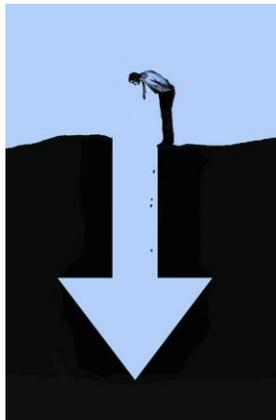


# Making Depressions Great Again

The U.S. may renounce its trade leadership  
at a dangerous economic moment.

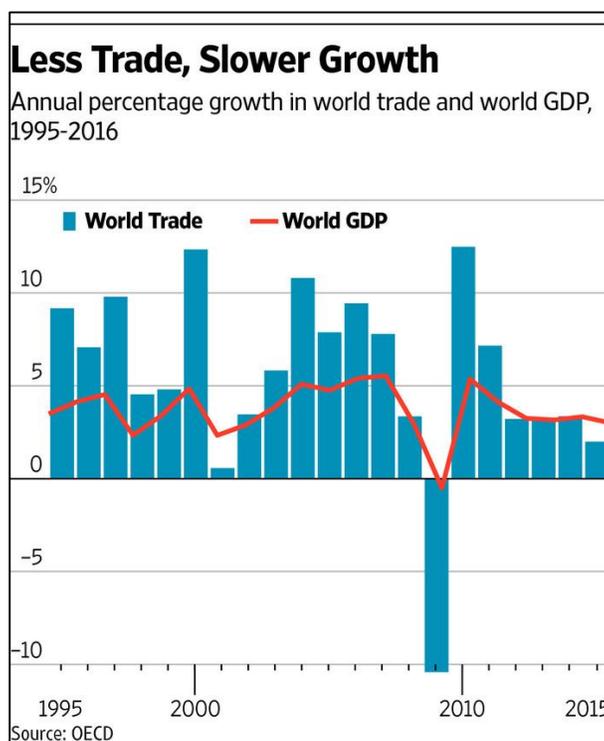
Political leaders have made many mistakes since the 2008 financial panic, but by some miracle a trade war isn't one of them. There are signs that this luck is running out, at a moment the world economy can least afford it.

The pace of global trade continues to tumble, an ominous trend for growth. Meanwhile, the U.S. may renounce its historic role as the anchor of the open international trading system. Both Democratic presidential candidates are trade skeptics, or claim to be. And the leading Republican, Donald Trump, would be the first avowed protectionist to lead a ticket since the 1920s.



Forecasters expect world GDP to grow by only 2.2%-2.4% this year, and one reason is that trade flows are historically weak. Trade volumes have flattened among advanced economies and continue to shrink in emerging markets. The OECD estimates that the trade slowdown since 2012 has subtracted about half a percentage point a year from the overall growth rate in the developed world.

The reason to worry is that **trade growth typically outpaces GDP by a wide margin**, as the nearby chart shows. After a post-recession rebound in 2010 to 12%, trade growth slipped to 7% in 2011, stagnated at 3% for the next three years and then fell below 2% for 2015—well below GDP for the first time since 9/11. The 1987-2007 average was 7.1%.



Reviving trade is crucial to driving faster growth, yet the **paradox of trade politics is that it is least popular when economic anxiety is high and thus trade is most crucial**. And so it is now: Four of the remaining U.S. candidates claim to oppose the **Trans-Pacific Partnership**, and Congress now lacks the votes to pass it.

The loudest voice of America's new antitrade populism is Mr. Trump, who has endorsed 45% tariffs on Chinese and Japanese imports and promises to punish U.S. companies that make cookies and cars in Mexico. When Mr. Trump visited the Journal in November, he couldn't name a single trade deal he supported, including the North American Free Trade Agreement (Nafta).

He says he's a free trader but that recent Administrations have been staffed by pathetic losers, so as President he would make deals more favorable to the U.S., and foreigners would bow before his threats. "I don't mind trade wars," he said at Thursday's debate.

He should be careful what he wishes. **Trade brinksmanship is always hazardous**, especially when the world economy is so weak. A trade crash could trigger a new recession that would

take years to repair, and these conflicts are unpredictable and can escalate into far greater damage.

The tragic historic precedent is the Smoot-Hawley tariff of 1930, signed reluctantly by Herbert Hoover. In that era the GOP was the party of tariffs, which economist Joseph Schumpeter called the Republican “household remedy.” Smoot-Hawley was intended to protect U.S. jobs and farmers from foreign competition, but it enraged U.S. trading partners like Canada, Britain and France.

As economic historian Charles Kindleberger shows in his classic, “The World in Depression, 1929-1939,” the U.S. tariff cascaded into a global war of beggar-thy-neighbor tariff reprisals and currency devaluation to gain a trading advantage. Each country’s search for a protectionist advantage became a disaster for all as trade volumes shrank and deepened the Great Depression.

Kindleberger blames the Depression in large part on a failure of leadership, especially by a U.S. that was unwilling to defend open markets in a period of distress. “For the world economy to be stabilized, there has to be a stabilizer—one stabilizer,” he wrote. Britain had played that role for two centuries but was then too weak. The U.S. failed to pick up the mantle.

From those economic ruins, FDR’s Secretary of State Cordell Hull slowly rebuilt the world trading system in the 1930s, leading to the postwar Bretton Woods accords and the Global Agreement on Tariffs and Trade. A consensus emerged in both U.S. political parties that preserving a liberal trading order was in America’s national interest.

But maintaining this American leadership abroad for eight decades has required presidential leadership at home. The Constitution assigns express authority over foreign trade to Congress, but since Smoot-Hawley the legislature has delegated those powers to the executive, knowing its own weakness for populist temptations. Presidents of both parties have, with periodic deviations such as George W. Bush’s steel tariffs, fulfilled that obligation.

But since 2009 this presidential leadership has been diffident. As a candidate Barack Obama promised to reopen Nafta, and early in his first term he slapped a 35% tariff on Chinese tires and endorsed the “Buy American” provisions of the stimulus. Once the President recovered his trade bearings, Mitt Romney promised in 2012 to sanction China for currency manipulation and even ran TV ads claiming that “for the first time, China is beating us.”

\*\*\*

Mr. Trump is now escalating this line into the centerpiece of his economic agenda—protectionism you can believe in. And what markets and the public should understand is that as President he would have enormous unilateral power to follow through. Congress has handed the President more power over the years to impose punitive tariffs, in large part so Members can blame someone else when antitrade populism runs hot.

The tools include so-called **Super 301**, which allows the U.S. to impose tariffs on countries that supposedly engage in unfair trade practices. Section 201 lets a President impose tariffs or limit imports on a finding by the U.S. International Trade Commission of injury to a U.S. industry. **Section 232** lets a President declare that certain imports pose a national security threat. The Treasury can trigger punitive trade actions by declaring a country to be a “currency manipulator.”

In an exchange with Bill O’Reilly on Feb. 10, Mr. Trump said that’s exactly what he plans to do. The Fox News host suggested a trade war is “going to be bloody.” Mr. Trump replied that Americans needn’t worry because the Chinese “will crash their economy,” adding that “they will have a depression, the likes of which you have never seen” in a trade war. He might be right about China, but the U.S. wouldn’t be spared.

The Trump candidacy thus introduces a **new and dangerous element of economic risk** to a world still struggling to emerge from the 2008 panic and the failed progressive policy response. A trade war would compound the potential to make depressions great again