Comment on the Commentary of the Day

by

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1 December 2016

Donald Trump

Mr. Trump:

Like a despot drunk and delirious with power, you bellowed today that “[c]ompanies are not going to leave the U.S. anymore without consequences.”*

Even if we ignore much that oughtn’t be ignored - such as your unconstitutional promise to use the office of the president of the executive (note: not legislative) branch of the national government to dictate how private companies conduct their business - you reveal appalling economic ignorance.

How do you anticipate business executives will respond to your bullying threats? Are you truly so stupid as not to understand that among the results of your intimidation is that fewer firms will open in America? That fewer businesses here will expand? That those that do open or expand will use a higher ratio of capital to labor because they fear that the greater the number of workers they employ the more likely they are to be victimized by your arbitrary diktats? That no matter how much you cut the monetary taxes they pay, the uncertainty and absurdity of your promised arbitrary rule drastically raises firms’ costs of starting and growing on U.S. soil? And that each of these inevitable responses to your imperious fulminations will be slower job and wage growth for Americans?

Sincerely,
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* http://www.wsj.com/articles/trump-takes-credit-for-saving-indiana-jobs-1480628609

2 December 2016

Editor, *National Review*

Sir:

Edward Conard writes that “Trade deficits occur when countries such as Germany lend the U.S. economy the proceeds from the sale of goods to Americans, rather than using them to buy goods made by American workers. To prevent trade deficits from reducing the wages and employment of lower-skilled workers ... Americans must borrow and spend these savings. But today, savings sit unused despite near-zero interest rates, putting downward pressure on wages as they accumulate.” (“A Trade Policy That Wouldn’t Leave Low-Wage Workers Behind,” December 5th).

Mr. Conard errs. Contrary to his claim - and to popular myth - trade deficits (more accurately, current-account deficits) are not exclusively, or even chiefly, debt. Trade deficits occur when countries (actually, foreign *people*) do *any* form of investing in the U.S. economy. The U.S. trade deficit also consists of foreigners' purchases or creation of equity and intellectual property in the U.S., foreigners' purchases of real estate in the U.S., and foreigners' holdings of U.S. dollars. In all but the last case, the dollars that foreigners earn from their exports to America return directly to the U.S. in ways that are just as likely to contribute to economic growth and job creation as are dollars that Americans themselves spend in the U.S. on equity, intellectual property, and real estate. (And, it should be noted, dollars held by foreigners are not debt that Americans owe to foreigners.)

There is, furthermore, a bizarre mystery lurking in Mr. Conard's argument. In his view, foreigners lend Americans lots of money that Americans then simply sit on. This scenario is too implausible to take seriously. Why would Americans borrow if they don't intend to spend or invest the borrowed funds?

In fact, the entity that borrows the most from foreigners is Uncle Sam, whose borrowing in the first quarter of 2016 was 29 percent of the U.S. current-account deficit.* Surely Mr. Conard knows that Uncle Sam immediately spends all of the dollars that it borrows. And, as alluded to above, the great bulk of the U.S. trade deficit that is not lent by foreigners to Uncle Sam are funds that return to the U.S. as equity investments - that is, investments that promote American economic growth and job creation.

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* Calculated from here:
https://bea.gov/scb/pdf/2016/07%20July/0716_quarterly_international_transactions.pdf

3 December 2016

Steve Moore
Economic Advisor to Donald Trump

Steve:

Reading your recent column, I was relieved to learn that you still believe that trade is “unambiguously good for the country” (“Welcome to the Party of Trump,” Nov. 30). But my relief turned to confusion when I read that you condition your support for freer trade on it not being “shoved down our throats by the elites.”

What do you mean? By its very nature free trade is the *absence* of any shoving. It’s what happens naturally without state interference. Free trade is simply a condition under which each individual is free to spend his or her money as he or she deems best. Free trade is the guarantee to everyone that his or her peaceful commercial choices will be obstructed by no official or by no group, be they blue-blooded elites or slack-jawed brutes.

The shoving about which you complain occurs only under protectionism. Indeed, protectionism’s essence is shoving: government agents officiously shoving fellow citizens away from those with whom these citizens wish to peacefully trade; politicians arrogantly shoving their diktats into the faces of ordinary men and women whose only offense is that they seek to stretch their incomes by purchasing goods assembled abroad; and politically organized producer groups greedily shoving their narrow material interests ahead of the interests of those countless consumers, firms, and workers who necessarily, if invisibly, have the bill for protectionism (to adapt your wording) shoved down their throats.

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4 December 2016

Dean Baker

Mr. Baker:

Your criticism of Greg Mankiw’s argument that the U.S. trade deficit is nothing to worry about reveals faulty logic as well as a misunderstanding of basic economics (“Trade, Trump, and the Economy: What Does Greg Mankiw's Textbook Say?” Dec. 4).

An example of your faulty logic is your claim that “Mankiw may have missed it, but we had a long stretch of very high unemployment following the collapse of the housing bubble in 2008. The Fed purchased plenty of financial assets in this period, it had some effect on boosting output and employment, but did not come close to getting the economy back to full employment."

Overlook here the significant reality that the Fed's asset purchases were driven by political and monetary-policy considerations rather than by private entrepreneurial, market considerations. Instead, focus on the fact that Prof. Mankiw's argument is that foreigners' purchases of dollar-denominated assets makes the American economy stronger *than it would otherwise be*. Contrary to your implication, the argument is *not* that such purchases alone are sufficient to guarantee full employment and high growth. Therefore, the fact that America ran trade deficits during the Great Recession does not refute Prof. Mankiw's argument.

If you insist on drawing conclusions about trade balances exclusively from the condition of the economy, then what is your explanation for the U.S. running a trade *surplus* in 102 of the 120 months of the Greatly Depressed decade of the 1930s?* Or how do you explain the fact that, as my Mercatus Center colleague Dan Griswold notes in a 2011 paper, "since 1980, the U.S. economy has grown more than three times faster during periods when the trade deficit was expanding as a share of GDP compared to periods when it was contracting"?**

An example of your misunderstanding of economics is your assertion that, according to "textbook" economics, "capital is supposed to flow from rich countries where it is plentiful to poor countries where it is scare." This claim is nonsense. What economics predicts is that capital will flow to where its risk-adjusted rates of return are highest. Therefore, textbook economics predicts, accurately, that in practice rich countries receive disproportionate inflows of capital because rich countries generally have institutions, policies, and cultures that ensure that the expected returns on capital invested there are higher than are the expected returns on capital invested in poor countries.

There's a reason that poor countries are poor, and a big part of that reason is that investment climates in those countries are unfavorable. So economics no more predicts that capital "is supposed to flow" from rich countries to poor countries than it predicts that capital "is supposed to flow" from thriving, well-managed, highly capitalized companies with triple-A credit ratings to struggling, poorly managed, capital-poor companies on the verge of bankruptcy.

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* http://cafehayek.com/2006/12/if_trade_surplu.html

** https://www.cato.org/publications/trade-policy-analysis/tradebalance-creed-debunking-belief-imports-trade-deficits-are-drag-growth

5 December 2016

Donald Trump
Trump Tower
New York, NY

Mr. Trump:

In your Tweets today you make inconsistent boasts. First you boast that, as president, you'll "substantialy [*sic*] reduce taxes and regulations on businesses." You then boast that, as president, you'll raise taxes - in the form of higher tariffs - on businesses that offshore the production of goods for sale in America. Which is it? Will you increase or decrease the tax and regulatory burdens borne by entrepreneurs and businesses in America? You can't simultaneously do both.

You'll reply that your scheme cuts taxes and regulatory burdens only for business operations that occur in America. But are you aware that, according to Dartmouth economist Douglas Irwin, "Over half of *all* imports are either intermediate components or raw materials"?* (This figure rises to nearly 100 percent if consumer-goods imports are reckoned, as perhaps they should be reckoned, as inputs for retailers.) So to the extent that American producers themselves wish to shift some of their production offshore in order to better compete to supply these inputs to their own U.S.-based operations or to other American producers, your tariff will put these American efforts at an artificial disadvantage relative to foreign producers. The likely outcome is that production of almost all of these inputs will be ceded to foreign firms.

The only way to avoid ceding the production of more (and perhaps all) of these inputs to foreign firms is to impose your 35 percent tariff on all inputs imported into America. The result of such a tariff would be a vast and widespread artificial hike in the costs of producing goods and services in America, even for many firms that were never candidates to shift any of their production offshore. This outcome would make a mockery of your promise to reduce the costs that American producers incur. It would also result in a steep hike in the prices of consumer goods in America - hardly an outcome consistent with making Americans more prosperous and America "Great Again."

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* http://press.princeton.edu/chapters/s7938.html

5 December 2016

Mr. Scott Adams

Mr. Adam:

Commenting on Pres.-elect Trump's threats to punitively tax American consumers who purchase imports from U.S. companies that offshore some or all of their production, Rep. Justin Amash (R-MI) Tweeted "American consumers are taxed even if no companies move. Tariff increases production costs & limits competition. This is basic economics."

In response to Rep. Amash, you disagree, Tweeting "No, the whole point is that no company would move with that risk hanging over them. So no tax is triggered."*

Rep. Amash is right and you are wrong. Although no formal tax collection is triggered if Mr. Trump's threats prevent all offshoring, Trump's tariff - by restricting competition - would artificially reduce outputs and raise prices. American consumers would pay unnecessarily higher prices, an outcome inseparable from the very purpose of the tariff. That consumers pay these extra, unnecessary amounts to domestic producers rather than to domestic customs agents is irrelevant: the tariff forces all consumers of these products to pay extra, unnecessary amounts to some small group of fellow Americans who, rather than earn these higher payments, extract them using threats of state coercion.

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* https://twitter.com/ScottAdamsSays/status/805610534955401216?lang=en

5 December 2016

Mr. Mike Garrison

Mr. Garrison:

My support for free trade prompts you to accuse me of “living in [my] own world unconnected to real people’s concerns.” With respect, I believe that you misunderstand the case for free trade.

By necessity, each and every one of us inhabits only his or her own small world, you no less than me. The slice of reality that any one of us - from President to pauper - can survey with our own senses is a vanishingly small part of an immense, complex, multifaceted, and dynamic world. And the slice of this world that any one of us directly experiences is also unique; it differs from the slice that any one else directly experiences. So if all that I did were to assume that reality in total is nothing more than a scaled-up version of the unique slice of reality that I personally experience, then your accusation that I am out of touch would have merit.

But the great achievement of sound economics is to supply a lens that widens and lengthens - and sharpens - the vision of those who know how to use it. Although a surprisingly powerful tool, this lens is not very complicated; no one needs a PhD in economics in order to use it properly. But what this lens reveals to those who know how to use it is a vitally important, and immense, part of reality that others nearly always miss.

It’s easy without the lens of economics to see the jobs that remain in the U.S. because of the likes of Trump’s Carrier deal. But with this lens you see also the jobs in the U.S. that are destroyed because of this deal or that would be, but will now never be, created. It’s easy without the lens of economics to see the incomes retained by American workers whose jobs are protected by trade restrictions. But with this lens you see also the incomes lost to American workers because of trade restrictions, as well as the reduction in the spending power of countless ordinary Americans.

By wearing the lens of economics can we see clearly the increase over time in living standards for nearly everyone that is possible only with free trade and with what my colleague Adam Thierer calls “permissionless innovation.”*

In short, the lens of economics enables us to see that which otherwise remains unseen. Yet that which remains unseen is real, sizeable, and important. By making visible the suffering caused by protectionism, and the improvements unleashed by economic freedom, the lens of economics inspires those who use it to be a voice for the voiceless, the forgotten, the ignored, and the invisible.

My support for free trade, therefore, has nothing whatsoever to do with my own admittedly thin slice of reality. Instead, it has everything to do with ensuring that the many realities that are unseen - that are unseen by you, by Mr. Trump, and by everyone else who supposes that freezing economic activity in place today generates only benefits and no costs to ordinary people - be made visible, and that those unseen people be given a voice along side yours in the public arena.

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* https://www.amazon.com/Permissionless-Innovation-Continuing-Comprehensive-Technological/dp/1942951248/ref=sr_1_1?s=books&ie=UTF8&qid=1480960589&sr=1-1

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