



Issue Brief

FEBRUARY 5, 2019
BY BRYAN RILEY

Reciprocity for Disaster

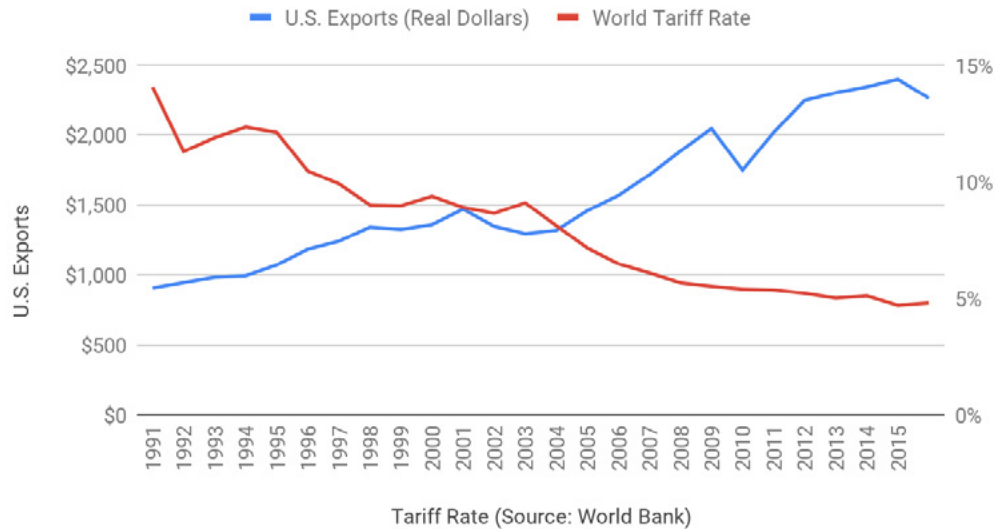
In the State of the Union Address, it will come as no surprise if President Trump calls for approval of the United States [Reciprocal Trade Act](#). Many analysts have commented on problems with the act¹. Here are some additional things to know about why it's the wrong policy for America.

Since World War II, treating our trading partners as allies rather than adversaries has paid enormous dividends for Americans. Just since 1990, world tariffs fell by nearly two-thirds as U.S. exports more than doubled, even after adjusting for inflation.

The Reciprocal Trade Act would turn this successful approach to trade on its head.

¹ See for example Daniel Griswold, "Mirror, Mirror, on the Wall: The Danger of Imposing 'Reciprocal' Tariff Rates," Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, January 2019, https://www.mercatus.org/publications/trade-and-immigration/mirror-mirror-wall?utm_source=twitter&utm_medium=social, Simon Lester, "The 'Reciprocal Trade Act' Is Obviously Not About Free Trade But It's Also Not About Reciprocal Trade," Cato at Liberty, January 25, 2019, <https://www.cato.org/blog/united-states-reciprocal-trade-act-neither-free-nor-reciprocal>, Phil Levy, "Reciprocity And Trade Deals - Are Other Countries Taking Advantage?," Forbes, January 29, 2019, <https://www.forbes.com/sites/phillevy/2019/01/29/reciprocity-and-trade-deals-are-other-countries-taking-advantage/#3ae84c0d68ed>, and Clark Packard, "There Is No Need to Give Trump New Tariff Powers," The National Interest, January 24, 2019, <https://nationalinterest.org/feature/there-no-need-give-trump-new-tariff-powers-42392>.

U.S. exports have skyrocketed as average world tariffs have fallen



What is reciprocity and why does President Trump think we need it?

Reciprocity can mean many different things. In a 2018 tweet, President Trump [defined](#) it this way:

When a country Taxes our products coming in at, say, 50%, and we Tax the same product coming into our country at ZERO, not fair or smart. We will soon be starting RECIPROCAL TAXES so that we will charge the same thing as they charge us. \$800 Billion Trade Deficit-have no choice!

The handful of proponents who endorse this approach often argue that tariff reciprocity is needed to as a lever to reduce foreign trade barriers. But the White House’s own case studies show this is untrue. For example, the White House [produced](#) a chart with tariffs on selected cherry-picked products from Japan, China, Thailand, Turkey, and the European Union attempting to show “unfair” examples of non-reciprocal tariffs.

But each of those trading partners has lowered its average tariff on U.S. exports significantly, without the need for blunt instruments like the Reciprocal Trade Act. President Trump wants to replace a successful post-World War II policy based on the understanding that trade is win-win with one that is likely to encourage foreign governments to retaliate against Americans.

Key Facts:



Foreign trade barriers are more likely to fall if the United States leads by example instead of imposing eye-for-an-eye tariffs.

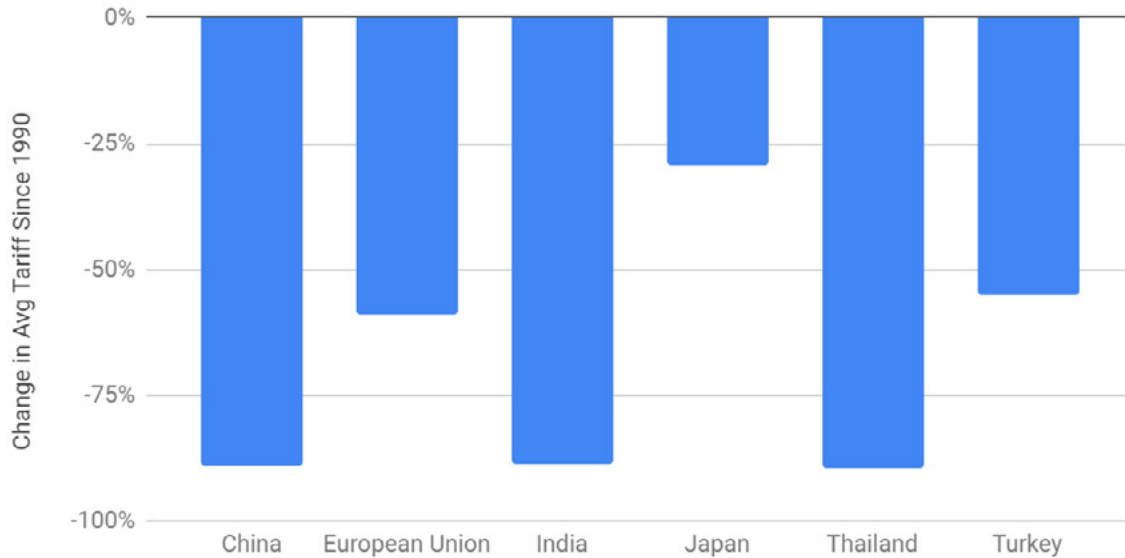


Instead of copying bad tariff policies from other countries, the government should put Americans first by removing its own protectionist trade barriers on products ranging from shoes to car parts to cargo ships.



The goal of the Trump administration’s trade policy should be to promote reciprocal trade, not reciprocal taxes.

Change in Average Tariff Since 1990



Calculated from World Bank data. China base year is 1992, Thailand is 1991, Turkey is 1993.

“Eye for an eye” reciprocity vs. “Golden Rule” reciprocity

Rep. Matt Gaetz, R-FL, has [contended](#): “Well, we’ve got to have an Old Testament approach to trade, an eye for an eye.” But this approach to tariff policy has been tried before, with results that were often disastrous. President Ronald Reagan [described](#) the risks involved in eye-for-an-eye tariff reciprocity:

I think you all know the inherent danger here. A foreign government raises an unfair barrier; the United States Government is forced to respond. Then the foreign government retaliates; then we respond, and so on. The pattern is exactly the one you see in those pie fights in the old Hollywood comedies: Everything and everybody just gets messier and messier. The difference here is that it’s not funny. It’s tragic.

Recent U.S. tariffs have led to [retaliatory](#) tariffs on \$121 billion of exports ranging from [lobsters](#) (25 percent additional tariff imposed by China) to [pork](#) (25 percent additional tariff imposed by China) to [bourbon](#) (25 percent additional tariff imposed by the European Union). The Trump administration [calls](#) this foreign retaliation “unfair.” Whether it’s fair or not, the costs imposed on American exporters continue to mount.

History shows shows trade policy is more likely to succeed if it is based on the Golden Rule instead of on hostile eye-for-an eye reciprocity. It turns out that the United States benefits when we treat our trading partners the way we would like them to treat us.

We should adopt this approach to trade policy not out of altruism, but because it is a superior way of encouraging other countries to treat us favorably.

Princeton University’s Robert Keohane described how countries benefit from this “sequential reciprocity” -- treating other countries the way we would like to be treated. [According](#) to Keohane, “Sequential reciprocity promotes long term cooperation.”

This is similar to anthropology’s [concept](#) of “generalized reciprocity,” where a person does a favor for someone else without expecting any immediate compensation, but with the knowledge that they may receive favorable treatment in return. An example would be buying lunch for a friend with the understanding that the friend might pay for lunch the next time.

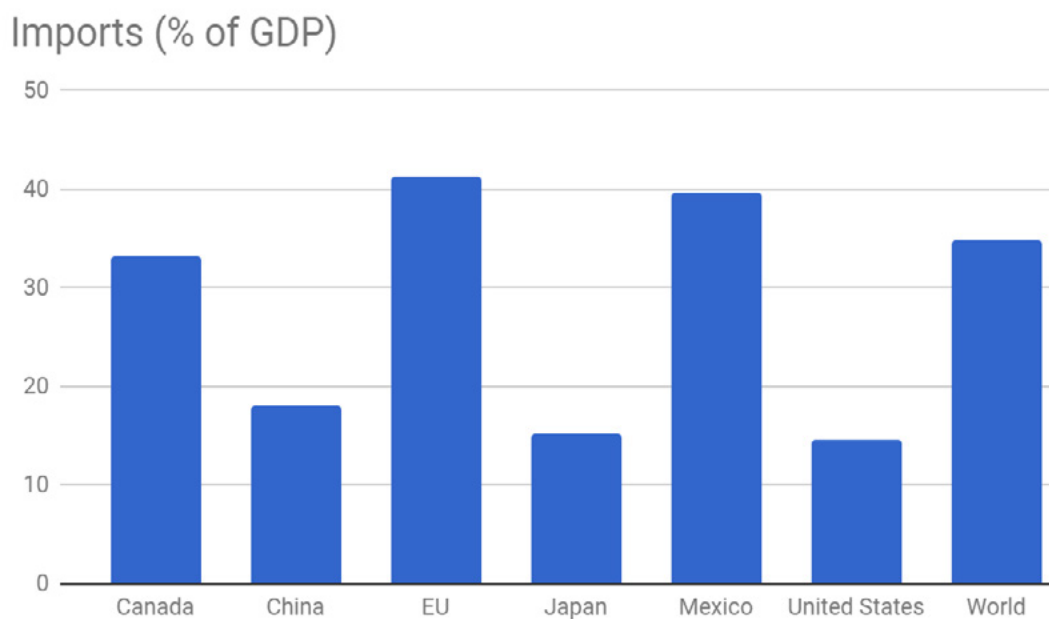
In contrast to eye-for-an-eye reciprocity, sequential reciprocity has led to years of increasing prosperity and export growth.

Zero-tariff reciprocity

U.S. trade agreements are based on a mutually beneficial form of reciprocity with both countries reducing most trade barriers to zero. In almost every free trade agreement the United States has signed, foreign barriers have fallen by more than U.S. barriers. For [example](#), prior to the North American Free Trade Agreement (NAFTA), Mexico’s average tariff on U.S. exports was about 10 percent while the average U.S. tariff on imports from Mexico was just 2 percent. Zero-tariff reciprocity remains a desirable goal for U.S. trade policy.

Reciprocity for imports

Another way to define reciprocity would be for each country to purchase the same amount of imports from its trading partners. Under this definition, the United States would need to boost imports significantly to achieve reciprocity with other countries. On average, other countries spend much more on imports by this measure.



Source: World Bank

Reciprocal Trade Act vs. America First Trade Policies

Attempting to mirror foreign tariffs is the opposite of an America First trade policy, because it would result in the U.S. government copying bad policies from other governments instead of pursuing

policies that would benefit Americans. As economist J. Laurence Laughlin [asked](#) in 1903: “But, should we desire reciprocity? ... Certainly there is no reason why we should deprive ourselves of the immediate benefit of cheaper goods because we feel that we must wait until other countries are willing to get our goods as cheaply.”

Instead of mirroring bad trade policies from other countries, some legitimate America First trade policies the Trump administration could undertake include:

- Phase out all tariffs on imports used by Americans to compete in the global economy, including taxes on imported automobile parts and machinery.
- Eliminate regressive taxes on imported shoes and clothing, which average more than 13 percent and disproportionately burden low-income Americans.
- End misguided sugar policy, called the “OPEC of sugar” by some. U.S. barriers force Americans to pay [nearly](#) twice as much for sugar as people in the rest of the world.
- Allow Americans to use foreign-built ships for domestic [transportation](#), making it more affordable to ship goods to Hawaii or Puerto Rico and reinvigorating a domestic cruise industry.

Promote reciprocal trade, not reciprocal taxes

All trade is reciprocal, consisting of mutually beneficial transactions where each party willingly agrees to trade. The goal of the Trump administration’s trade policy should be to promote reciprocal trade, not reciprocal taxes. If the Trump administration really wants to open foreign markets instead of just hiking tariffs, history demonstrates that leading by example would be a good place to start.

As President Reagan [explained](#): “[T]he future belongs to those who lower trade barriers. These are the countries that will be in the forefront of technology. These are the countries that will see their living standards rise most quickly. And these are the countries that will lead the world in the years ahead.”



*2018 National Taxpayers Union Foundation
122 C Street NW, Suite 650, Washington, DC 20001
ntuf@ntu.org*