
Letter

President-elect's views on trade are not delusional

From Daniel J Aronoff, Birmingham, MI, US

YESTERDAY

Sir, While denigrating Donald Trump's views on trade, the FT identifies, but then skirts, a fundamental tension at the heart of the debate over the benefits of trade (["Donald Trump's dangerous delusions on trade \(http://next.ft.com/content/356e6968-a822-11e6-8b69-02899e8bd9d1\)"](http://next.ft.com/content/356e6968-a822-11e6-8b69-02899e8bd9d1)), editorial, November 14).

You describe Mr Trump's "mindset" as "a mercantilist zero-sum view of the world in which economies are intrinsically in competition and current account deficits prima facie reflect cheating by trade partners", with which you contrast "the positive wealth-creating role of trade increasingly and mistakenly being dismissed by politicians".

You are right to argue that the benefits of trade should not be neglected. Trade is beneficial because exports create jobs and generate profits, while imported goods cost less than if domestically produced, which increases real incomes. Provided every dollar spent on imports is returned in the form of export demand, any jobs lost in one sector — say, by competition from Chinese imports — are gained elsewhere by new exports to China.

But when the US runs a large trade deficit, it is no longer the case that every domestic job lost to foreign competition is replaced by a job in an industry selling exports. A trade deficit drains demand from the US economy, causing deflationary pressure. Moreover, the investment into the US capital market of dollars accumulated offshore from the trade deficit depresses interest rates and triggers a reach for yield that increases the probability of booms followed by financial crisis, as Harvard's Carmen Reinhart and Kenneth Rogoff have documented in their study of financial crises throughout history.

Finally, even balanced trade can create hardship for those individuals and communities who lose market share to foreign competition. MIT's David Autor and

others have documented that US communities have suffered permanent loss of employment and income due to such effects. Therefore, Mr Trump's views on trade are not delusional; they do have merit.

Daniel J Aronoff

President and CEO,

The Landon Companies,

Birmingham, MI, US

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