Trade Policy: A Game of Poker

- A game theory problem where the outcome depends on the beliefs of each side

- Trade could increase or decrease

- Traditional trade analysis is missing an essential element by just focusing on the flow of goods and services ("current account"): the flow of capital ("financial account") must move in opposing direction.
International Trade and Capital Flows

A deficit in the current account (trade of goods) must be offset by a surplus in the financial account (trade of assets).
Projected Debt Held by Public: Current Policy

Debt/GDP Ratio

- 2018: 78%
- 2027: 111%
- 2040: 168%

Source: PWBM Projections March 2018
Impact of Large Trade Opening v All-Out Trade War

Foreign capital inflows substantially decrease from 40% to 0% and increase from 40% to 70%.

Note: Current policy U.S. economy is modeled as 40% open, consistent with previous evidence. Going above 70% is not theoretically plausible for the United States.

Source: PWBM Projections March 2018