**Is economics difficult?**

In many ways it isn’t. Take the basic principle of supply and demand. If demand for a particular product is higher than its supply, the price for it will rise. If supply overshoots demand, the price will drop.

One can tell a comparable, simple story about international trade. When a country imports more than it exports, its trade balance will be negative. But when a particular country happens to export more than it imports, its trade balance is positive. The question is: how come a country can import more than it exports? Where does the money to pay for the imports come from? The answer is that the citizens of the importing country prefer to spend and borrow money rather than to save money.

This is happening in the United States. America imports more than it exports. America’s trade balance over the past 12 months stood at *minus* $568 billion. That is a lot of money. Compare this to China’s trade balance over the same period; it was *plus* $ 121 billion.

The fact that President Trump is concerned about America’s trade balance is understandable; after all the US is in fact spending beyond its means. This was not really a problem since foreigners loved to buy American bonds. However, America’s international competitiveness is no longer up to standards; some American products and services are not as attractive as the ones the country imports. Take steel – the quality of steel produced by, for example, Canada and my own country, Holland, is of a higher quality because Canadian and Dutch steel makers invested in better technology, than steel makers in the US. American automakers prefer imported steel as it better suits their needs.

So, what is to be done about the negative trade balance? This is what President Trump seems to be thinking and what he is doing: The President believes that the US has struck ‘bad deals’ during past international trade negotiations. This has to be corrected, he argues, by raising American tariffs, as he promised his voters during the past presidential campaign. He announced in March last that the US intended to take protectionist measures: the US would raise tariffs on steel and aluminium with 25% and 10% respectively. After this announcement, potentially affected countries such as China, Japan, Canada, Mexico, the European Union, and other countries announced retaliatory measures should the US press on; a harbinger of a looming trade war!

This was four months ago. It seems as if the trade war is now on, despite China and other countries having given trade concessions to the US. This did not help. Canada, Mexico (both large steel exporters to the US), the European Union and other have now taken retaliatory measures. The question for Americans is: will employment in American increase, and will tariffs help improve America’s trade balance? My answer is that employment will not improve as the affected industries will either have folded or apply outdated technologies. Researchers estimated that some 150,000 American jobs will be lost. As for America’s trade balance, tariffs indeed help to reduce trade, but in the end may not improve the trade balance. This is because exporters to the US will earn fewer dollars, and the dollar will gain in value through its scarcity. This - in turn - makes American products more expensive and, as a result, American exports will drop as well. The solution is not raising tariffs but encouraging savings and reducing investment.

The looming trade war is bad for consumers, as the price of many products they buy will rise. And it is bad for international trade, as this will drop. This happened after the end of the First World War. At the time, industrialised countries introduced protectionist trade policies, such as America’s infamous 1929 *Smoot-Hawley Tariff Act* which led to an international trade war which helped to usher in the *Great Depression* of the 1930s, as described in my book *From Keynes to Piketty.* Hence, history tells us that protectionist policies are not good for economic growth, development and employment.

 Renewed protectionist policies will greatly undermine the international free trade system as overseen by the World Trade Organisation, of which China is a member together with 163 other member countries worldwide, which will be a great loss.

**Peter de Haan**