



Why Everything Trump Has Said About Trade Is Wrong

BY ANDERS ÅSLUND

A review of

International Trade: What Everyone Needs to Know by Anne Krueger, Oxford University Press, 2020.

Professor Anne Krueger has written a broad and comprehensive book about contemporary international trade. The title is accurate: The book describes how the global trading system works and discusses to what extent it is beneficial. The book is well-structured and written, providing a surprisingly easy read on an often complex matter. The language is non-technical and the book contains only two simple equations and fifteen tables. It appears ideal as a textbook for undergraduates in International Trade 101, but it also offers an intelligent and up-to-date read for anybody interested in international trade. In twenty-two chapters, it discusses all relevant topics in international trade.

Krueger has an impressive pedigree. She has been the chief economist of the World Bank and first deputy managing director of the International Monetary Fund. She was a professor of economics at Stanford University, and she is currently a Senior Research Professor of International Economics at Johns Hopkins University. International trade has long been her focus. An article of hers from 1974 is the standard original reference to rent seeking.

The *Financial Times* summarized her message in an editorial on December 30, 2020, “The Case for Liberal Trade Remains as Robust as Ever. The Task is to Support Adjustment and Strengthen Multilateralism.” Krueger is a convinced free trader and multilateralist, but she is not prejudiced. On the contrary, she is an empirical and

pragmatic economist who checks and measures the real economic effects. She discusses what works, what does not work, and what realistically could be done to improve the global trading system, and she advocates that trade shocks need to be mitigated with active labor market policies.

While Krueger does not directly attack former President Donald Trump, the whole book appears to be an intelligent argument against his protectionism. In her preface, she states, “It is no exaggeration to say that the Trump administration has done much to weaken, if not destroy, the open multilateral trading system that has served the world so well since Second World War.” If she had wanted to be provocative, she could have called her book, “Why Everything Trump Has Said About Trade Is Wrong,” but she prefers to be authoritative.

Krueger lays out her case for free trade in chapter four and explains what is wrong with protectionism in chapter five. Her arguments are classical and standard, but she writes lucidly and supports her points with statistical evidence. Her basic idea is that free trade is better for common economic welfare, but she stops far short of any libertarian argument, accepting the limitations of politics

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and the need for a social safety net. Her central argument is that trade deficits do not matter (chapter six). First of all, “the trade balance...is economically meaningless. If anything, it is the balance of goods and services—the current account balance—that may matter. Second, bilateral deficits also mean nothing...”. “Third, the current account multilateral balance of any country is the difference between domestic expenditures and domestic savings.”

Krueger’s main argument against Trump’s trade policy is that tariffs have no impact on the trade balance or current account deficit. When the United States increased its tariffs on products from China, it just diverted trade as China’s competitors exported more to the United States. Trump’s erratic tariff policy has had no positive effect, while it has contributed to a fair amount of trade diversion.

She also happily debunks currency manipulation (chapter eight). Is China a currency manipulator? No, not recently. “[A]fter 2014, the Chinese global current account surplus had fallen to less than 3 percent of GDP and the Chinese had been intervening in their foreign exchange market to prevent depreciation of the currency.” In other words, the Trump claim that China indulged in currency manipulation was wrong.

The book discusses the General Agreement on Tariffs and Trade and the World Trade Organization at length, providing a good understanding of how the WTO works and what instruments it has at its disposal. It deals with specifics such as trade remedies and dispute settlements. Five topics receive particular attention—the Jones Act, preferential trading arrangements, NAFTA, the Trans-Pacific Partnership, and China.

Nowhere is Krueger more scathing than on the Jones Act of 1920 that mandates all waterborne shipping between all American ports should be carried out by entirely American vessels. “The World Economic Forum found the Jones Act to be the most restrictive of coastal maritime trade of the regulations of any country in the world.” Krueger notes that “in 2010, Jones-flagged ships had operating costs about five times greater than those of their foreign competitors.” Krueger has dealt extensively with Puerto Rico, whose economy suffers greatly from being compelled to use inefficient U.S. shipping. Anybody traveling along the U.S. coasts cannot avoid noticing that unlike most other countries, the United States has no coastal shipping, and the reason is the Jones Act. Sadly, just like Trump, President Joe Biden insists on maintaining the harmful Jones Act.

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With regard to preferential trading arrangements, Krueger is open-minded. Her preference is multilateral trading agreements, the freer the better, but when they are not politically possible, she favors free trade agreements, and the larger and freer they are, the better. Krueger is a strong supporter of NAFTA and offers plenty of statistics on how beneficial it has been to the United States.

She was greatly in favor of the Trans-Pacific Partnership, which has now become the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, as the other eleven states in the agreement went ahead after Trump on his first day of office withdrew the United States. She recommends that the United States rejoins the CPTPP. To Krueger, the TPP had been the best U.S. defense against China. So far, Biden has not said anything about this topic. Given that Hillary Clinton eventually decided to turn against the TPP, it might be difficult for him to support it politically.

Krueger summarizes her insights into international trade in eight lessons, which are worth citing:

- Multilateral rule of law is vital to the global economy.
- Liberalizing trade further will enable more rapid economic growth.
- Current account balances are the result of macroeconomic policies.
- Bilateral protectionist measures lose a great deal of their hoped-for effectiveness because of third-country effects.
- Traders find many other ways to thwart protection.
- Protectionist measures have unintended and unanticipated consequences.
- The political process is biased toward import protection.
- Protection does not create jobs.

It is difficult to argue against any of these lessons, but to what extent are U.S. politicians able to absorb them at present? We must at least hope that politicians are able to realize that current account deficits are not caused by too-low tariffs but by too-small savings.

Anne Krueger has given us a wonderfully readable presentation of what actually matters in international trade. ◆

