

Trade Wars Are Never “Easy to Win”: Economist Robert Pollin On Trump’s China Policy



Robert Pollin ~ Photo: UMass Amherst

Before the election, presidential candidate Donald Trump promised voters across the country that he would turn the tables on foreign competitors to reverse US trade deficits. Last month, President Trump invoked a 1974 trade law and launched a trade war against China by announcing tariffs on more than \$150 billion of Chinese goods and products. Trump has argued that the move might cause “a little pain” but that the US will benefit from it in the long run. But are tariffs good for economic policy? And whom do they benefit most — capitalists or workers?

C.J. Polychroniou spoke to *Robert Pollin* — a distinguished professor of economics and co-director of the Political Economy Research Institute at the University of Massachusetts at Amherst — about the impact of tariffs and trade wars on national economies and the labor market.

C.J. Polychroniou: Bob, let’s first of all get some things straight about Trump’s decision to impose tariffs on Chinese goods and products. Is the US in an actual trade war with China? Trump says it is not, yet he has also gone on record saying that trade wars are “good, and easy to win.”

Robert Pollin: One never knows exactly what Trump is really up to. Whatever policy pronouncements he may have made on day one, there is a good probability

that by day four or five, he will have reversed himself. That said, since his 2016 campaign, Trump has been denouncing Chinese trade practices. His main adviser on trade, Peter Navarro, has long been a vehement opponent of US trade relations with China, having authored books titled *Death by China* and *The Coming China Wars*.

Since January, Trump has certainly started aggressive actions against Chinese imports into the US. It started with [tariffs of 30 percent on imported solar panels](#), most of which come from China, then moved on in early March to a [25 percent tariff on imported steel and 10 percent on imported aluminum](#). Predictably, China then retaliated with tariffs on US imports, including aircraft, automobiles, and chemicals, [worth about \\$50 billion](#). Trump then shot back on April 5, proposing another [\\$100 billion in tariffs](#) on a range of Chinese imports. I wouldn't yet call this a "war," but the threats and skirmishes are intensifying.

Are trade wars "good and easy to win?" Taking the second part of Trump's pronouncement first, it is clear already that they are not "easy to win." China has the capacity to retaliate if provoked excessively. Are trade wars "good?" As with other kinds of war, we are opening ourselves up to all kinds of uncertainties. Trump's [latest overture](#) to re-enter the Trans-Pacific Partnership — after he had also repeatedly denounced this trade agreement and in fact had already pulled out of it — no doubt reflects his utterly incoherent attempt at keeping up alliances with the rest of East Asia while he is roughing up China. Who knows where it will lead? Certainly not Trump or his advisers.

What are the real causes and consequences of the US trade deficit, which in 2017 amounted to \$566 billion?

The United States has been importing more than it exports — i.e., running a trade deficit — for 42 straight years. So this is hardly a new development. The [2017 trade deficit of roughly \\$570 billion](#) amounted to about 3 percent of GDP. The size of the current trade deficit is roughly 50 percent smaller as a share of GDP than what it was a decade ago, just before the financial crisis and Great Recession. So the trade deficit has certainly not been exploding in recent years relative to the pattern over the past 40 years.

A range of factors has contributed to the US economy persistently importing more than it exports. One is simply the fact that after the end of World War II, the rest

of the world caught up with the United States in being able to manufacture products that the rest of the world wants to buy. This has been especially significant when economies where wages are low are able to produce goods at acceptable quality. This means they can undercut producers in the United States on costs while maintaining competitive quality. This has certainly been the case with China, and with other East Asian economies before China, including South Korea, Taiwan, Thailand, Singapore and even, decades ago, Japan.

Another factor is that other countries have advanced aggressive industrial policies to help their manufacturing firms succeed as exporters. Germany is an important case in point here: Its industrial policies include stable access to financing, research and development support; effective ongoing vocational training for workers; and a much more cooperative work environment between workers and managers that encourages higher productivity. The average German manufacturing worker is paid about 30 percent more than her counterpart in the US. But Germany is nevertheless an export powerhouse, running a trade surplus at about [8 percent of GDP](#).

Still more, the US maintains a unique position with the dollar being the most heavily traded global currency. With other countries, if they import more than they export, the value of their currency will fall. For example, the demand to hold Mexican pesos will fall if Mexico is buying more from other countries than the other countries are buying from Mexico. When the peso becomes cheaper, it also means that its exports are cheaper to buy. This will then help Mexico to increase exports. But this pattern doesn't occur with the US dollar. The demand for the dollar stays high, even with the US persistently importing more than it exports, since the world economy runs primarily on dollars. In addition, Wall Street wants the value of the dollar to be high, since that helps support profits on the dollar-denominated stocks, bonds, real estate and other assets sold on Wall Street.

Finally, it is important that we not simply frame trade issues in terms of one country or set of countries versus others. It is critical to also think of the class issues involved with trade and related policies. A good share of US capitalists are happy to purchase products from other countries that are produced with cheaper labor, or to move their operations to other countries if that is most advantageous to them. That enables them to sell at cheaper prices and still earn a profit. Critically, it also gives US firms extra bargaining leverage against their workers. Thus, if workers in, say, a US auto plant, say they deserve a raise, the firm can

respond by saying, “You want a raise, fine. We will move to Mexico where manufacturing wages are a fifth of what we pay you.”

The point here is not even that the firm will have to move operations to Mexico, or to import assembled parts from Mexico. The point is that the firm can *credibly threaten* to move. This keeps the workers’ bargaining power down. This is a major reason why average wages for US non-supervisory workers have been stagnant since the 1972 — for 46 long years — even while average labor productivity in the US — the amount the average worker produces in a day — has more than doubled. With wages stagnant and productivity doubling, that means there is twice as much money available for high-end employees and business owners at the end of the day. Here we have a major factor driving the relentless rise in income inequality in the US.

Are tariffs good as an economy policy?

Tariffs can be good or bad as a policy tool, depending on the broader set of circumstances. For the US today, tariffs are not good policy, certainly operating on their own, as opposed to being one part of an overall industrial policy to support domestic manufacturing. The problem is straightforward, as we see in the case of the US and China now. First, tariffs have to be set relatively high, like the 25 percent rate that Trump has imposed on imported steel, in order to seriously discourage US consumers and businesses from purchasing imports. But this also means that US consumers of steel, such as auto manufacturers and construction projects, will now pay more for the steel they buy. At the same time, setting a high tariff barrier against foreign producers seeking access to US markets would no doubt provoke other countries to retaliate, which in turn would reduce our exports as well as our imports. This is what is happening now with China, where the US is now selling [\\$130 billion in US products](#), even while importing \$500 billion of Chinese products.

But tariffs can be a valuable and perfectly legitimate tool for a country trying to develop new, or what is termed “infant” industries. In the 19th century, the US aggressively imposed tariffs on British textiles, which created a protective environment for the development of a US textile industry. The US tariffs today on imported solar panels could be beneficial for strengthening a still developing domestic solar manufacturing industry. But this tariff policy on imported solar panels only makes sense in the US today as one component of a broader green

economy and climate stabilization program, including binding measures to steadily drive down greenhouse gas emissions to zero over the next 30-40 years. Obviously, Trump will have nothing to do with a positive green economy agenda in support of climate stabilization. As such, the tariffs on solar panels make no sense as a one-off measure.

Who benefits the most from tariffs — capitalists or workers?

It is hard to think about tariff policy independently of a broader set of trade policies, industrial policies and still more broadly, social protections. Tariffs that protect domestic industries can help support jobs, for example, in some US manufacturing areas. But that doesn't mean that the jobs protected will necessarily be good ones. We therefore still need unions and worker protections like a \$15 minimum wage to help workers maintain bargaining power against capitalists and to make jobs in these protected industries pay decently. We would still need to take a large share of revenue from the tariffs to help domestic industries thrive through infrastructure investments, and to support social programs such as decent school systems that pay teachers and other public sector workers living wages. Without such measures, the tariffs simply become a way to protect domestic capitalists against foreign competition, including domestic firms that are perfectly happy to continue exploiting their workers to the maximum extent.

What should be a left vision for trade?

Fundamentally, I think that the left today should be committed everywhere to pushing the institutions of liberal capitalism to their limit in allowing democratic politics and egalitarian goals to gain ascendancy over acquisitiveness. In concrete terms, this translates into advancing programs for full employment with decent wages and generous social benefits in all countries, allowing for specific circumstances as to how to apply this set of goals most effectively. We need to then think about trade policies within this broader framework.

Speaking of the US today, we can achieve and sustain a full employment economy with decent wages and social benefits even while maintaining a trade deficit at roughly the level the economy is at now. As it is, unemployment in the US is at a historically low level, at about [4 percent](#). This is while we are also running a trade deficit at about 3 percent of GDP. We do need to still expand job opportunities

much further. But we also need to make sure these jobs are paid decently and that our social programs are well funded. Wages therefore need to go up and profits to go down, while taxes on the rich need to rise to finance a generous welfare state.

We also need to remember that the left's egalitarian commitments must be global, not just confined to our own country. In this spirit, we need to recognize that most other countries, especially developing countries, benefit more from selling products in US markets than the US economy is harmed by running trade deficits at current levels. The US dollar remains the world's most desirable currency, which enables the United States, uniquely, to continue importing more than it exports without having to undertake serious adjustments to close that gap. The United States should certainly pursue industrial policies to promote innovation and growth in manufacturing, especially around clean energy and related environmental projects, along the lines of Germany. But this does not mean that the US should be committed to expanding domestic job opportunities by reducing opportunities in, for example, Vietnam, Kenya, Guatemala, China or India.

That said, it is also true that developing economies, especially large successful exporters such as China and India, should shift their growth strategies away from relying on exporting to rich countries. These countries should increasingly become focused on raising wages and improving working conditions among the still-overwhelming majority of poor people within their borders. This will lead to growing domestic markets in the developing world, enabling working people there to buy the products they themselves produce.

While this kind of domestically focused, wage-led growth model for developing countries is compelling, it cannot be implemented overnight, even assuming the majority of policymakers in these countries embraced the approach. In the meantime, developing countries will continue to rely substantially on selling their products in US markets. But this need not pose major difficulties within the United States precisely because we are capable of achieving full employment and a generous welfare state while maintaining a trade deficit at roughly the current level.

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