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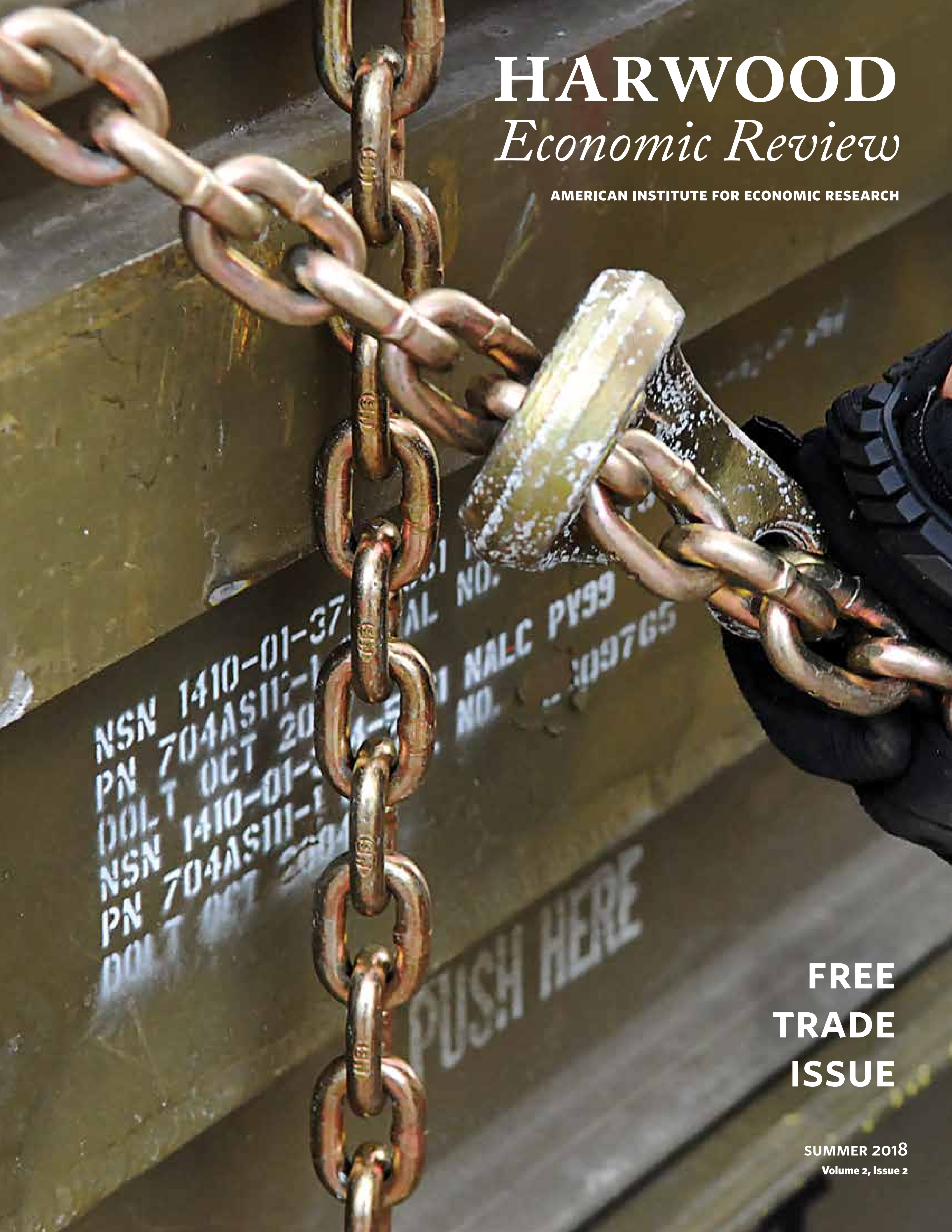
AMERICAN INSTITUTE FOR ECONOMIC RESEARCH



FREE TRADE ISSUE

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AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

In This Issue

Edward Stringham, President

The birth of the modern world is bound up with the case for free trade. Its opposite was called mercantilism. Mercantilism was a form of what we now called industrial planning. It was a leftover from feudal times. It came with gilds, which were the equivalent of regulatory agencies.

All these restrictions held back prosperity. But when nations opened up—many under the influence of Adam Smith and his contemporaries and students—things began to change. Free trade and deregulation, in addition to sound money, built up the middle class, raised incomes, and bought new products and economic opportunities to the masses.

The world has never practiced free trade perfectly. Sometimes we make progress and then nations go backwards, as they did in 1930 with the Smoot-Hawley tariff. AIER's founder E.C. Harwood fought hard against those tariffs, but they went through anyway. They contributed to deepening the Great Depression. After the second world war, we got back on track and nations gradually lowered trade barriers.

Today, we are again in the position of taking steps backward. The US administration has slapped large tariffs against imports against specific nations, but without an end game. The purpose seems to be to rebuild America's industrial infrastructure but the likely effect is the opposite. The tariffs are already operating as taxes on manufacturers and consumers.

As I said on CNBC last week and Fox Business the week before, no one wins trade wars. Last month I even held up a copy of Adam Smith's Wealth of Nations on television.

This issue of the Harwood Economic Review covers this topic in more detail. I'm pleased at the variety of contributions from Donald J. Boudreaux, Jeffrey Tucker, Nicolas Cachanosky, Scott A. Burns, and Max Gulker. They cover the topic is detail.

The battle for free trade over protectionism (or mercantilism) is really the battle between liberty and collectivism on another level. Is the nation the relevant unit to consider? Or is it the rights of individuals to own, trade, and create? The irony is deepened in the case of protectionism because it doesn't really help the nation. It harms a nation's consumers and producers in ways that are always expected but not always predictable.

We began to prepare the issue before the latest round of tariffs went into effect, and we took this route because there is truly a dearth of material on the topic. Once again, it falls to AIER to be the voice of liberty, science, and principle.

The fight for free trade today is as it always has been: a fight for freedom, prosperity, and peace.

Edward Peter Stringham

Edward Peter Stringham

Trade Retaliation Is Unjustified and Unjust

Donald J. Boudreaux

A frequently stated justification for protectionism in the home country is that the government of a foreign country doesn't fully practice free trade.

Let's think this through.

Suppose the United States is the home country and China is the foreign country. An implicit premise of this argument is that if the Chinese government taxes, spends, or regulates in ways that reduce the sales of particular American producers, the losses thereby inflicted on American producers by China's government are unjust.

By interpreting these harms as unjust or unfair, protectionists reveal their belief that these harms imply not only an economic but also an ethical case for U.S. government "retaliation" against the Chinese.

Protectionists attempt to build an unmistakably ethical case for tariffs and other trade obstructions in the home country by habitually describing foreign countries as trading "unfairly," as "not playing by the rules," and as creating "an uneven playing field."

Firms that lose customers in situations in which there is universal agreement that everyone "played by the rules" are not regarded as being harmed unjustly, even if the losses suffered by these firms drive them out of business. In contrast, firms that suffer losses because of unjust behavior are perceived as indeed deserving of government redress or protection.

Right to What?

The protectionist case for retaliation therefore implies that when Beijing imposes tariffs on Chinese imports, or subsidizes Chinese exports, it takes from us Americans something to which we are entitled. Specifically, what the Chinese allegedly take from us Americans is consumer demand that, absent the Chinese interventions, would be satisfied with sales made by American producers. The protectionist case for retaliation, in other words, springs from the belief that particular producers in the United States have at least a conditional property right to some minimum volume of consumer demands for their outputs.

Do producers really have rights—property entitlements—to at least some minimum volume of consumer demand for their outputs? The answer given by Anglo-American common law has long been a clear no. Under this law, economic competition is neither tortious nor criminal. Indeed, far from being wrong for producer Smith to lower his prices or to improve his product quality in ways that result in economic losses for producer Jones, such competitive actions by producer Smith are positively praiseworthy.

Examined from the perspective of consumers, under the law consumers are free to spend their incomes as they choose, and to change how they spend their incomes. And while businesses are free to offer for sale new goods and services, and to make their existing product offerings more attractive to consumers, businesses are not presumed to be entitled to any minimum volume of consumer demand.

Quite the contrary. The recognition is widespread that each and every business is always at risk of not succeeding, of losing sales, and even of going bankrupt. Implied in this recognition is the absence of any obligation on the part of consumers to spend their money in ways that improve or protect the economic well-being of particular producers.

The summary phrase for this ethical-legal state of affairs is "consumer sovereignty." Although this term was coined in the 20th century by the economist W.H. Hutt, the principle for which it is a label was long before explicitly championed by Adam Smith, Frédéric Bastiat, and many other economists.

Improving Lives

Consumer sovereignty is almost universally taken by economists to be an indispensable feature of a market economy. The reason is clear: because the ultimate point—the end—of all economic activity is to improve the living standards of those who engage in such activity, production is only a means to this end. Production is to be judged, and is justified, only by how well it improves people's living standards.

If a particular bundle of resources yesterday best improved living standards by being used to produce a certain number of typewriters, the economically "best" use of that bundle of resources was to produce that number of typewriters. Any other use of those resources would have produced outputs that raised living standards less than did using those resources to produce that quantity of typewriters.

But if today consumers, for whatever reason, experience less satisfaction than yesterday from getting new typewriters, then at least some of the resources once used to produce typewriters should be shifted away from typewriter production and toward the production of other goods and services—other goods and services that now raise living standards higher than these standards would be raised if today the same quantity of typewriters as yesterday continued to be produced.

In short, using resources to produce typewriters is justified only if, and only as long, as no other use of those resources would improve living standards by more than using those resources to produce typewriters. When getting new typewriters no longer raises living standards by as much as these standards would be raised by using the resources to produce outputs other than typewriters, the continued production of typewriters causes living standard to be lower than they would otherwise be. Such a use of resources cannot be justified.

The Standard of Judgment

But how best to determine what particular uses of resources contribute most to improved living standards? Again the answer is clear: observe how people who've earned their incomes spend their incomes. People spend their income in ways they believe best improve their living standards.

So if people stop buying typewriters, it must be the case that people judge the goods and services they now buy instead of typewriters to contribute more than do typewriters to an improvement in their living standards. Consumers' freedom to shift their spending both informs and incites producers to shift production away from now-less-valued uses and toward now-more-valued uses.

This process of informing and inciting producers always to produce that mix of outputs that most improves consumers' living standards would be severely distorted if producers were entitled to some minimum volume of consumer demand. Possessing such an entitlement, producers would

have little incentive to produce those outputs most wanted by consumers. Alternative uses of resources that would raise living standards more than do existing uses of resources would never be made given existing producers' right not to suffer any burdensome loss of consumer demand.

The Locus of Sovereignty

At best, such a "producer-sovereignty" economy would be drearily stagnant. At best, Americans would still be dialing directory assistance to learn phone numbers, still be going to record stores to buy music, and still be using typewriters. In practice, however, matters would be far worse; such an economy would suck all of its denizens into poverty.

Producer entitlement to consumer demand is wholly at odds with a market economy. Fortunately, producers possess no such entitlement. Thus when foreign governments unethically abuse their own citizens by obstructing imports into their countries or by subsidizing exports from their countries, any resulting economic losses these interventions cause here in the home country to some of "our" producers are not ethically relevant.

These foreign-government actions take from no one in the home country anything to which he or she is entitled. These foreign-government interventions, therefore, supply no good ethical excuse for "retaliation." In fact, losing nothing to which they are entitled, home-country producers themselves act unethically when they demand that the home government inflict upon fellow citizens the same unjust depravations that foreign governments inflict upon their citizens.

This Is How Trade Wars Happen

Jeffrey A. Tucker

The Trump administration has decided to impose $60 billion in new tariffs on Chinese goods coming to the US, as well as new restrictions on Chinese investment in the US. China has responded with a promise to impose $20 billion of the same on products such as fruit, nuts, wine, seamless steel pipes, and 115 other products. The reason: to "balance out the losses sustained by China through the United States' increased tariffs on steel and aluminum imports," a China statement said.

But there is more about to happen. China has just begun. There is talk of an additional retaliatory measure of 25% tariffs that could hit hundreds and thousands of products. The US has granted exceptions on tariffs so far to Mexico, Canada, Europe, the UK, and Australia, but with regard to China, the line has so far been hard. It's empire vs. empire.

You look at what's happening and wonder what happened to stop and then reverse the decades of progress that have been made in reducing tariffs, culminating in the dispute-settlement systems of the World Trade Organization. The short answer is that the US has decided, unilaterally, to ignore them completely, basically acting as if the thing that the US establishment worked so hard to create doesn't exist. And even as this is happening, many other nations in the world are forming their own free-trade alliances that exclude the US from the process completely.

As an aside, at the time, I was highly skeptical of the WTO when the US Senate agreed to join, thinking it would become a tool of American imperialism. I was especially wary of its "intellectual property" provisions that the US added as a condition of approval. It turns out that I was wrong: it did indeed become a tool for peace in the world, simply by providing some measure of accountability. The IP provisions are more moderate than what the US is seeking today.

Who Pays?

Trade wars are not free like beer. Someone is going to pay. The answer is simple: you, me, and everyone. Tariffs are an application of the coercive power of the state. They are not really imposed on other countries. They are imposed on a government's own citizenry as taxes on goods coming and going across borders. Governments that impose them are pushing prices higher—and production lower—on all goods, not just the imported ones but the ones produced domestically that rely on outsourcing some aspects of the production process. Trade wars are not "won"; they are fought at the expense of the consuming public in all countries.

There can be no question who has started this one. It is Donald Trump, believing himself to be living up to his campaign promise. I'm sure many people took it seriously. I certainly did at the time and wrote an entire book about the illiberal implications of longing for national autarky. The short answer is that it strongly suggests ideological attachments that are contrary to the rule of law and freedom in general. The decline of mercantilism and the advent of free trade was essential to the birth of the prosperity we know.

Many people had hoped that Trump, as a businessman with long experience with outsourcing and importing, would clearly see how damaging this approach to public policy would be. Surely, this was just campaign fodder. After spending the first year of his presidency mostly focussed on deregulation and tax cuts, the possibility that he would conveniently forget his protectionist longings seemed actually high. But it turns out to be a forlorn hope: as soon as Trump believed that he had the political capital, he moved hard and destructively.

Wrecking the Markets

What's extremely bizarre is that Trump is personally ignoring the reality that the financial markets, which rallied so hard at the tax cuts and deregulation of 2017, are in revolt against this protectionist turn. Journalists who cover Wall Street are failing to find voices willing to claim that the emerging trade war has nothing to do with the rise of the bears. Traders in all countries are warning of a coming disaster. And it seems that every analyst is on record directly blaming these policies for turning back fully 4 months of gains in all indexes.

To be sure, some people are indeed cheering. Those who have complained for years, if not decades, about China's laxity concerning "intellectual property" are now getting their way. They may rue the day. It's true that American software firms and automakers become annoyed when their US-patented products and services are so easily copied for cheaper production processes in China. But the truth is that "intellectual property" cannot be easily enforced across borders without what used to be called gunboat diplomacy.

And no one dares tell the truth: American consumers have benefited enormously from the failure to enforce patent, copyright, and trademark in emerging economies. It's been a huge source of China's growth, absolutely, but also a reason you are able to get cheap electronics and replacement parts for all kinds of machinery.

Keep in mind that intellectual property doesn't exist in the material or digital world; it is created solely by legislation and would be unenforceable at all but for state power. This is because, unlike real property, ideas are infinite goods; once created and revealed, they can be shared by the whole of humanity forever.

The People Cheer

The protectionist turn has not become as serious as that which entrenched the Great Depression or heightened tensions that led to the Civil War. But it does signal a reversal of 70 years of progress toward freer trade.

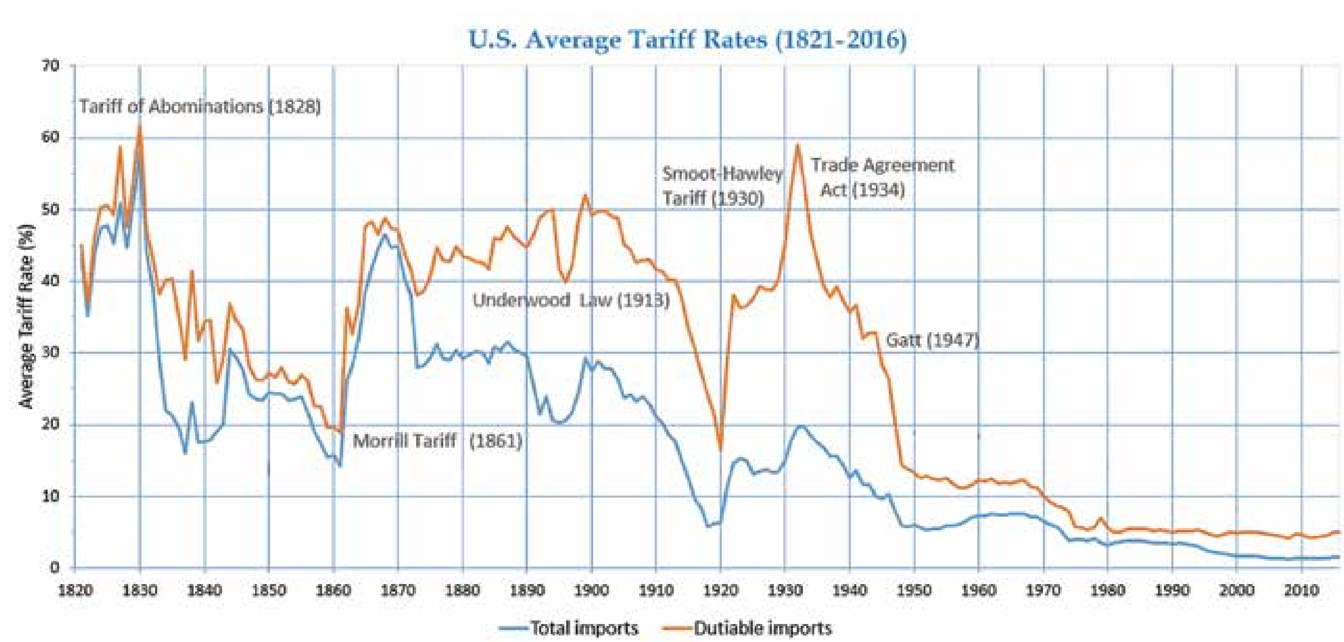
It's not a time to panic yet but many people who were fired up about the Trump administration last year are now wondering why they didn't see this coming. However, my own look through Twitter and Reddit reveals something more alarming: many people are cheering all of this as a glorious show of strength by Trump, as if he is standing up for American interests. It's the symbol, not the reality, that matters here.

In a political sense, Trump might be onto something, temporarily, in the most cynical way. It is very easy for the hoi polloi to think in terms of national collectives. It's us vs them, our guys vs. their guys. The trouble is that the world is no longer organized primarily along these nationalistic lines. We all depend on the productivity of each other and therefore on trade with each other, regardless of the nation states that trap us in their borders. The other main problem with a trade war: it is a ruse to distract citizens from their real oppressor, which is their own government.

Who is going to get the blame when prices rise, productivity falls, and the US falls into recession? Trump can blame China for its tariffs. Politically, however, this could turn against him, as he will no longer be able to cite economic performance as proof that he has made America great again. Looking ahead to the next round of political change, this can only help Democrats, who might end up retaking Congress and the White House and seeking to reverse the tax cut and deregulation of Trump's first year, thus doing further damage.

Cut or Expand Government

In other words, this protectionist turn threatens absolutely everything. This is not surprising. More freedom means more prosperity; the reverse is also true. If you cut government in many ways, and vastly increase its presence in other ways, you threaten to wipe out the good you have done. This is what the protectionist turn has done. Tragically, because the trade power has been centralized in the executive state, no one can do anything to stop it: not Congress, not the Supreme Court, not hoards of lobbyists. This is the problem when you have centralized power combined with a lack of political humility: one man can blow up the world.



Source: US Departement of Commerce, Bureau of the Census, Historical Statistics of the United States 1789-1945, U.S. International Trade Commission, dataweb.usitc.gov

Two Trade Wars: 1807 and 2018

Jeffrey A. Tucker

The legal uncertainties surrounding trade with China have sent people looking for historical precedent for this mess. One jumps out: the targeted trade embargo that the US imposed against Britain in 1807. Let's look at the parallels and lessons.

It's War

For months now, the Trump administration has been threatening every manner of taxes on imports from many countries but on China in particular. The policies would directly attack American consumers and producers of goods in which China has some role in the supply chain. China has responded with taxes on imports that would directly hit the economic prospects of Trump's political base.

Most recently, in order to escalate further, the president picked a big round number of $100 billion and sent aides out to round up enough products to meet that target. China, the spokesmen of which cannot say enough how much they would far prefer peace and economic cooperation, has retaliated with promises to close more markets to American producers.

Among the latest imported products from China affected are medical supplies and equipment, including pacemakers, artificial limbs, knee replacement parts, defibrillators, fillings for teeth, birth-control pills, vaccines, and that's just what is on the list. Many other secondary products and services will be affected. The supply of all of these will be restricted and hence the price will increase, provided you can get the products at all. At best it means raising health-care costs, which is pretty much the last thing Americans need.

To be sure, aides to the president, including his new adviser (however temporary; the last one resigned in protest against protectionism) Lawrence Kudlow, has taken it upon himself to tell everyone in public or private that this is not that serious really. The tariffs aren't yet implemented, though every American business that relies on imports and exports is working to retool for them to become real. The panic is unwarranted, says Kudlow, since this is all a negotiating tactic. Trump is just being a good businessman here, with his art of the deal and so on. The point is not to shut down trade but to extract concessions so that we can have even more. The end game, Kudlow implies, is freer and more open markets in all directions.

The problem with these assurances is the absence of evidence that there is truth to them. Consider the huge range of complaints about China that have been variously cited as a case for trade war: intellectual property violations, subsidies, currency manipulation, too-low wages, and the trade deficit itself, which Trump has erroneously claimed is a measure of how much China "owes" the US.

There is no possible agreement that could address all of these complaints. It seems like Trump is using all these conditions as excuses to roll back international commerce, essentially nationalizing economic production while letting the rest of the world go its own way.

Historical Precedent

One reason this feels so alarming is that there is almost no historical precedent for a US president using personal authority over trade and tariffs directly to target a single country to make its people (and our own) suffer as much as possible. "We haven't seen anything like this in centuries," confirms Douglas Irwin, the Dartmouth College professor and author of the most comprehensive history of American trade policy ever written.

Intrigued by this "centuries" remark? It turns out that American history does record an instance in which US ports were closed for both exports and imports, with the desire to harm Britain. The year was 1807 and the president was Thomas Jefferson, of all people.

The US was trying to stay neutral in a conflict between France and Britain (the latter days of the Napoleonic wars) but British ships started pilfering American goods and sailors for the war effort (still considering Americans to be subjects). Jefferson wanted to avoid a shooting war, but still wanted the US government involved to defend human rights against what seemed to many to be a form of terrorism. Jefferson was talked into using trade power (a supposedly more peaceful solution) in an effort to get Britain to stop.

The result was a near-total embargo, and probably the closest modern example we have of how national autarky would actually work in practice. Jefferson wrote in a letter that Congress has never been "more solidly united in what they believed to be the best for the public good." It's not possible to ramp up a trade war beyond a complete shutdown. In other words, this is a case wherein the president threatened trade intervention of a form far more extreme than has thus been proposed even by Trump.

The Results of 1807

The decision turned into the worst disaster of the Jefferson presidency. The trade war of 1807 led to the loss of lucrative trading routes, the breakdown of mutually beneficial trading relationships, a revolt among Jefferson's electoral base, a victory for the Federalist Party, the rise of black market trading activity, a huge rise in the price of imported goods and a fall in the price of exports, and a huge popularity blow against the Jefferson presidency, which was supposed to be about reducing government's role, not cutting off business opportunities for the American people.

The entire trade-war effort failed and ended up undermining both American prosperity and the Jefferson presidency.

Irwin writes ("The Welfare Cost of Autarky: Evidence from the Jeffersonian Trade Embargo, 1807–09"):

> *The highly controversial embargo was in effect for just 14 months. Growing domestic opposition to the trade restrictions, particularly in New England, forced Congress to repeal the measure in March 1809. The consensus among historians is that the embargo failed to achieve its objective because Britain and France refused to change their policies regarding American shipping. This was not due to the failure to eliminate trade, but the failure of the trade measures to weaken the political resolve in Britain to suppress neutral shipping in its effort to strangle the French economy.*

So much for the politics of trade embargoes: it undid a presidency and bolstered the enemies of liberty. The tensions of this period continued into the next presidency and resulted in the War of 1812 in which the president had to flee the White House, which ended up being burned by British troops. The trade war became real war. The long-simmering dispute in American history between the nationalists and the decentralists ended up being lost by the good guys precisely because of a trade war.

The Economic Results

As for the economics, writes Irwin, "The embargo had a dramatic impact on prices in the United States, driving down the domestic prices of exported goods and driving up the domestic prices of imported goods." Further: "The best-guess calculation of the static welfare cost of the embargo is about 5 percent of GNP. The cost does not represent the total gains from trade, however, because the initial trading equilibrium was one of restricted trade. Still, the embargo inflicted substantial costs on the economy while it was in effect."

It's stunning to think of: fully 5% of national output. That's depression levels. These calculations are interesting but don't come near including the unseen costs of the embargo, the loss of trade routes, the ruined relationships, the diverted resources, the ruined businesses, and so on. All this wealth that was wrecked could have been invested or saved and formed new capital for business expansion during what was otherwise a time of great economic growth.

I personally adore Jefferson, the man of letters, the great champion of liberalism and human rights. But this was an egregious decision. Remember that he was the author of the protest letter called the Declaration of Independence. One of the indictments against the British king was "For cutting off our Trade with all parts of the world." Talk about hypocrisy! Jefferson's supporters made him and his party pay the price.

An Autarkist as President?

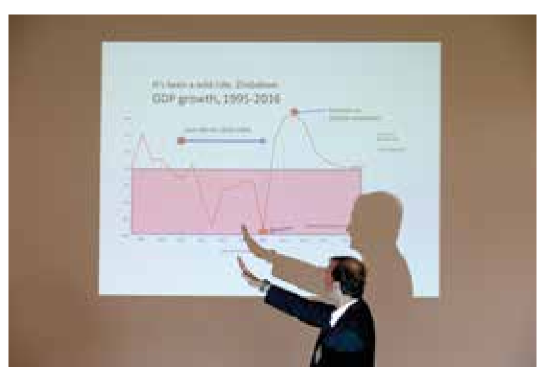
The great fear of financial markets today is that no one really knows what Trump is going to do next, much less why he is going to do it. My worry, which I expressed back in 2015, is that he is a convinced economic nationalist.

Thomas Jefferson's motivation was not personal aggrandizement, nor was it the motivation behind the Smoot-Hawley tariff. But it hardly matters. International trade is a delicate business, with countless and unpredictable downstream effects. It can be upset profoundly with taxes and other impositions that disturb the commercial life of the nation. It can lead to depression and hot war. This is the history, and it doesn't bode well for our future.

Harwood Graduate

AIER Harwood Graduate Colloquia are events for graduate students. A combination of discussion sessions based on pre-assigned readings and lectures given by prominent scholars associated with AIER, our goal is to encourage promising graduate students to push the frontiers in their understanding of economics, forge new research collaborations and network with their peers and established scholars.

The theme of the July 2018 Colloquium was "The Theory and History of Monetary Institutions." Our readings, discussions and lectures delved deep into monetary policy and banking history, led by scholars such as Edward Stringham, William Luther and many others.



Colloquium 2018

Speakers and Lecture Topics

Nicolas Cachanosky, AIER and
Metropolitan State University of Denver
Austrian Business Cycle Theory and *Monetary Policy*

Max Gulker, AIER
The Fed: A Centenary View and *Cryptocurrencies and the Future of Money*

Thomas Hogan, Rice University
Commodity Monies and *Private Note Issue*

William Luther, AIER and Florida Atlantic University
Founding of the Fed and *The Evolution of Money and Banking*

Craig Richardson, Winston-Salem University
Hyperinflation in Zimbabwe

Edward Stringham, President of AIER
Real Bill Doctrine

Jeffrey Tucker, AIER
The Fed and the Loss of Liberty and Peace

Monetary Policy and Trade Wars

Nicolás Cachanosky

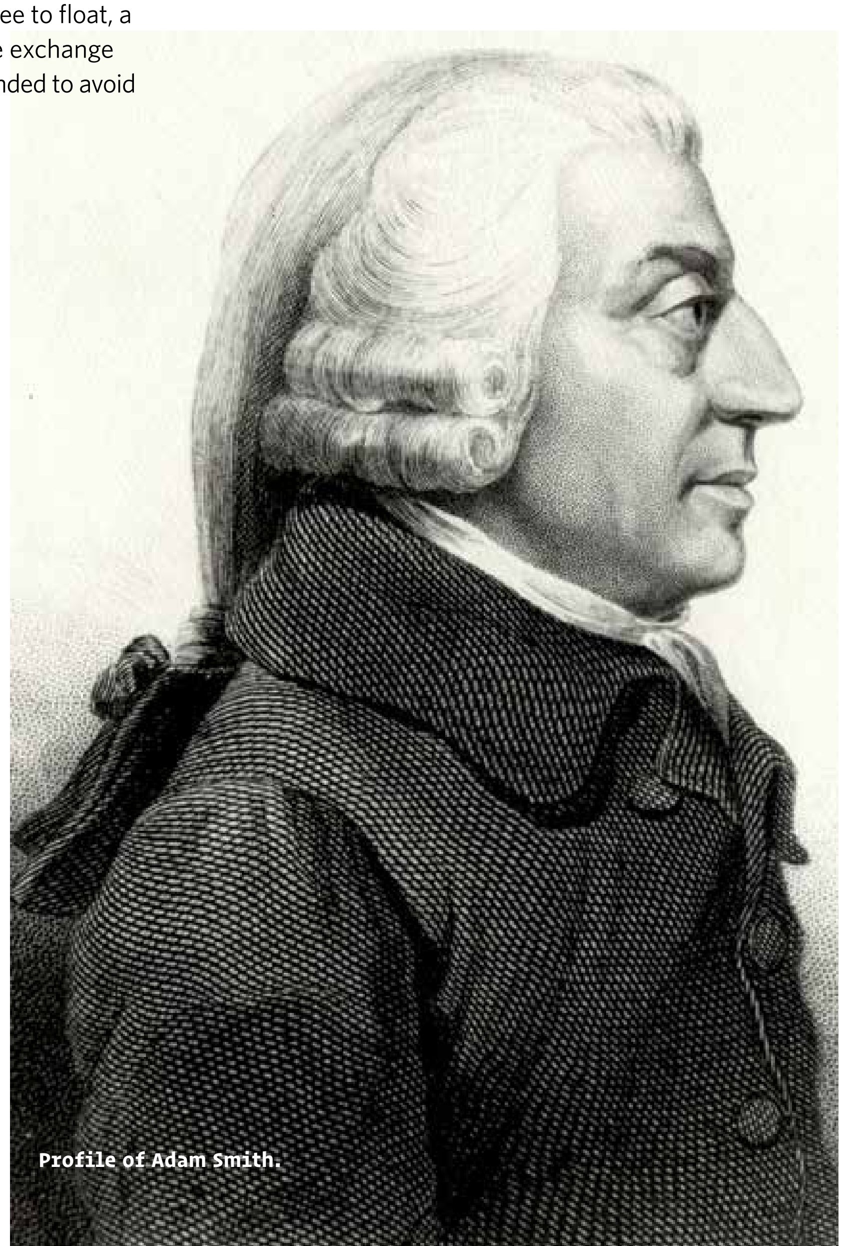
It is difficult enough under normal economic conditions for policy makers to efficiently manage the money supply. To add to the difficulty, policy makers now need to make their decisions in the context of a potential trade war. The many unintended consequences of a trade war are very hard, if not impossible, to predict.

A particular challenge for policy makers is that monetary policy and fiscal policy—and a trade war can be thought of as fiscal policy—can either boost or offset each other, depending on the monetary regime followed by a central bank.

In the case of a fixed exchange rate, an expansion (or contraction) of fiscal policy needs to be accommodated by monetary policy. As long as there is free capital mobility, a central bank cannot have both a fixed exchange rate and policy autonomy. Even if the exchange rate is free to float, a fiscal policy that has a significant effect on the exchange rate may trigger a monetary policy reaction intended to avoid too much appreciation or depreciation.

By changing the context in which monetary policy is decided, a trade war increases the complexity of monetary policy. Central bankers cannot know for sure whether their policies are going to be magnified or offset by domestic fiscal policy. Nor can they know how foreign countries will react to the domestic trade initiative. What will foreigners' fiscal policy be? What will foreign central banks' reactions be?

For some years now, the United States has turned its back on economic rationality. A trade war would not only make the United States less productive, it would also make monetary policy more difficult.



Profile of Adam Smith.

Monetary Offset: Trade War Edition

Scott A. Burns

The monetary offset is the idea that, so long as the central bank is hitting its inflation target (or, ideally, maintaining a steady flow of nominal spending), fiscal policy is either ineffective or unnecessary. More recently, President Trump plans to enact a 25 percent tariff on steel and a 10 percent tariff on aluminum. When considering the effects of such proposals, we must keep the monetary offset in mind.

A nation's trade policy is often viewed as a component of its fiscal policy. Politicians often rationalize tariffs and other trade interventions by claiming that they will help boost exports and reduce our trade deficit. Since net exports are a core component of GDP, any policy that reduces the trade deficit should serve to boost economic growth.

Of course, not all things can be held equal. One of the greatest insights of international-trade theory dating back to Adam Smith and David Ricardo is that free trade—which can sometimes lead to larger trade deficits—increases economic growth. The law of comparative advantage says that nations are made wealthier when they specialize in producing items they can produce at a lower cost and trade them for items they are less efficient at producing. This more efficient allocation of world production increases output and lowers prices, and in doing so makes consumers everywhere better off. These benefits of trade might not be readily apparent if we restrict our focus to crude macroeconomic aggregates like nominal GDP—after all, trade primarily makes us wealthier not by raising total nominal spending but by making more real output available at lower prices.

But even if we restrict our focus to crude aggregates like nominal GDP and inflation, the lesson of the monetary offset should disabuse anyone of the myth that we can boost spending by restricting trade.

The logic is largely the same as we saw in my previous post on the monetary offset. If the Fed targets inflation, the inevitable rise in prices that would be sparked by a trade war would trigger it to contract the money supply, sending aggregate demand on a downward spiral. (The crippling effect of the Fed's response to this negative supply shock is precisely why the Fed shouldn't focus solely on inflation.) And if the Fed targets nominal GDP, any alleged boost to total spending would be effectively offset by contractionary monetary policy. Real GDP would decline, and inflation would rise.

Portrait of David Ricardo by Thomas Phillips circa 1821

Even Paul Krugman, who has rarely seen a fiscal stimulus he doesn't like, recognizes that restricting trade as a way of raising aggregate demand is a fool's errand.

"What would happen instead," Krugman writes, "is that the Fed would raise rates sharply to head off inflationary pressures (especially because a 20 percent tariff would directly raise prices by something like 3 percent.). The rise in interest rates would have two big effects. First, it would squeeze interest-sensitive sectors. Second, it would drive up the dollar, inflicting severe harm on U.S. export sectors."

No matter how you slice it, trade wars are a foolish and negative-sum endeavor. When economists across the ideological spectrum are so strongly united against something, policy makers should take note—though, admittedly, economic consensus is no guarantee of good policy. Unfortunately, policy decisions are mostly made based not on what is economically sound but on what is politically expedient. But economists still can and should fight the good fight against bad trade policies.

Trump The Redistributor

Max Gulker

Corporations and many households rightfully celebrated when the Trump administration led the way in cutting their taxes. Now, the administration is in effect clawing at least a little of that tax cut back in the name of increasing the profitability of two ailing American industries. Trump announced he would begin imposing tariffs of 25 percent and 10 percent on imported steel and aluminum, respectively. These policies help a very small group of people at a cost to everyone else, and do even greater damage in the long run.

A Windfall for Steel and Aluminum

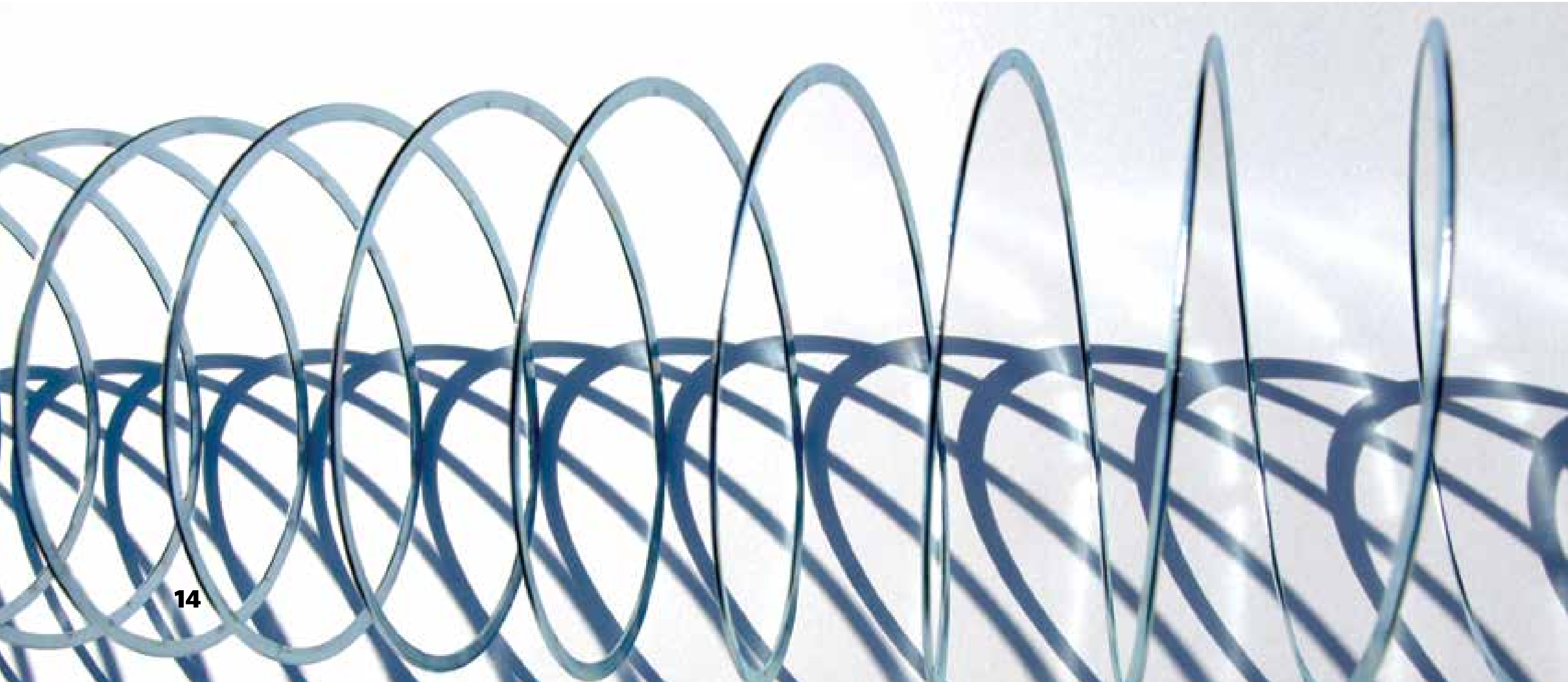
The United States imported about 30 percent of its steel last year, and about 52 percent of its aluminum. President Trump's action would raise the prices other American firms must pay to these overseas competitors, increasing domestic demand for American steel and aluminum. All else equal, this would result in US steel and aluminum manufacturers increasing the quantity they produce and being able to charge higher prices domestically. This policy would constitute a major windfall for owners and shareholders of US steel and aluminum manufacturers. Furthermore, the plan could "create jobs," ones we would hear about from Mr. Trump for a long time. However, primary-metals manufacturing (to which both steel and aluminum belong) employed only about 375,000 people last year, relative to over 12 million total in manufacturing and almost 150 million economy-wide.

A Tax on Everyone Else

Everyone to the right of Fidel Castro knows tariffs destroy rather than create wealth, so who's funding this windfall? In addition to foreign steel and aluminum suppliers, most American businesses and consumers bear the cost—in the form of higher prices. Many manufacturers use steel or aluminum as inputs. Their costs will increase, some of which will manifest in reduced profits (possibly leading to fewer jobs) and some as price increases for consumers. It is very difficult to predict exactly how much prices will increase or how much the hardest hit will be hurt, but with 25 percent and 10 percent tariffs, the answers are both likely to be "significantly." So the president is redistributing wealth from most businesses and households to a small group struggling in today's economy. "Barack the Redistributor" as, John McCain called him, has some unexpected company.

The Tip of the Iceberg

These immediate costs may pale in comparison to the long-run cost of government picking industrial winners and losers and deciding which firms will and won't prosper. The market is uniquely equipped to allocate investment over time because those making the decisions are also the people with the most detailed information. Even small interventions can add up over time, as investment begins to flow to industries where the United States simply isn't the most efficient producer. What industries will suffer from underinvestment? What innovations won't occur? It's impossible to predict exactly where the costs will be borne, but the fact there will be significant costs from this policy is one agreed upon by an unusually high proportion of economists. The next time Republicans decry the "redistributionism" of their opponents on the campaign trail, it would be wise to remember policies like this.



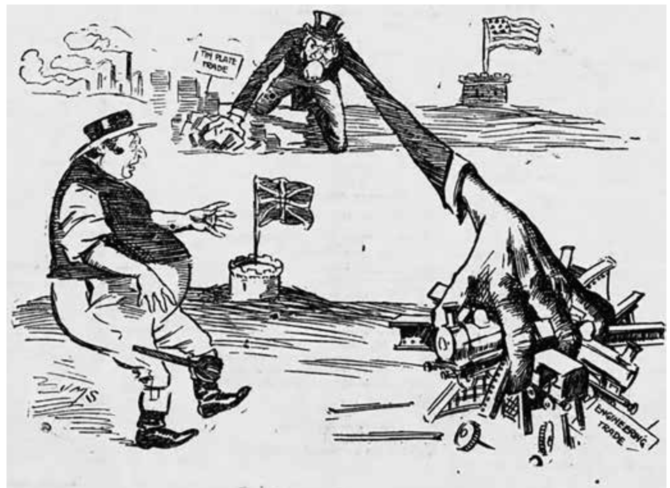
Pro-Trade Economists Helped Elect Trump the Protectionist

Max Gulker

People tend to crave direct cause-and-effect narratives, with a small number of protagonists who know what they're doing. It frequently leads us to make mistakes, especially when talking about economic policy. It's the mistake Bernie Sanders makes when he talks about all the "billionaires rigging the system," rather than understanding the myriad ways big business and big government connect and give further advantages to both. Whether that's his worldview or just pure politics, it's a much easier story to tell on the campaign trail.

But we on the free market side of the debate, even the children of Hayek and spontaneous order, make the same mistake, and in the area of free trade it's come back to bite us. As Jeffrey Tucker wrote, the Trump administration announced tariffs on imported solar panels and washing machines, with more promised to come. I'm aware of no topic on which there's as much consensus among economists as free trade. You really have to look on the fringes to find significant exceptions. And why shouldn't we agree? It's a mathematical fact that voluntary trade makes both parties better off. The most nuanced analysis most economists will expound sounds something like, "There may be losers in the short run, but through education and economic growth they'll eventually prosper too."

Last week, those pesky nuances signed a whole bunch of new trade restrictions into law. President Trump was elected in part precisely because he played off the resentment of those "losers in the short run" who lost their jobs when plants went overseas. Imagine you were a factory worker in your mid-50s, having worked at a plant for 30 years that's now moving to a different continent. Your life's work moved half a world away, it's not immediately obvious how you'll support your family, and oh, here's a voucher to a community college to go learn how to do something else. There will always be room politically for a candidate who makes those displaced in the short run by free trade feel a sense of dignity, even if the reasons are crass political calculation.



FREE TRADE.

JOHN BULL: "What, is he sneaking another from me!"

To fight for freer trade, we must ignore the easy narrative of two partners making each other better off, and take an uncomfortable look at who is being hurt. Sure, the lower prices American consumers pay for the foreign-made good will free up money for saving or other purchases, and greater economic growth will eventually help those who were laid off. But that process may seem opaque, while "Make America Great Again" is a clear call to action. Instead of glossing over those people "displaced" by free trade, we should look right at them and say we wish they didn't have to suffer, but remain steadfast in our message to them and everyone else that we must have free trade to give our economy the chance to prosper. If this seems a bit warm and fuzzy, just remember that these people helped elect a candidate with stated protectionist policies in part because they felt ignored. One can still resolutely support free trade while recognizing that it can involve complicated processes and significant life changes for some people.

How Will the New Tax Law Affect You and Your Charitable Giving?

Jeff Lydenberg

The new tax law became effective on January 1, 2018. Of the numerous changes, the two most directly affecting charitable gifts are:

1. The increase in the standard deduction ($12,000 for singles, $24,000 for married couples filing jointly); and

2. Elimination or restriction of numerous itemized deductions (though the charitable deduction remains intact).

Both of the above will increase the number of individuals claiming the standard deduction, and thus reduce the number of itemizers who can take an income tax charitable deduction. However, if you live in a state with high income and property taxes and you have a mortgage you could find that you still itemize.

Even if you won't itemize, here are some strategies to make lifetime gifts to charity and still receive tax benefits:

Make gifts of appreciated property such as publicly traded securities to AIER. Even if you don't itemize, you will still be able to avoid capital gains tax by making a gift of appreciated assets owned by you for at least one year.

Make gifts to AIER using the charitable IRA rollover. If you are over 70½ you can make a direct transfer from your traditional IRA or Roth IRA to charity of up to $100,000. Such a transfer is not taxable and counts towards satisfying your required minimum distribution.

Make larger gifts to AIER. If your total non-charitable deductions are close to equaling the standard deduction, a larger charitable gift may increase your total deductions enough that it makes sense for you to itemize; the additional tax savings that itemizing offers may reduce the effective cost of your gift.

Make a gift to AIER from all or a portion of what's left in your retirement plan. Assets in your IRA, 401(k), or other qualified retirement plan may be subject to income tax when distributed to heirs. Making AIER a beneficiary of a portion or all of your retirement plan will avoid the income tax that might otherwise be due from your heirs. This is an extremely tax-efficient way for you to make gifts to AIER that costs your heirs less than giving other kinds of assets.

As with any change, you should contact your accountant or financial planner to understand how the new tax law will affect your individual tax situation.

SEE PAGE 18 TO GIVE TO AIER

AIER Events

10th Annual Mises Celebration and Dinner with Edward Stringham and Jeffrey Tucker

September 14, 2018
San Jose, CA

Join AIER's Edward Stringham and Jeffrey Tucker at this year's Mises Celebration and Dinner. This year's celebration is being held in conjunction with the inaugural Classical Liberals of Northern California Conference, taking place at San Jose State University the following day.

Regional Conference: Thought Control in the 21st-Century

September 15, 2018
San Jose, CA

In partnership with San Jose State and the Bastiat Society of San Jose, join AIER for our regional conference on thought control and censorship in the 21st-century.

***South Carolina's Free and Flourishing Future* with Ellen Weaver**

September 19, 2018
Charleston, SC

Join AIER's Bastiat Society chapter in Charleston as we welcome Ellen Weaver. A seasoned veteran of policy and politics and a native of Greenville, Ellen worked for 12 years in a wide variety of roles in the operation of U.S. Senator Jim DeMint, both in Washington, DC and South Carolina.

***Emerging Opportunities and Legal Experimentation in Special Economic Zones* with Josué Guerrero**

September 27, 2018
Los Angeles, CA

Join AIER's Bastiat Society of Los Angeles in welcoming Josué Guerrero, co-founder and Chief Legal Officer of the Adrianople Group, where he leads their legal and regulatory research efforts. Mr. Guerrero will discuss Special Economic Zones in depth and outline the dazzling potential for economic freedom in the special economic zones growing across Asia and Africa.

***Mises: Last Knight of Liberalism* with Jeffrey Tucker**

September 28, 2018
Kraków, Poland

AIER's Editorial Director, Jeffrey Tucker, is a featured speaker at the 6th Annual Austrian Congress in Kraków.
Tucker with speak on Ludwig von Mises and his legacy.

***Creating America's Next BIG Park—with Private Funds* with Laura Huggins**

October 16, 2018
Columbia, SC (lunch)
Charleston, SC (eve)

Join AIER's Bastiat Society program in Columbia and Charleston for discussions on private property rights and land conservation. Laura is CEO of Montana Prairie Holdings and a research fellow at the Property and Environment Research Center (PERC).

For information about these events and more, visit **AIER.org/Events**.

Discover the Benefits of Planned Giving

Many of AIER's supporters have discovered how giving to AIER through our planned giving programs supports AIER's mission and provides numerous benefits for them and their loved ones.

A good plan will provide for your family or loved ones, protect what you have worked so hard to acquire, and leave you feeling safe and secure.

Certain plans allow you to guarantee income for up to three generations of beneficiaries, so you can put a plan in place for any of the important people, or even organizations, in your life.

In addition to supporting the mission of AIER, a planned gift can provide to you substantial tax advantages, especially on gifts of stocks and real estate. The total income, estate, and capital gains tax savings and the probate-expense savings can come close to the amount of your planned gift. The benefits include:

Income for Life
Income Tax Deductions
Reduced Capital Gains Taxes
Reduced Estate Tax

Simply by taking advantage of incentives the IRS provides, you and your advisor can craft a gift that fits your needs. A planned gift makes it possible for you, your loved ones, and AIER to all benefit.

Use our online calculator to create unique opportunities to meet your financial goals and support AIER.

http://plannedgiving.aier.org/calculator

Interested in learning more?
Contact Laurie Pshenishny 888.528.1216 x3121

SUPPORT AIER

and help us teach Americans the importance of sound money

I followed Colonel Harwood for many years and one thing that came through in all of his writing was that he was a great patriot and a strong believer in an honest currency. Having been in the investment business for 48 years, I think Colonel Harwood's teaching is needed even more now than it has ever been. He had a great impact on my thinking.

—**Arnold Van Den Berg**, Longtime AIER Member

AIER members understand the importance of AIER's mission and want others to understand too.

Annual Sustaining Membership dues and donations to our programs help AIER provide the information, tools, and analysis that Americans need to make decisions to advance peace, prosperity, and human progress. We promote personal freedom, free enterprise, property rights, limited government, and sound money. The people that value these principles the most are members of the American Institute for Economic Research. Donations to AIER are tax-deductible.

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Cotswold, 1955
Photo courtesy of Fred Harwood