

Donald Trump's former trade chief makes the case for more tariffs.

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Main content

WHEN AMERICA grew in the 19th century from a modest agricultural country into the world's largest economy, tariffs were critical to its success. In recent decades, however, the T word has become toxic to some. Free-trade purists argue that tariff increases destroy capitalism. When tariffs rose during the Trump administration, and that didn't happen, the purists claimed that we should ignore the facts and rely on their antiquated economic models.

Now that Donald Trump has proposed a modest tariff on many goods and larger tariffs on Chinese products, Americans deserve a reasoned public discussion. His stated objective with the broader tariff is to reduce America's trade deficit and to rejuvenate American manufacturing. The China tariffs are designed to help America prevail in that all-important geopolitical competition.

The usual objections are raised. But the notion that tariffs are always good or always bad is guided more by theology than by reason. The truth is that they are often beneficial. In a pretend world of completely free and balanced trade and no government interventions, one can imagine tariffs being unnecessary. In the real world, though, they can be useful.

Since the end of the cold war, America has come as close as almost any major country in history to eliminating significant tariffs. It was a bold experiment, and it has failed. America has run up more than \$17trn in cumulative trade deficits over the past 24 years. Now, foreign

interests own over \$18trn more in American assets than Americans own in all their countries. Foreigners will get the future earnings associated with those assets, and Americans will have to work harder to make up for the earnings they have lost.

These massive trade deficits also drag down American economic growth. Countries with persistent trade surpluses artificially lower global demand. Rather than expanding global production by buying foreign goods (how trade is supposed to work), such countries use massive market distortions to replace foreign production capacity with their own and use the proceeds of trade to buy long-term assets in countries with deficits. This slows growth in the deficit countries, particularly America.

These facts help to explain the collapse of American manufacturing, and, importantly, of advanced manufacturing. Today, America annually imports \$218bn more high-tech products than it exports. It invented personal computers, yet now virtually none are made there, and those that are require imported parts. It led the world in making semiconductors in the 1970s and 1980s, yet today it makes only 12% of global supply and is wholly dependent on imports for the most advanced chips. America has fallen behind China in cutting-edge sectors such as advanced batteries, nuclear-power equipment and drones.

None of these developments result from the type of "comparative advantage" you read about in economic textbooks. Instead, they result from the industrial policies of other countries. South Korea doesn't have a great steel industry because it has cheap ore. Taiwan isn't a great semiconductor-manufacturing centre because it has inexpensive silicon. China's manufacturing dominance was largely paid for by its government. These and other countries benefit from a mix of subsidies, domestic market restrictions, lax labour laws and numerous other policies aimed at giving their companies an edge in global markets.

In the case of China, its government distorts the market by allocating resources to manufacturing and away from consumption. As a result, its per-capita consumption is very low. Letting consumption rise to natural levels and allocating more resources to individuals is inconsistent with the communist theory of personal austerity and could threaten Communist Party control.

America should change its own policies because making things matters. There is an obvious national-security benefit from having a vibrant manufacturing base. America doesn't just need munitions factories. In times of war it needs basic manufacturing, so it can scale up in order to, for example, make the steel used to build new defence plants.

Furthermore, as economists like Harvard's Ricardo Hausmann and MIT's Cesar Hidalgo have shown, manufacturing a wide range of complex products is essential to building a high-performing economy. Despite accounting for around 11% of American GDP, manufacturing creates 35% of annual productivity increases and pays for 70% of business research and

development. No sector employs more super-STEM (high-end science, tech, engineering and maths) workers. Because the ability to innovate is closely related to proximity to production, losing factories has a multiplier effect on growth.

But the greatest evidence of the failure of free-trade policy can be seen in the effect it has had on America's middle and lower-middle class. The economy has lost millions of high-paying jobs, and the earnings of many American workers have been largely stagnant for decades (with the exception of a large jump in 2019). As a result, inequality has increased rapidly: the top 1% of Americans now own more wealth than the middle 60%.

This stagnation has devastated many communities. America has experienced an alarming increase in "deaths of despair": suicide, drug overdoses and alcohol poisoning. Non-college-educated Americans now have a life expectancy nearly nine years lower than that of people with a degree. For most of American history workers could expect to be economically better off and to live longer than their parents. That has not been true since 2000. There are, of course, numerous causes for this calamity, but a failed trade policy is clearly one.

The question then becomes: how can tariffs help? Of course, they are a tool that should be used in conjunction with a pro-growth tax policy, a reduction in unnecessary regulation and the use of subsidies to develop key sectors like semiconductors. But because America's economic imbalances are driven primarily by global trade flows, tariffs are the vital part of any serious reindustrialisation.

Economists have long recognised that in cases where significant distortions cannot be removed from a market, a second-best option is to take steps to offset the distortion's effect. As Michael Pettis, an economist, points out, offsetting such foreign interference actually makes markets more efficient and increases the benefits of trade. For example, if a country subsidises a product or if a company dumps in another market, global rules allow the use of tariffs in response. In circumstances where the exporting country's trade distortions are systemic, broad tariffs may be the only way to offset them and reinstate market forces.

The Trump tariffs proved this point. Before covid-19, real median household income in America rose from \$70,840 in 2016 to an all-time high of \$78,250 in 2019. From January 2017 to January 2020 the number of jobs in manufacturing rose by 419,000. The pandemic temporarily disrupted manufacturing growth. However, the tariffs have mostly remained in place, and from January 2020 to January 2024 American manufacturers added another 194,000 jobs.

Sector-level data confirm that tariffs supported domestic production of tariffed goods. According to a study by the non-partisan United States International Trade Commission (ITC), America's Section 301 tariffs drastically reduced its dependence on imports of strategic goods from China and spurred domestic production of those goods. In the wake of

the tariffs, imports of Chinese semiconductors, for instance, declined sharply (the largest annual fall being 72% in 2021) and American production increased (the largest gain being 7.8% in 2020).

The broader multi-country tariffs had an even more pronounced effect on domestic production of tariffed goods. The 25% steel tariffs, for instance, led to \$22bn in new investment in steelmaking across the industry. Now, with relief from the pressure of foreign overcapacity, American producers are modernising their mills and building electric arc furnaces.

Furthermore, the price effects have been minimal. According to the ITC, the price of domestic steel increased by a mere 0.75% and overall steel prices by about 2.4%. Likewise, restrictions on imports of washing machines led to the opening of two new facilities, in Tennessee and South Carolina. Washing-machine prices fell back to pre-tariff levels after a brief adjustment spike, according to the Bureau of Labour Statistics.

Granted, other studies have concluded that retaliation from China blunted some of the tariffs' positive effects. But none of these studies challenge the ITC's core finding that the tariffs boosted domestic production and employment in the tariffed sectors at a negligible cost to consumers.

Donald Trump has proposed a 10% tariff on all imported goods to offset economic distortions created by foreign governments, to reduce America's trade deficit and to speed up its reindustrialisation. Experience suggests that this will succeed and that high-paying industrial jobs will be created. Indeed, a recent model from the non-profit Coalition for a Prosperous America, which unlike many other trade models does not unrealistically assume full employment, concluded that the tariffs will lead to an increase in real household income and millions of new jobs. Mainstream economists disagree with the notion that tariffs would increase household income, but in the pre-covid Trump years we did raise tariffs and median family income rose, too.

In some cases tariffs higher than 10% will be needed. By using a mix of massive subsidies, low borrowing costs, forced technology transfer, near monopolisation of input material and a relatively closed market, China has created an industry that makes electric vehicles (EVs) much more cheaply than Western companies can. It is now flooding the EV market in Europe and threatening producers there with severe harm. It would do the same in America if not for 25% tariffs imposed by the Trump administration in 2018.

If China's efforts to manipulate the EV market succeed, tens of thousands of American workers will lose their jobs and fall out of the middle class. In addition, America will send untold billions of dollars to an adversary that will use them to strengthen its armed forces and further threaten America.

Critics of the global 10% tariff allege that, if implemented, it will stoke inflation. There is much reason to be sceptical of this claim. To start, tariffs were raised in the Trump years and inflation stayed below 2%. Second, even an ardently anti-tariff think-tank, the Peterson Institute for International Economics, found that the direct effect on inflation of Section 301 tariffs was an increase of just 0.26 percentage points.

Furthermore, countries with persistent trade surpluses that implement pro-manufacturing policies have tended to have lower inflation rates than countries with deficits. This suggests that there may be little correlation between acting to protect your domestic market and your domestic inflation rate. Finally, it is worth noting that the driver of personal inflation for most Americans is energy, fuel and food prices and the cost of health care. These generally are not imported and would not be subject to tariffs in the Trump proposal.

Both economic and geopolitical facts strongly support the planned tariff increases. But there is also a moral case for them. Americans deserve productive jobs, strong families and thriving, safe communities. The free-trade policies of the past 30 years did not create any of this. The wreckage they have left behind is all around us. Properly used tariffs can be part of the solution.

Robert Lighthizer was America's trade representative from 2017 to 2021 and deputy trade representative from 1983 to 1985.

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