

VIEWPOINT

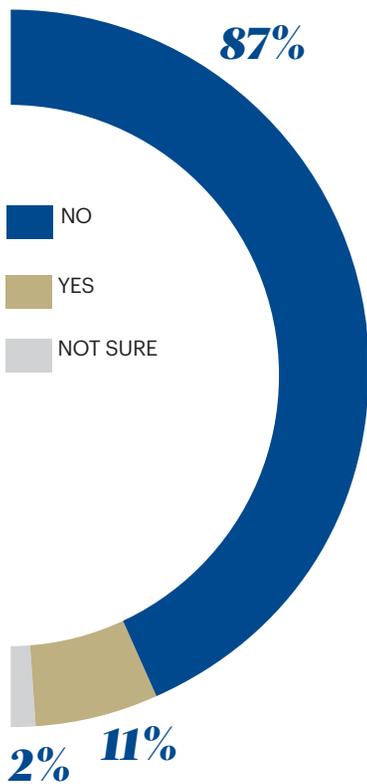
Triad Business Journal welcomes letters to the editor

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100 S. Elm St. Suite 400, Greensboro, NC 27401
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► BUSINESS PULSE SURVEY

WE ASKED

Do you agree with N.C. regulators' decision to pass coal-ash costs to customers?



NEXT WEEK'S QUESTION

Are you glad or disappointed that the UNC Health Care/Atrium deal fell through?

GUEST COLUMN

Can we really win a trade war?

Last week President Trump announced that he would impose stiff tariffs on imports of steel and aluminum. Although he's been talking tough on trade for years, the announcement caught stock markets off-guard and drove the major indexes down sharply.

Despite the negative reaction of financial markets and criticism from the corporate wing of the Republican Party, the president doubled down, claiming that "trade wars are good, and easy to win." As of press time, the tariff announcement hadn't been reversed, and as of mid-week reports indicated that Trump would announce the tariffs by week's end.

So, are trade wars good? And are they easy to win?

No, and no.

What is a trade war, exactly? It's a conflict in which countries erect trade barriers in an attempt to gain economically at others' expense. A country can improve its situation by unilaterally limiting imports via tariffs or quotas. That's the simplistic appeal of trade barriers: They can work if no one retaliates. The problem is that someone always retaliates.

Sure enough, there's been a lot of talk about the tariffs that China and the European Union plan to levy in response to Trump's tariffs. After all, the U.S. exports as well as imports. Retaliation will limit our access to foreign markets.

Then Trump announced that in response, the U.S. will target European cars. Around and around we go.

Trade wars are an example of the



Andrew Brod is a senior research fellow in UNCG's Center for Business and Economic Research. Reach him at 336-707-6439 or AndrewBrod@uncg.edu. An archive of his columns is available at <http://cber.uncg.edu>.

venerable Prisoner's Dilemma game, in which cooperation is jointly better, but individually worse, than noncooperation. Each "player" has an incentive to cheat on its agreement with the other player, but because both players know this, both players cheat. The result for both is a worse outcome than if they'd stuck to the deal.

We see this reflected in cartel behavior and the destructive competition among states to win factories through targeted economic incentives. A trade war is when countries "cheat" by imposing tariffs or quotas not allowed by existing trade agreements.

In the U.S., there will be job losses in exporting industries and higher prices for importing ones. There are millions of Americans employed by companies that buy steel, and hundreds of millions of consumers who buy products containing steel. But only about 140,000 Americans work for the

highly automated steel manufacturing sector.

Moreover, modern industrial supply chains are global. The car you drive almost certainly has parts from all over the world, and it may have crossed and recrossed the U.S.-Mexico border before its final assembly. Levying tariffs will be like taking a sledgehammer to that network of suppliers, and the adjustment will be lengthy and expensive.

Finally, trade agreements are as much foreign policy as economic policy. Trade binds countries together and reinforces relations among them. A trade war rips the fabric of those international connections.

Why does Trump want a trade war? Some claim that he's furious with recent political developments in Washington and is lashing out at everyone. Well, everyone except steelworkers. But Trump has long believed that trade agreements are "bad deals" for the U.S. and that trade deficits indicate our country's failure. Each of these is a misconception of basic economics, but they're probably the reason for this move.

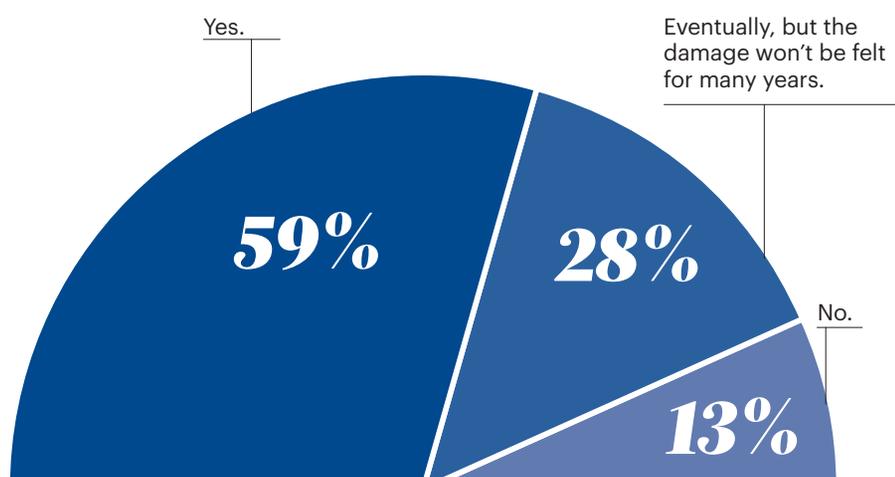
Free trade doesn't have to be an all-or-nothing thing. Countries can pull back from free trade in certain industries. But it should be done through negotiation and with the understanding that changes will require compensating changes in other industries. A sledgehammer won't cut it.

So no, a trade war isn't a good thing. But on second thought, there is a way to win one.

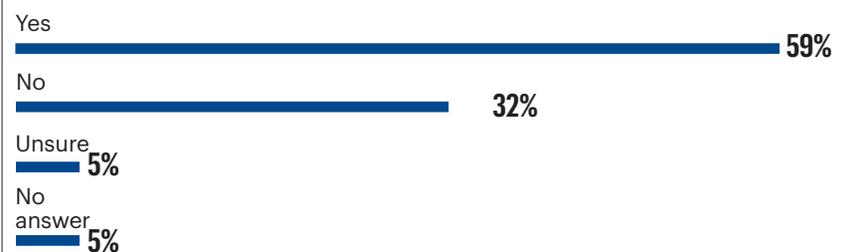
Don't start it in the first place.

► SURVEY SAYS

WILL THE GROWING FEDERAL BUDGET DEFICIT HURT THE ECONOMY?



DOES YOUR COMPANY ASK ABOUT SALARY HISTORY WHEN HIRING?



WOULD YOU CONSIDER ELIMINATING THAT QUESTION?

