Better Economic Policy Trumps Grandstanding Deals

Trump’s political victory in keeping Carrier and Ford plants from moving out of the country should not be confused with an economic victory.

Trade is a critical component of any economy, but we are addressing the location of a plant. If Toyota builds a plant in Mexico there is nothing Trump can do about it. If there is some economic advantage to that location, then when he strong arms or otherwise bribes an American plant not to seek that competitive advantage then he is directly harming that company. He may compensate that company with tax breaks but that is just more of the crony capitalism which is already problematic.

There are many reasons one would build a plant overseas, and lower wage costs are only one. They may desire to be closer to their customers, or they may be trying to circumvent trade barriers in that country. They could be saving transportation costs or responding to incentives from the host country. The host may have lower energy costs or other non-labor cost advantages.

Threatening higher tariffs is reprehensible. Is he going to charge Toyota a higher tariff as well or does this punitive objective only apply to American companies? Will the threat of such intimidation cause foreign companies to think twice about building plants in this country? Threats to the free flow of capital can create serious disincentives to investment.

While we relish the benefits that the workers received, there are consequences to the means deployed to accomplish this change in the companies’ plans.

There are indications that Trump and his team may lean more

toward the carrot than the stick. There are better ways to encourage American companies to expand at home: lower tax rates, reasonable regulations, a productive workforce, and respect. Telling entrepreneurs that “you did not build that” is not the voice of respect; neither are direct threats.

Where plants locate is dependent on many factors. To think that these interrelated decisions can be accurately assessed by any central planner is to make the mistake that the progressives have made since FDR. To address specific issues like Carrier’s with bribes and tax breaks is consistent with Trump’s penchant for making deals, but it encourages cronyism and inequality before the law.

A trade policy is very different from trade deals. A broad based low tax policy will serve America’s companies, workers and customers very well. Trump should use his bully pulpit to restore the respect for American industry that the radical leftists like Elizabeth Warren so casually squandered.

With better policy, we will need fewer deals.

Don Boudreaux at Cafe Hayek makes a similar case: