Trump's Tariffs Buck The Global Neoliberal Order — But Still Serve The 1 Percent

James K. Boyce – Photo by Matthew Cavanaugh

04-13-2025 ~ *Trump's tariffs threaten to widen inequality in the US, making the rich richer and impoverishing the working class.*

Since assuming office, the Trump administration has taken actions resembling those of an absolutist state: undermining civil rights and democracy at home while introducing a reciprocal tariffs plan that has unleashed chaos around the world. Indeed, Donald Trump's "liberation day," a declaration of economic war on the rest of the planet, wiped several trillions of dollars in market value from Wall Street on April 4, the very same day it was announced, and ignited fears of destructive trade wars. After a brief recovery, global markets tumbled again as Trump imposed a 125 percent tariff on China. Furthermore, his plan to "make America wealthy again" via tariffs fuels fears of a U.S. recession — and even of a global economic meltdown.

However, Trump has now reversed course in his global trade war by announcing a 90-day pause of "reciprocal tariffs" for most countries except China. Whether this was due to market backlash or constitutes a market manipulation scheme on the part of Trump is hard to say. But confusion still reigns in the business community and the trade war with China will surely put the global economy on edge.

The poor and the middle classes will bear most of the burden of Trump's tariffs, political economist James K. Boyce told *Truthout* in the interview that follows. Boyce contends that tariffs alone will not make the U.S. trade deficit disappear, and that Trump's obsession with tariffs could start the next Great Depression.

James K. Boyce is professor emeritus of economics and a senior fellow at the Political Economy Research Institute (PERI) at the University of Massachusetts Amherst. He is the author of scores of books and academic articles, and the recipient of the 2024 Global Inequality Research Award and the 2017 Leontief Prize for Advancing the Frontiers of Economic Thought. The interview that follows has been lightly edited for clarity.

C. J. Polychroniou: Trump's economic agenda focuses on "border security," deregulation, energy, tax cuts and tariffs. Some have described the strategy behind Trump's political economy as neo-mercantilism, but it also seems to be strengthening neoliberal economic policy at home. Can we call it a strategy of nationalist neoliberalism?

James K. Boyce: In its heyday, beginning under Ronald Reagan and Margaret Thatcher, neoliberalism was the reigning economic ideology both nationally and internationally. In the U.S., its hallmark was downsizing the state's role in the economy in favor of "free" markets. Internationally, its hallmark was the reduction of barriers to the movement of goods, services and capital in favor of "free" trade. Both served an underlying agenda of increasing the concentration of wealth and power in the hands of a few.

It turns out that these two components — the national and the international — are separable. Trump is doubling down on the neoliberal agenda at home, while ripping it asunder internationally. China, as the economist Branko Milanovic recently observed, has followed the opposite strategy.

The combination of greater state control in international trade and downsizing the economic role of the state at home does not yet have a widely accepted name. Most important is understanding what is happening.

Trump has had a longtime obsession with trade deficits, so it should not be surprising that he has announced sweeping tariffs on goods imported from the *rest of the world. He recently claimed that "for decades our country has been looted, pillaged, raped and plundered by nations near and far." Can you discuss the myths and realities of the U.S. trade deficit? Are trade deficits necessarily bad? Do they make a country poor?*

The U.S. has been running massive trade deficits since the Reagan era. This has been good for some Americans — most notably corporate elites who profited from low-cost foreign labor and less regulation aiming to protect workers and the environment, and bad for others — most notably workers in manufacturing industries that were hard-hit by imports. Trade deficits do not necessarily "make a country poor" — on the contrary, for a time, they allow a country to live beyond its means, importing more than it exports and therefore consuming more than it produces; but they do make some people poorer.

In a normal country, it would be impossible to run enormous trade deficits for so many years. Imports need to be paid for in hard currency — that is, an internationally acceptable medium of exchange. If export earnings do not cover the import bill, the country eventually depletes its hard currency reserves, and a devaluation of the national currency ensues. This makes imports more expensive at home and exports more affordable abroad, curbing the deficit. This relationship between trade deficits and foreign exchange rates is textbook Economics 101.

Capital inflows, in the form of foreign investment and foreign borrowing, can shore up the exchange rate for a time, in effect financing the trade deficit. But sooner or later these inflows must be repaid, with profit repatriation in the case of investment, and with interest in the case of debt — again, in hard currency, at which point the trade deficit becomes unsustainable. The inexorable result is what economists used to call "structural adjustment": the structure of the nation's economy adjusts as more resources are shifted to produce tradable goods and services (exports and import substitutes) away from non-tradables, such as spending on health and education.

However, in two respects the U.S. is not a normal economy. First, it creates its own hard currency. Second, and more important for our story, the U.S. was able to continue drawing in foreign capital by serving as a "safe haven" both for clean money from legitimate sources and for dirty money from illicit sources including embezzlement and organized crime. These inflows not only supported the dollar's exchange rate but also escalated prices in real estate markets, especially in major metropolitan areas.

But to imagine that massive trade deficits can persist forever is to live in a never-never land. Just as Peter Pan insisted that he would never grow up, most U.S. politicians and economists bought into the fantasy that perpetual trade deficits had become the new normal. This view ignored not only the laws of economics but also the political realities that ultimately contributed to Trump's rise to power. The illusion that everything was hunky-dory up to now has been shattered.

How do tariffs work, and who will they impact? Also, is there anything behind Trump's claim that tariffs will bring in enough revenue to "make America wealthy again?"

Tariffs raise the price of imports, forcing consumers to tighten their belts and encouraging them to buy domestically produced goods and services instead. Sometimes the import substitutes are readily available, but sometimes they are not, at least not until industries can be built or rebuilt to produce them. Either way, prices to consumers go up — in the first case by a little, in the second by a lot.

The Trump tariffs amount to a $750 billion sales tax on imports, as Diane Swonk, the chief economist for KPMG U.S., recently put it. Like sales taxes in general, the tariffs will hit the poor harder than the middle class, and the middle class harder than the rich. Those living on tighter budgets have less of a cushion to protect themselves against the impacts of higher prices. They also typically devote a larger fraction of their household income to consumption rather than savings. In other words, the impact of across-the-board tariffs is regressive.

Trump and his squad of cheerleaders are telling Americans that the short-term pain of the tariffs will be worth it for the long-term gain. But tariffs alone, no matter how draconian, will not banish the U.S. trade deficit as long as foreign capital keeps flowing into the country unchecked. By propping up the dollar, the capital inflow will continue to enable the trade deficit. Simply relying on tariffs to curb spending on imports is like trying to plug the drain in a sink while leaving the faucet wide open. A serious adjustment policy would focus first and foremost on turning off the tap, by implementing controls on capital inflows. But so far, this has not been part of the Trump agenda.

As to revenue, tariffs can be a useful way for governments to fund themselves, particularly in low-income countries where other taxes are not yet well-developed. Tariffs were the main source of federal government revenue in the U.S. prior to the 20th century. But for tariffs to serve this revenue-raising purpose, the imports to which they are applied must continue; if imports shrink, the revenue shrinks along with them. In other words, there is a core tension between the goal of using tariffs as a source of revenue and using them as a spur to the substitution of imports by a revival of domestic manufacturing.

The idea that Trump's tariffs will "make America wealthy again" is a bit silly. As always, the policy will make some people richer and some poorer. We know that the price increases triggered by the tariffs will hit the poor and middle class hardest. The net effect depends on how the tariff revenue is used. If it were used to increase spending on things that benefit working people — like housing, education and health, or recycled directly to households as equal per-person dividends — that would help to offset the impact of the price increases. Instead, the Trump administration says it wants to cut income taxes, in which case the lion's share of the benefits will go into the pockets of the uppermost strata of the country's income pyramid. These people are already wealthy, and the shift from progressive income taxes to regressive tariffs will make them even wealthier. This is the reality thinly concealed by the smokescreen of making "the country" wealthy.

What's the logic behind imposing tariffs on poor countries that have little use for many of the goods produced by the U.S.?

There is a difference between the nation's trade deficit — the trade balance with the rest of the world — and the trade balance with any one country. Even if we had no overall trade deficit, there would be some countries from which we import more than we export in return, and some for which the reverse is true. Taking the trade balances with individual countries as the basis for tariff policy, as the Trump administration is doing, is a clumsy way of addressing the overall trade deficit.

There is a place for smart tariffs as part of a strategy to build a strong and resilient economy, alongside other tools of industrial policy such as channeling credit on attractive terms to key sectors. Smart tariffs differ from across-the-board tariffs in that they are targeted to counter predatory pricing and to penalize trading partners that violate labor rights and the right to a clean and safe environment. But the Trump tariffs are a far cry from being smart.

There is a difference, too, between putting tariffs on imports from countries with robust economies — here I would include China and the European Union — and imposing them on some of the poorest countries in the world, where economic setbacks come at the highest human cost. Trump's "reciprocal" tariff hit-list includes the sub-Saharan African nations of Mozambique, Madagascar and the Democratic Republic of the Congo, which have per capita incomes of less than US$2 per day and contribute less than one-tenth of 1 percent to the U.S. trade deficit.

Why are markets crashing and how likely is it that Trump's sweeping tariffs will cause the U.S. and global economies to fall into a recession this year?

The turbulence that Trump's tariffs have unleashed in stock markets worldwide is not surprising. The escalating U.S. tariffs, coupled with the retaliatory tariffs they are provoking from other countries, threaten to seriously disrupt world trade and hence the world economy. In the absence of abrupt policy reversals, which cannot be ruled out, recession seems to be a likely outcome. In the worse-case scenario, we could see a depression unlike anything since the 1930s.

The European Union is the United States' largest trading partner. How should Europe respond to Trump's tariffs? Retaliate or capitulate?

If I were charting EU trade policy at this time, I would clearly regard the U.S. as an unreliable partner. Retaliatory measures, particularly if strategically focused on key sectors in the U.S. economy, might eventually encourage the Trump administration to relent. But such predictions must be hedged with a wide margin of uncertainty. What would make no sense would be for the EU and other countries to generalize the trade war beyond the U.S. by imposing across-the-board tariffs on each other as well. At the same time, however, the present turmoil dramatically exposes the dangers of over-reliance on foreign trade to meet a nation's essential needs, as did the global supply chain disruptions of the pandemic not long ago. We should not let the follies of Trump's tariffs overshadow the follies of the gung-ho globalization that preceded them and helped to set the stage for the current debacle. Whatever the outcome of the current crisis, in the future I think we will see moves toward greater self-reliance in key strategic sectors, like food, energy and pharmaceuticals, in many parts of the world. This will not be an entirely bad thing.

Trump reversed course in his global trade war by announcing a 90-day pause on "reciprocal tariffs" for most countries except for China. What's behind this pause, in your view?

This sequence of events — the shocking announcement, the resulting economic tailspin, followed by the pause — is part-and-parcel of the Trump administration's style of governance, sometimes called "flooding the zone." Feints, jabs, bombshells, abrupt reversals — all are part of the mix. But beneath the day-to-day churn, we see the systematic unfolding of a strategy to further concentrate wealth and power in the hands of ruling elites. In this respect, the combination of downsizing the state at home coupled with greater state intervention in international trade is not paradoxical: both serve the same remorseless goal.

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C.J. Polychroniou is a political scientist/political economist, author and journalist who has taught and worked in numerous universities and research centers in Europe and the United States. Currently, his main research interests are in U.S. politics and the political economy of the United States, European economic integration, globalization, climate change and environmental economics, and the deconstruction of neoliberalism's politico-economic project. He is a columnist for *Global Policy Journal* and a regular contributor to *Truthout.* He has published scores of books, including *Marxist Perspectives on Imperialism: A Theoretical Analysis*; *Perspectives and Issues in International Political Economy* (ed.); and *Socialism: Crisis and Renewal* (ed.), and over 1,000 articles which have appeared in a variety of journals, magazines, newspapers and popular news websites. Many of his publications have been translated into a multitude of languages, including Arabic, Chinese, Croatian, Dutch, French, German, Greek, Italian, Japanese, Portuguese, Russian, Spanish and Turkish. His latest books are *Climate Crisis and the Global Green New Deal*: *The Political Economy of Saving the Planet* (with Noam Chomsky and Robert Pollin as primary authors, 2020); *The*

Precipice: *Neoliberalism, the Pandemic, and the Urgent Need for Radical Change* (an anthology of interviews with Noam Chomsky, 2021); *Economics and the Left*: *Interviews with Progressive Economists* (2021); *Illegitimate Authority: Facing the Challenges of Our Time* (an anthology of interviews with Noam Chomsky, 2023); and *A Livable Future Is Possible: Confronting the Threats to Our Survival* (an anthology of interviews with Noam Chomsky, 2024).