Mexico tariffs: Bad politics, harebrained policy

BY JERRY HAAR, OPINION CONTRIBUTOR — 06/05/19 12:30 PM EDT
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"Trade wars are good and easy to win," according to the president, a graduate of the Wharton School at the University of Pennsylvania. Having been associated with that educational bastion of free-market capitalism for seven years, he's the only person I've ever heard of with a degree from there who holds that belief.

Ignorant pronouncements spawned from an empirically false economic philosophy are not only foolish but dangerous. Tariff increases may appeal to the president's base, but as American economic policy, they are extremely harmful.

Like escaped prisoners chained at the ankle (à la the film "O Brother, Where art Thou?") nations in the global economy are heavily interdependent.

Yet, the Trump administration discards the economic facts and wields tariffs as its weapon of choice for resolving disputes (including those it instigates), regardless of the harm it causes American consumers and producers. It does so in an effort to solve problems outside the realm of international commerce, such as illegal immigration.

Despite the noble efforts of U.S. Trade Representative Robert Lighthizer, Treasury Secretary Steve Mnuchin and senior advisor to the president Jared Kushner to dissuade the president from raising tariffs on Mexico, the "disruptor-in-chief" plows full speed ahead.

Obviously, the president needs a remedial course in Economics 101. To begin with, an obsession with the U.S. trade deficit is ludicrous. Trade surpluses are not always good, and deficits are not always bad.

Most importantly, neither has impacted U.S. currency values or interest rates. The demand for U.S. securities to finance the deficit remains strong.

Germany and Japan have trade surpluses, but that reflects weak domestic demand; and Russia runs a trade surplus, but its unemployment rate is higher than the U.S., and its growth rate is smaller.

One should note, too, that the trade deficit as usually cited includes merchandise trade only. U.S. runs trade surpluses in services (over $560 billion), agriculture and capital inflows.

As for the merchandise trade deficit, intellectual property, which counts as services, is often embedded in manufactured imports. It is important to point out as well that many U.S. imports from Mexico contain American-made inputs (for automobiles it is often 60-70 percent). Yet when they cross the U.S. border. they are booked as an import from Mexico.

In the case of U.S.-Mexico trade, a 25-percent tariff would reduce U.S. economic growth next year by three-quarters of a percentage point and mean 600,000 fewer jobs. The tariffs, when combined with corresponding retaliation from Mexico (30 percent of their economy depends on exports to the U.S.), threaten $370 million of traded goods.

Beyond the macroeconomics of trade, it is the commercial integration of the U.S. and Mexican economies that is the heart of the relationship. This centers primarily on intermediate goods and services, such as components for manufacturing. These account for 43 percent of total U.S. goods imports. For Canada and Mexico, the share is 50 percent.

Cross-border sourcing has been found to increase product quality and lower production cost. This makes a company's products more competitive in the global marketplace and ultimately supports jobs and wages at home.

Trade in intermediate goods often involves goods within the North American Free Trade Agreement (NAFTA) area crossing borders multiple times until final production.

There is no better example than the automobile industry. Michigan's export competitiveness in auto manufacturing is due to a seamless supply chain and logistics system that incorporates Canada and Mexico.

The importation of cost-competitive components is integral to the success of North American vehicle manufacturing and sales.

What about the tariff impacts on American consumers and producers? The U.S. Chamber of Commerce states that the cost to consumers could exceed $17 billion. Agricultural products will be hard hit especially, including strawberries and avocados, over 90 percent of which are imported from Mexico.

The $36 billion in electronics, computer equipment, TVs and appliances will be subjected to tariffs, as well two of the three most popular pick-up truck brands: the Dodge Ram and the Chevrolet Silverado.

Initially, U.S. wholesalers and retailers will try to absorb the increased costs of Mexican imports, but soon thereafter these will be passed on to shoppers.

Finally, given their shared border, the U.S. and Mexico have no choice but to cooperate fully to address serious non-economic issues like the trafficking of drugs, humans and arms.

Why should Mexico render vigorous cooperation in these areas if the U.S. continues to bash them and create economic hardship on Mexico by raising tariffs — especially in the asinine hope that Mexico will stem Central American migration to the U.S. via the Mexican border with the U.S.?

Asking a developing nation like Mexico, where 42 percent of the population lives below the poverty line, to divert funds from education, health, social services, infrastructure and public safety to hire border guards to keep out refugees from the even-poorer nations in Central America is foolish.

One should not forget that Americans' insatiable demand for drugs is the rocket fuel of crime and violence in the region.

In an interdependent world, one in which neighborly understanding and cooperation are paramount, the slogan "Make America Great Again" seems to be morphing into a mantra of "Make America Alone."

Mexico, our largest trading partner, is slated to be on the receiving end of unilateral tariffs that violate both NAFTA and World Trade Organization rules. One can only hope that in the 11th hour, a reversal of misfortune is in the offing.

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