

Letter

Letter: A confusing prescription for 'balanced trade'

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Balanced trade achieved by raising US producers' costs will harm them © Sarah Pabst/Bloomberg

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Oren Cass (“Here’s what a new US-Mexico-Canada trade deal should look like”, [Opinion](#), November 10) aims to establish the “clarity” as to what the Trump administration should achieve in trade that it “has struggled to demonstrate thus far”. But his prescriptions are as confusing as the administration’s actions.

First, Cass calls for the agreement to aim at “balanced trade”, using currency management and tariffs. He claims this will benefit all parties.

But take US-Canada trade. Canada buys more manufactured goods, and services, from the US than vice versa. The US has trade deficits with Canada only because it imports cheaper energy. This is a source of cost advantage for US manufacturers.

Balanced trade achieved by raising US producers' costs will harm them. Those producers will, as a result, be less able to sell their goods elsewhere, even if they manage to do so at tariff-elevated prices at home. The trade deficit with Canada is also modest, making the focus peculiar.

The confusion concerns the purpose of a trade agreement. If the aim is to enhance employment and living standards, then hobbling US producers with higher input prices is at cross-purposes.

In many industries, foreign cost advantages are too sizeable (because of lower labour costs, etc) for American producers to be able to replace foreign production, even behind high tariff barriers.

Cass states that "if Mexico, Canada and the US commit to maintaining balanced trade among themselves, labour and environmental standards need not be so carefully policed". But there is no reason to think that balanced trade would enhance such standards. His premise may be that the only reason to focus on standards is their effect on the trade balance (eg because lower standards abroad lower foreign costs).

But if one values labour and environmental standards they should be objects of direct concern (as argued 15 years ago in my book with the philosopher Christian Barry).

Finally, creating a trade bloc that excludes China can hardly be the goal of a multilateral system. This would be to break the world into large blocs that do not trade with each other. If this is the "better replacement" of the World Trade Organization then it is hard to see how it will be sold to others, and it is a bold gamble by the US that other nations will always choose it over China. Cass's prescription is not only incoherent but inimical to prosperity.

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