



Trump's Trade War:

Debunking his Lies, Tallying the Cost, Building a Response

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Resources & Explainers

Full Report:

<https://centreforfuturework.ca/2025/01/12/whos-subsidizing-whom/>

YouTube Video:

<https://www.youtube.com/watch?v=JXdGXIPG2fA>

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Who's Subsidizing Whom?

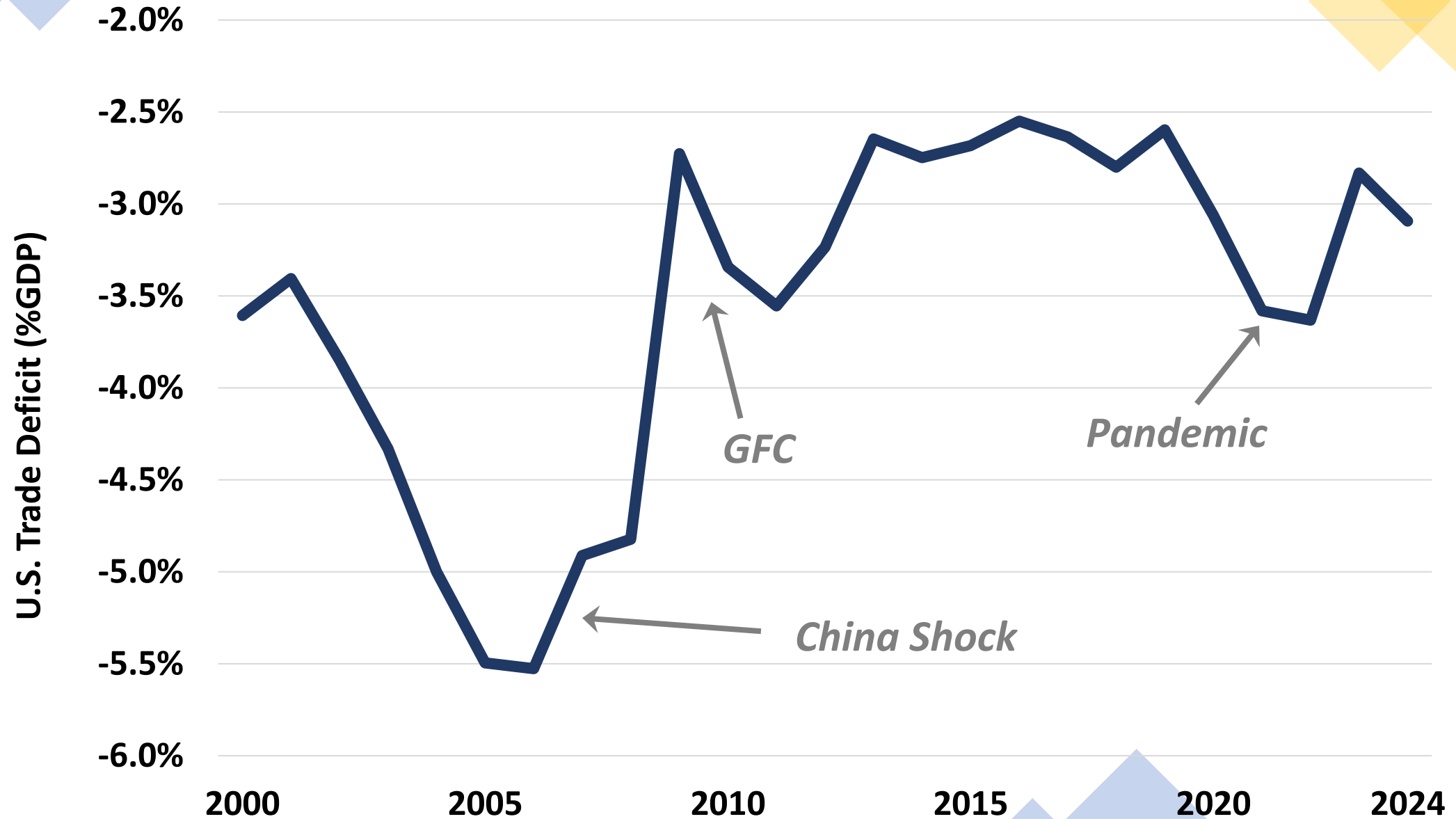
**Myth and Reality about the
Canada-U.S. Trade Balance**



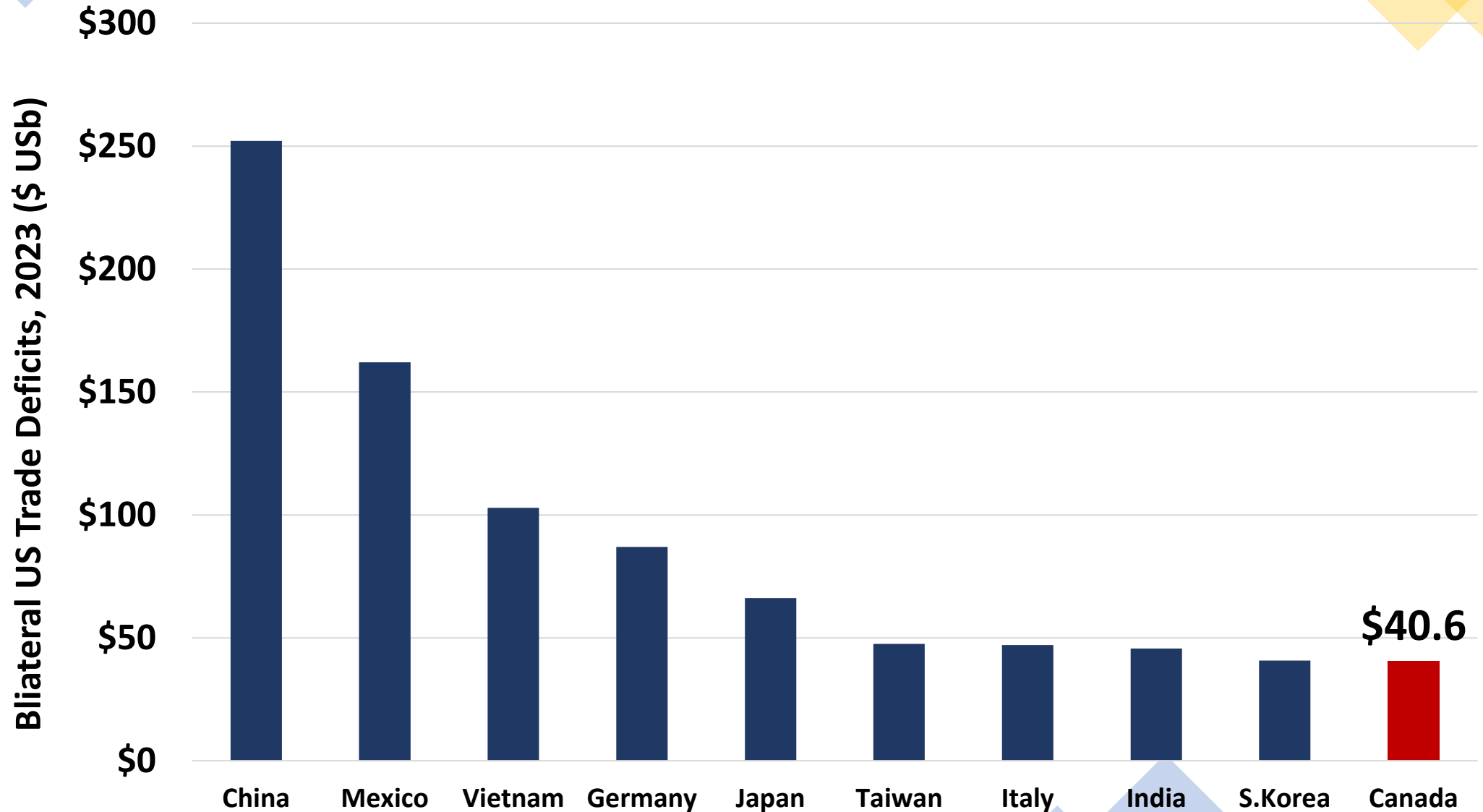
Trump's Threats

- Unprecedented danger to the world economic and diplomatic order.
- Unabashed use of raw economic power to blackmail other countries on anything.
- Optimistic scenario: he's bargaining for concessions.
- Worst case scenario: he wants to expand the U.S.
- Either way, Canada's in trouble.
- Reality: U.S. benefits at least as much from the bilateral trade as Canada does.
 - If anything, Canada subsidizes them (not the reverse).

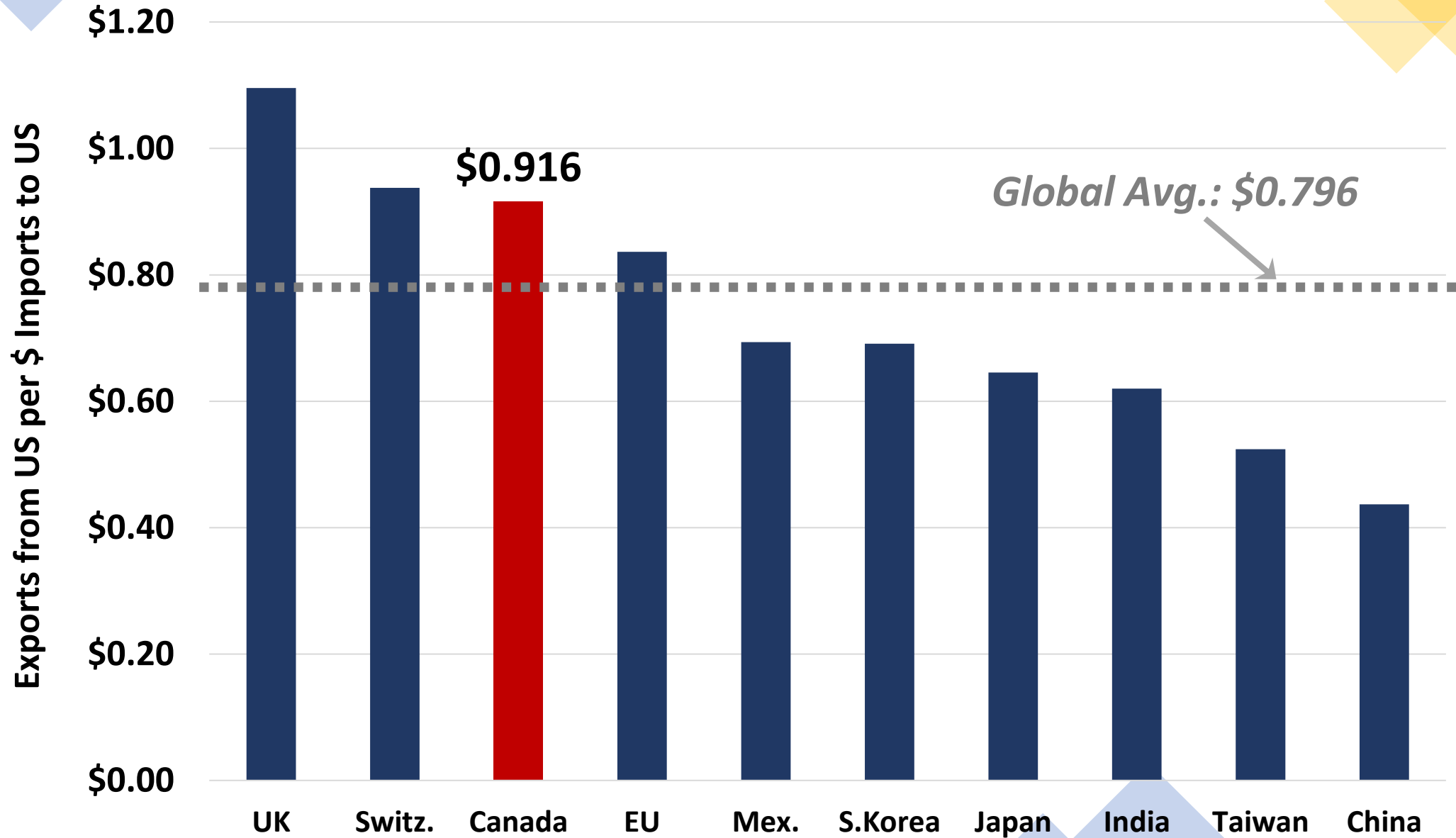
U.S. Trade Deficit: Nothing New



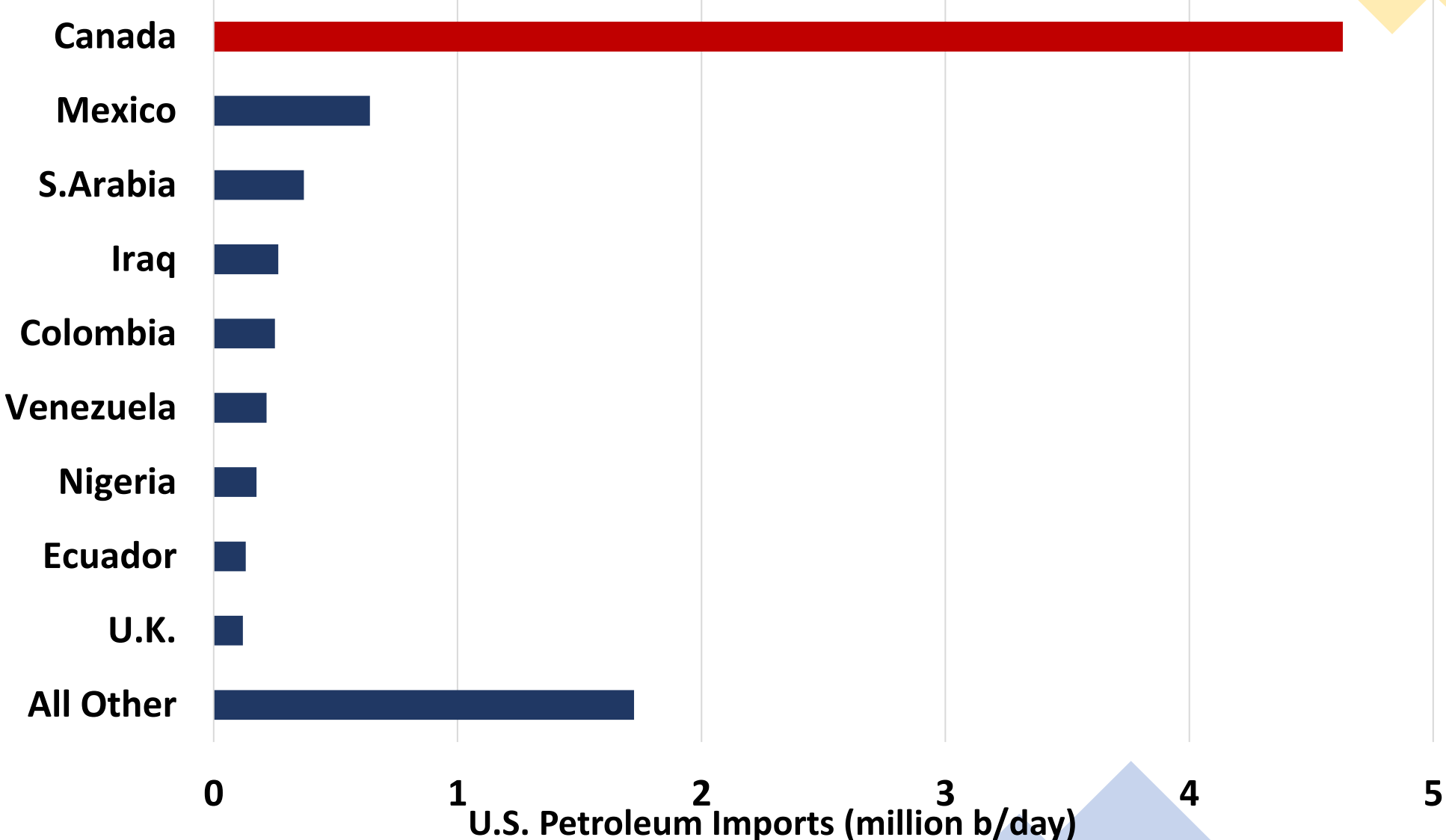
Don't Blame Canada



A Good Balance



You Need Us, Donald...

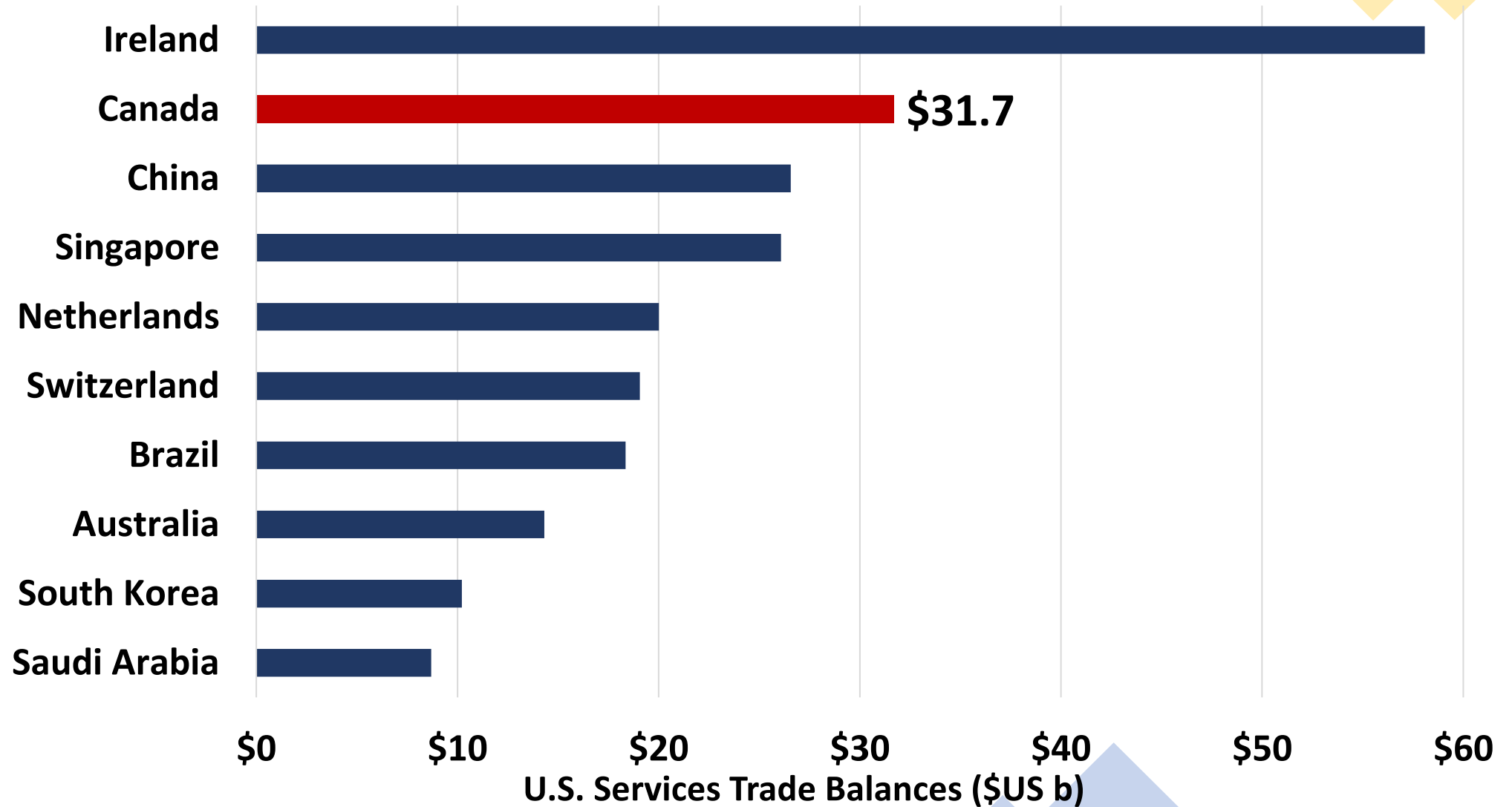


...and Not Just Our Oil

Composition of U.S. Imports, 2023

Category	All U.S. Imports	Imports from Canada
Energy	8.3%	29.1%
Other Industrial Inputs	17.8%	23.5%
Capital Equipment	36.2%	23.4%
Passenger Cars	6.6%	8.1%
Other Consumer Goods and Food	31.1%	15.9%
Total	100%	100%

Services Count, Too



Trade Balances and Subsidies

- Many factors cause trade imbalances:
 - Macroeconomic factors, lopsided trade policies, lack of competitiveness, capital flows.
- U.S. has had a deficit for 49 straight years.
 - It's neither new, nor an emergency (smaller in recent years).
 - U.S. buys more than it sells, consumes more than it produces.
- In 3 ways, U.S. benefits from unusual 'sweet deals' with Canada:
 1. Energy imports well below world price (\$20b US/yr saving).
 2. Services exports that are uncounted, unregulated, untaxed.
 3. 'Reverse interest loans' to U.S. (\$13b/yr outflow int. & profit).

Trump's Reciprocal Tariff Insanity

- The economic logic made no sense.
- But the specific formula was crazy!

$$\Delta\tau_i = \frac{x_i - m_i}{4 * .25 * m_i} \quad \div 2!$$

- Trump personally chose this formula.
- Tariffs imposed on uninhabited islands.
- Countries selected according to top-level internet domain.
- Global repercussions just beginning.

Direct Impact of Tariffs

- Americans pay them. Canadian exports more expensive.
- Impacts on Canadian exporters:
 - If Americans can switch to alternatives, quantity sold will fall.
 - Or Americans may demand offsetting price cuts.
- Impacts on U.S. buyers:
 - If Americans cannot switch, they must bear the higher price.
 - Higher domestic inflation, likely higher interest rates.
 - Remember: 76% of imports from Canada are business inputs.
- Flexible exchange rate will absorb some of the impact.
 - 8% (5 cent) decline in last year already offsets 1/3 of the tariff.

Broader Impacts of Tariffs

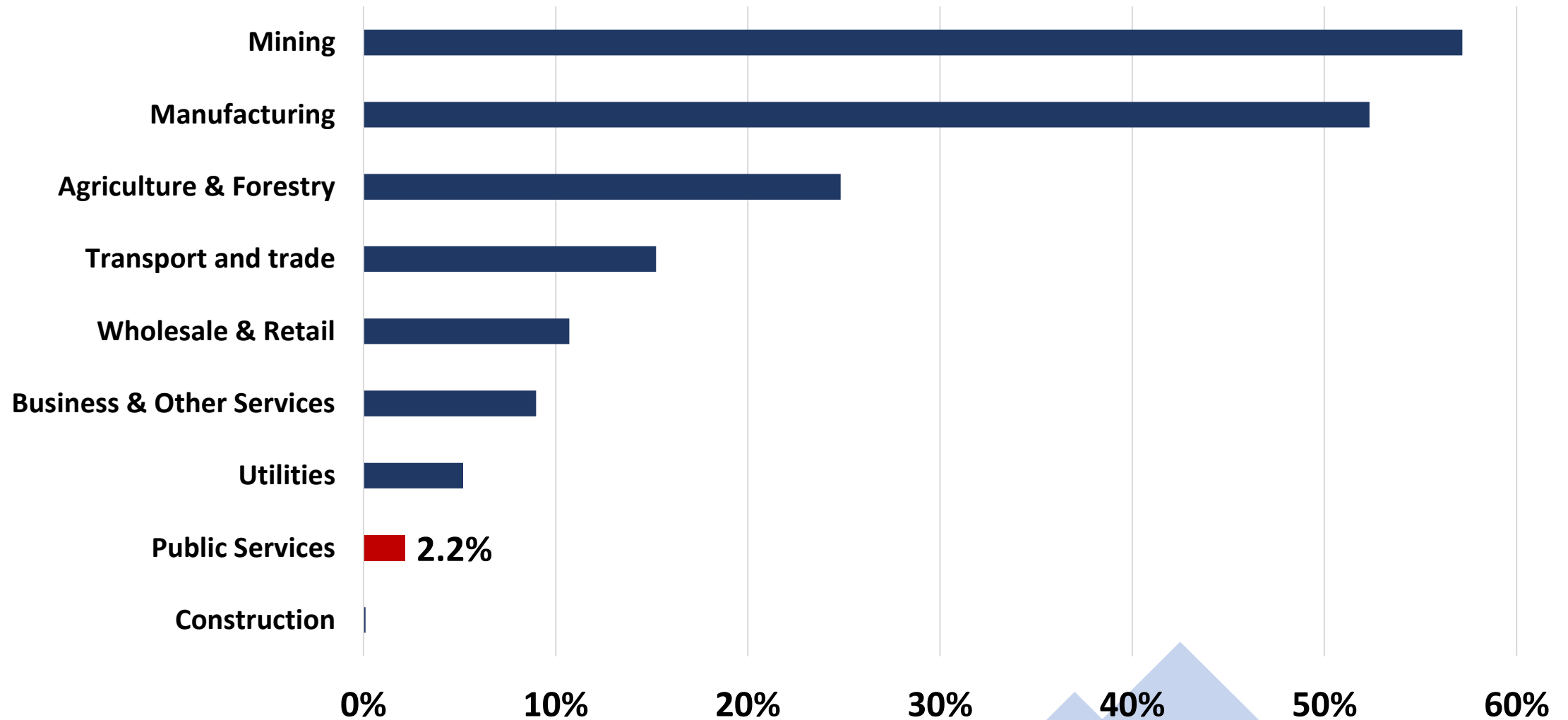
- Creates huge uncertainty in minds of businesses about investing in Canada.
 - Trump explicitly stated his goal to the WEF in Davos.
 - Already evidence that investment plans are being put on hold.
- Combination of reduced exports and lost investment would almost certainly cause a recession in Canada.
 - Bank of Canada: 2-3%pt hit to GDP in year 1, 1-2%pt more in year 2.
 - Likely 1 million+ jobs (unemployment to over 10%).
 - Not as severe as pandemic, but longer-lasting.
- In some ways, counter-tariffs make it worse.
- Possible one-time hit to inflation (Bank might see through).
- Fall-out to household incomes, government revenues.

Impacts on the Public Sector / Health Care

- Likely recession could affect government funding.
- No sector is immune from an economy-wide downturn, let alone the broader repercussions of geopolitical breakdown.
- There's even better reason now to invest in industries that do not cross national borders ('non-traded industries').
- Health care is one of those.

Export Dependence by Sector

Share of Total Output Exported



Trade Policy Response

- Canada needs a threat to gain bargaining leverage.
 - Trudeau's two-stage plan not bad.
- Bigger, more targeted impacts from non-tariff measures.
 - Resource taxes or quantitative limits (Alberta could keep the \$\$!).
 - Target monopoly profits of U.S. firms (drug patents, targeted tariffs on Tesla, lift the Digital Services Tax).
 - Capital measures / foreign investment.
- Government procurement, 'Buy Canadian' by consumers helpful but small.
- Developing other export markets helpful but hard/slow.

Broader Policy Response

- Much of the damage is done, even if Trump backs off.
- Canada will need emergency measures to cushion the blow:
 - Emergency assistance to export industries.
 - Emergency assistance to workers (permanent fix for EI?).
- Longer-run reorientation of economic development strategy also required.
 - Major investments in Canada, by Canadians, for Canadians.
 - Remember: most of our GDP (80%+) is not exported.
 - Emphasize infrastructure, housing, services.
 - New National Policy? Public ownership?
 - Caution: Most rhetoric on interprovincial trade is nonsense.