MarketWatch

Why Trump's tariffs will hurt more American jobs than they help

By **Tim Mullaney** - March 2, 2018

Back when economists Paul Krugman, Mark Zandi feared that Donald Trump's election would make markets sell-off en route to a recession, they typically argued that tax cuts would goose the economy early in Trump's term, but protectionist trade policies would spoil the party in the end.

Now we may get to see if they were right. President Trump, in his own haphazard way, announced Thursday that he plans to slap 25% tariffs on imported steel and 10% duties on aluminum.

Trump's announcement — which the White House scheduled, then suggested would be about something else, then finally went ahead with — comes amid a hairy few months on trade policy. U.S., Canadian and Mexican negotiators are working on a recast version of the North American Free Trade Agreement — just as Mexico's president cancelled a state visit to Washington. Meanwhile, the administration is blocking mergers with Chinese companies in semiconductors and even money transfers, using a law designed to protect national security secrets to stall Chinese investment in U.S. assets that don't involve bailing out Jared Kushner's white-elephant Manhattan office tower.

What should we make of this? First, the tariff announcement matters much more if it's followed up by other moves on NAFTA, and China more generally, because steel and aluminum are only a small part of U.S. exports. Second, suppressing trade is hardly a magic bullet for metals companies such as Alcoa, Nuco , and Steel Dynamics. In 2015 and 2016, when China's ability to import products wobbled amid fears of a financial panic, U.S. stocks of exporters went down, including metals firms.

Third, this is a lot like Trump's efforts to prop up the coal industry being slaughtered by cheap natural gas and the downward surge of prices for renewable power. Primary metals manufacturing employs just 375,000 Americans (out of 154 million), and unemployment in that industry is a low 3.1%. As with the 51,800-job coal industry, the threat that cheap, allegedly dumped metals pose to employment is minor and the solution won't work.

"It's the worst possible nightmare for the economy," said **Economic Outlook Group chief economist Bernard Baumohl,** with perhaps a touch of hyperbole. More expensive steel in the U.S raises costs for companies making cars, homes, office buildings and more — and could push inflation up above 3% by 2019 or 2020, he argues. "More workers in the U.S. make products that are made from steel, than make steel itself."

Zandi confirms that Trump is sticking to his 2016 script — a bit more slowly than he promised, and with moves that aren't (yet) as big or grandiose as cancelling NAFTA or inviting a trade war with China. And still he thinks it will end badly.

"It has taken him a year to get going, but directionally it is doing what he said he would do, and the economic impact of all this is also sticking to the script,'' Zandi said in an e-mail. "Economic growth and stock market are getting a temporary boost, and inflation and interest rates are picking up. And if the script continues to hold, and odds are good that it will, a very weak economy or even recession will follow, probably in 2020."

How weak? For now, we can only guess. But here's one way to think about it. In 2016 — when Trump himself was braying that the economy was only growing 1% (which was wrong) and that too-loose trade was the top reason — a trade shock hit the U.S. economy. Exporters were getting slammed; for example, Deere, Caterpillar and even Alcoa were losing business to a rising U.S. dollar as well as customers in export markets who now had to worry about financial conditions as much as business conditions.

The subsequent slowdown in exports took 0.4 percentage points off 2016 growth, Zandi says. That's a decent starting point for thinking about the impact of Trump's sanctions — and it could get worse if Trump follows up with NAFTA meddling and other shenanigans, messing with supply chains in the much larger automobile- and auto parts industries.

“A trade deficit doesn’t subtract from growth — only a growing trade deficit subtracts from growth, and our trade deficit is about where it was over a decade ago,” Zandi said. “It could be disastrous if it our trading partners decide to respond in kind or worse.”

Some reasons for an adverse impact include higher interest rates and inflation as less foreign capital moves to the U.S., said Richard Moody, chief economist at Regions Financial. Another is the 25,000 to 50,000 jobs **Baumoh**l expects to see lost at companies that use steel and aluminum as inputs, and more pressure on the Federal Reserve to hike interest rates, he adds.

So Trump’s move doesn’t look like a recession-causer. But it does look like a significant brake on economic growth, with more to come. Fortunately for the country, Donald the Dullard is too dumb to understand he’s shooting his re-election chances in the foot in ways that will show up in 2019 and 2020.

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