very frustrated at the end of the first term."

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