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CLIENT BULLETIN

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➢ *Trade Talk*

Trade tensions between the U.S. and China have escalated recently. Because the topic of trade will be in the media in the coming months, it's important to have a reasonable base of knowledge in order to interpret the headlines accurately (and steer clear of politics.) While economics is mostly a social science with few absolutes, there are some important principles about trade on which the vast majority of economists agree:

- The best trade policy is free trade, with no tariffs, barriers to entry or subsidies.
- Free markets and global trade have proven to be the most effective methods of promoting global prosperity for people at all income levels.
- Tariffs are taxes on imported goods. Although they are levied on **producers**, their cost is ultimately paid by **consumers**, who are restricted from buying the least expensive goods available.
- China stands to lose more from a trade war than the US. China's exports represent 4.6% of China's economy vs. .9% of GDP for the US (source: Commerce Department.)
- The U.S. and the world want more intellectual property protections and fairer trade practices from China.

➢ *Observations*

No one knows the path nor timing from here, but some careful observations can be made:

- At this point there is no trade ***war***. It is a trade ***negotiation***. The tariffs are being used tactically as negotiating tools. Let's hope they remain as tools only and don't become entrenched policies.
- This was never going to be an easy process. There is enough at stake and the issues are so complex that a protracted negotiation with China was probably inevitable.
- Everyone would lose if an all-out trade war ensued.
- The media doesn't like to focus on this, but there are some very positive potential outcomes:
    - Successful negotiations would be a win-win for all concerned.
    - If China reforms their intellectual property, legal and trade practices as a result of the negotiations, its economy would almost certainly benefit from increased trade and investment.

- ***Trade Conclusions***

Ultimately you have to ask the question - what are the incentives of the players and are those incentives aligned? Because the two countries need each other, one way or another they should find their way to the negotiating table to come to some form of agreement and get back to business. Hopefully this will occur sometime in 2019 and we can all go back to forgetting how to spell the word "tariff."

- ***More on Trade***

One more thought on trade that couldn't be jammed into the foregoing points: considering just the "first-order" effect of tariffs is an incomplete analysis. There are "second-order" effects that can have a much larger economic impact than the tariffs themselves. For example, many of the goods affected by tariffs are produced by complex supply chains linked across multiple countries and companies. If US-China trade tensions persist, many US companies would shift their supply chains out of China toward Singapore, Vietnam, or Mexico. This would damage the Chinese economy far more than any tariffs. To a lesser degree, China could do the same.

- ***Record Income***

The results are in for the April tax-filing season. The U.S. government took in $535.5 billion of tax receipts, the largest monthly amount collected in our nation's history (source: Treasury Department).

- ***Let's Think About This***

As the 2020 elections gain momentum (already?), taxing "the rich" to fund new government programs is a common refrain from some US Congressmen and women, one going so far as to say that "A system that allows billionaires to exist is immoral." Let's do a brief thought experiment on that. Next year's proposed US spending budget is $4.7 trillion (this is without adding any **new** programs). That works out to **$13 billion** daily.

- ***Sorry Jeff, Bill and Warren***

If the U.S. imposed a **100% wealth tax** on billionaires starting with Jeff Bezos, the wealthiest American with $160 billion in net worth (pre-divorce), we could fund the federal government for 12 days. Who's next? Bill Gates and his $97 billion can take us out to January 20. Next up is Warren Buffett with $88 billion, who takes us out to January 27. This isn't going very well. Even if we took ***all*** of the wealth of the Forbes 400 (a total of $2.9 trillion) we could only fund the federal government into August of year 1. You get the point - in order to fund additional social programs we'd need to create **more** billionaires, not eliminate them (source: Forbes Magazine).

p.s. - don't forget, we have to start paying welfare to all those former billionaires

- ***No Misery***

Decades ago a man named Arthur Okun came up with the "Misery Index", which is calculated by adding the inflation rate and the unemployment rate. A low reading means that inflation is low and unemployment is low, and that brings a measure of stability to the life of the average working person. The Misery Index is as low as it has been in the past 60 years. This is great news for the average U.S. citizen.