

More on Trade Wars

Well, well! Who'd a thunk it?

First we must thank David Blond and Bob Brusca for engaging in a debate for our readers. For those who missed it, the links to the David Blond essay and the Bob Brusca response are here:

Blond: "Winners and Losers from Global Trade" – <http://www.cumber.com/winners-and-losers-from-global-trade/>

Brusca: "Why David Blond Is Wrong on Trade" – <http://www.cumber.com/why-david-blond-is-wrong-on-trade/>

We also want to thank our readers for the array of views articulated on all sides of this discussion. We thank the pro-Trump and the pro-Obama and the anti-Trump and the anti-Obama readers and the others who cited history. We had a minimal number of nasties this time. Maybe that is because we block them and have culled some of those people off our lists. We invite debate and discussion and ask only that discussion be respectful and polite. In other words, disagree but not with sharp knives and loaded guns. We have enough of that in our daily life in America without adding to it.

Today we want to add two points to the debate.

The first is our agreement with both Blond and Brusca. Neither supports a trade war. Both see the risks in such a contest. Both agree that no one wins a trade war and that all sides lose in the end. My friend Megan Greene and I discussed this hard reality during our panel at the GIC conference in Salt Lake City. She reminded me of the famous line about the direction in which the guns are pointed in a trade war. That observation leads me to muster a few quotes in support of this viewpoint.

Mar. 5, 2018 – "In particular, we should avoid the urge to

levy tit-for-tat tariffs on imports of products from the United States, such as the Europeans are threatening to impose on American motorcycles, blue jeans and bourbon. Trade war is unlike real war in one crucial respect: the guns are pointed inward.”

Source:

<http://nationalpost.com/opinion/andrew-coyne-how-should-canada-respond-to-trumps-tariffs-there-arent-many-options>

Mar. 2, 2018 – “So if there’s one thing that most economists agree upon, it’s no one wins a trade war. But President Trump doesn’t believe that. He tweeted out Friday morning that for the United States, a trade war is ‘good’ and ‘easy to win.’”

Source:

<http://money.cnn.com/2018/03/02/news/economy/why-no-one-wins-trade-war/index.html>

Mar. 23, 2018 – “Historically, both sides usually lose in trade wars. But, one side often loses more than the other. While China could be hurt by the Trump administration tariffs, U.S. consumers, companies and our allies could end up being damaged more.”

Source:

<https://www.npr.org/2018/03/23/596529795/trade-war-could-damage-u-s-consumers-more-than-china>

Mar. 15, 2018 – “President Donald Trump has not yet started a global trade war. But he has started a frenzy of special pleading and spluttered threats. In the week since he announced tariffs on steel and aluminium imports, countries have scrambled to win reprieves.”

Source:

<https://www.economist.com/news/finance-and-economics/21738906-if-china-cannot-placate-donald-trump-it-will-fight-him-instead-lose-lose-trade>

Five days ago – “Why China Will Lose a Trade War With Trump. Beijing can huff and puff, but America holds the high cards.

Expect the Chinese to back down quickly – or watch their economy and political system fall apart.”

Source:

<https://www.thedailybeast.com/why-china-will-lose-a-trade-war-with-trump>

Four days ago – “The overwhelmingly negative reaction from US businesses and lawmakers to this abrupt policy shift tells the real story – a trade war with China will hit the US where it hurts, and will do far more harm than good to consumers.”

Source:

<http://www.chinadaily.com.cn/a/201803/28/WS5abae5d7a3105cdcf6514b62.html>

Mar. 23, 2018 – “Boeing has become an unofficial proxy for fears about an escalating U.S.-China trade war. Investors are right to be worried.”

Source:

<https://www.wsj.com/articles/what-boeing-has-to-lose-in-a-u-s-china-trade-war-1521823499>

Let me move to my second point.

The selection of words is a powerful tool in the hands of politicians. It is really part of the skill set, just as style also helps establish a politician’s rapport with his/her “base.” In the trade debate the selection of the word *deficit* is a key example.

I tried this question by asking for a show of hands at the GIC conference in Salt Lake City. When I asked the audience “How many think a deficit of some type is bad?” most of the hands in the room went up. The word *deficit* has a pejorative connotation.

I then asked how many thought the word *surplus* was good. Again, most of the hands went up. I then asked the questions in reverse. Only three thought the word *surplus* could be bad. A similar number thought the word *deficit* could have a

positive connotation.

Now let's get to the economic issue. No politician stands up and says, "We have to shrink the capital account surplus." They like to say we have to reduce the current account deficit. The term *deficit* is alarmist. The term *surplus* gives comfort.

But we're talking about an economic identity, and so to say either one of these things is to say the same thing. The difference is how it sounds to the unskilled (in economic terms) listener.

No politician says it is "unfair" to have the money we spend abroad recycled into the US domestic economy by foreign parties buying US Treasury bills, notes, or bonds. Or by their buying American stocks or real estate or other ventures. Nope. That side of the identity is not deemed unfair.

But the same politician, who calls trade policy unfair and wants to shrink trade and, therefore, the current account deficit, doesn't offer the other side of the money flows to the listener. But with an identity you cannot have it both ways. If you want the flows of foreigners to be invested in your country and its enterprises, you have to get the money to them by buying their stuff or investing in their enterprises. This is a two-way proposition.

It seems that there is more bluster about trade than there is an actual full-scale trade war. But we are not sure. These things progress, and history shows they worsen in a tit-for-tat manner. History is very unkind to those who launch trade wars and trade war threats and likewise to those who respond in kind. The debate has raised risk premia in markets. When that happens, every investor and every business loses.

We again think the Blond / Brusca duo for their words, and we think readers for their responses. More is coming from us on this subject, as a trade war poses a major economic risk that

is evolving. We cannot yet size up the trouble that lies ahead down a thorny and ill-advised policy path.

Today's comments were written before the last 24 hours' news flow. The most recent round of China-US tariffs war is alarming. Trump's trade policy is failing and harming the United States.

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