Trump’s Tariff War Is The Final Act Of A Broken System

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President Donald Trump’s trade agenda is a corrupt, chaotic mess.

He made trade concessions to China after its government agreed to invest hundreds of millions of dollars in a Trump-branded resort. He announced a modest trade enforcement action on steel and aluminum and declared it a “trade war” — something both “good” and “easy to win.” He then shifted his sights in this combat from China to Canada without any apparent rationale. The president has even threatened Ecuador’s economy with crippling sanctions if its government offered public support for breastfeeding.

As with so many Trump debacles, his bluster creates an appearance of radicalism — a dramatic break with a stable and happy consensus. Washington Post columnist Catherine Rampell has lamented that he is discarding more than 300 years of settled economic knowledge. Nobel laureate economist Paul Krugman has been more modest, accusing Trump of jeopardizing a free trade system that dates back to former President Franklin Delano Roosevelt.

It’s easy to forget that just before Trump’s election, elite Washington was rethinking the approach to free trade and globalization that the United States had taken since the 1990s. Centrist think tanks held major conferences calling to restructure the U.S. relationship with China. Hillary Clinton, Elizabeth Warren and even libertarian experts at the Cato Institute agreed there were serious problems with the way trade agreements were enforced.

Part of the trouble is that Trump is not pursuing a coherent and consistent trade strategy. On some matters, he’s hard to distinguish from Bill Clinton or Barack Obama, while on others, he does break with the recent past. But even here Trump is not the destroyer of order and harmony, but the product of a corrupt and broken system.

To understand what’s going on and where it went wrong we need to start at the beginning. What economists are accustomed to describing as “free trade” or “globalization” has another, less flattering name: colonialism.

Comparative Advantage And Exploitation

Human beings have been trading across political borders for as long as human beings have recorded their activity. But free trade in the modern sense was the conceptual innovation of David Ricardo, a brilliant 19th-century British economist. In his 1817 magnum opus ”On The Principles Of Political Economy And Taxation,” Ricardo laid out the theory of comparative advantage: If every country focused on producing what it made best, and then traded with other countries that did the same, everybody everywhere would get to enjoy the best of everything. In the process, Ricardo argued, every country would become richer this way than it would if it tried to produce everything at home by itself.

To illustrate the point, Ricardo presented a thought experiment in which two countries, Britain and Portugal, produced just two commodities — wine and cloth. In the 19th century, Portugal was famous for its wine, while European nobility coveted fine British textiles. Imports of good Portuguese wine were tough on British winemakers, and if the British government wanted to protect its domestic wineries, it could put up tariffs against Portuguese wine, making the foreign stuff more expensive in British stores. And that could be just fine for winemakers.

But there are only so many workers. Someone who spends the day smashing grapes can't devote that same time to running a loom. Tariffs couldn't change the root problems with the British wine business — the soil and climate on a rocky semi-arctic island just weren't good for grapes. As a result, propping up the inefficient British wine industry would sap resources from its much more productive textile operations. This waste would register as lower overall production of both wine and cloth. And perhaps worst of all, it would mean British drinkers would have to settle for their own lousy wine.

The obvious solution was for politicians to keep out of the way and let people do what they would *naturally* do absent government meddling — trade freely.

"Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each," Ricardo wrote. "This pursuit of individual advantage is admirably connected with the universal good of the whole."

Ricardo was onto something. But he took an awful lot for granted to make his point. He didn't have much to say, for instance, about how the British textile business actually operated. In the real world, England's spinning and weaving factories relied on cotton from India and the United States. This cotton was cheap — and the British factories, by extension, so wonderfully efficient — because plantation owners relied on slave labor and violent exploitation to keep down costs.

By focusing on Ricardo's abstract trade model, economists and policymakers could be lulled into understanding these acts of violent subjugation as components of an impartial, balanced system. Ricardo converted a vast array of political choices — including the very existence of the British Empire and American slavery — into what looked like a simple, mathematical truth: More trade equals greater prosperity. But the 19th-century mantra of "free trade!" was, among other things, a euphemism for enriching slaveowners.

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Free trade rhetoric almost always serves a magical function: It erases ugly, violent political realities and replaces them with clean, natural progress. To its evangelists, free trade isn't just a way to maximize profits and production. It offers a path to the elimination of human evil. New Deal luminary Cordell Hull believed free trade offered a cooperative foundation for the prevention of war, while libertarian high priest Milton Friedman believed it cleared the way for political rights like freedom of speech and religion.

Krugman describes “liberalized trade” as the key to an “international alliance” against “authoritarian politics,” while House Speaker Paul Ryan (R-Wis.) champions it as a way to advance “rule of law,” “women’s rights” and “democracy.”

And yet history shows no clear pattern between tariff levels and freedom, war, democracy or autocracy. Ryan’s enthusiasm, for instance, was issued in support of a 2004 U.S. free trade agreement with the Kingdom of Bahrain. In 2017, according to the nonprofit group Human Rights Watch, the government of Bahrain shut down the country’s only independent newspaper and held its most prominent human rights activist in prison.

In the 19th century, “free trade” was a doctrine that called for limiting trade barriers between European imperial powers as they plundered the rest of the world. When this system collapsed in World War I, the ensuing destruction on the European continent created a profound sense of nostalgia for the prewar order and the Ricardian ideals it had fostered. Over the following decade, heads of state and diplomats made herculean efforts to re-establish the collapsed trading regime. But they were frustrated by outbursts of violence, like the French invasion of the Ruhr, Germany, in 1923; political instability, like the collapse of the Weimar Republic; and speculative financial implosion, like the stock market crash of 1929.

Tariffs were largely incidental to this story, entering late in the game as a decade of dysfunction descended into the Great Depression. The United States passed the Smoot-Hawley Tariff Act in 1930, raising tariffs on roughly 20,000 goods. In 1931, the British government raised a tariff of its own and devalued the pound. Tit-for-tat reprisals followed among other nations. These prevented the re-establishment of the lost Golden Age at the Twilight of European Empire, but they did not cause the Great Depression. The system had already come undone.

It was time for new thinking. And eventually, an economist entered the world stage with the intellectual firepower to overthrew Ricardo.

John Maynard Keynes grew up an ardent free trader, viewing the unimpeded movement of goods “almost as a part of the moral law.” But the war and the Depression changed his mind. Though he still cherished the free international exchange of “ideas, knowledge, art, hospitality, [and] travel,” technological advances seemed to have left many of Ricardo’s observations obsolete. True, climate and culture played some role — the British were never going to be great winemakers. But such products were tangential to an industrial order dominated by heavy manufacturing. You could make a car anywhere. The advantages of national specialization were fading.

“Most modern mass-production processes can be performed in most countries and climates with almost equal efficiency,” Keynes noted in a 1933 essay. There would be costs for any nation that wished to make the lion’s share of its economy a domestic concern. But innovation had dramatically reduced the cost of abandoning free trade. National self-sufficiency, he wrote, was fast “becoming a luxury which we can afford if we happen to want it.”

And Keynes believed there might very well be reasons to want it. “It does not now seem obvious,” he wrote in 1933, “that the penetration of a country’s economic structure by the resources and the influence of foreign capitalists, that a close dependence of our own economic life on the fluctuating economic policies of foreign countries, are safeguards and assurances of international peace.”

“At any rate,” he continued, “the age of economic internationalism was not particularly successful in avoiding war.”

Keynes elaborated on these ideas in his most famous book, *The General Theory of Employment, Interest and Money,* which he believed offered national governments the tools they needed to take care of their domestic economies without preying on their neighbors. He urged readers to think of his work as a kind of handbook for alternatives to the economic strategies of imperialism. If countries effectively managed their internal demand, they would not need to pillage resources, exploit foreign workers or undercut overseas markets to improve domestic prosperity.

Many of Keynes’ economic tactics were becoming commonplace by the late 1930s, as governments resorted to deficit spending to bring countries out of the Depression and financial regulation to mitigate the cataclysmic boom-and-bust cycles of Wall Street and London. For domestic policymakers around the world, Keynes was king.

Efforts to integrate these domestic policy innovations into a global trading system, however, were quickly subsumed by the Cold War. In the rivalry between the United States and the Soviet Union, tariffs, subsidies and currency maneuvers became tactical methods used to win allies and punish enemies.

But the language of “free trade” and its supposed liberationist potential persisted as the new great powers of the 20th century grappled with the rights and demands of newly formed nations emerging from colonial rule. By the late 1970s, the apartheid government in South Africa had become a focal point for an intellectual and political dispute with global implications.

South Africa was both a U.S. ally against the Soviet Union and a tremendous profit center for more than 160 American corporations, including General Electric, IBM and Hewlett-Packard. Profit margins were incredible — more than double what U.S. firms could earn on a typical international investment.

The key to all this was cheap labor. The nation’s black population could not form labor unions, engage in collective bargaining, go on strike, move or vote. Apartheid officials had administered an estimated 850,000 whippings against the black population between 1954 and 1964 alone to keep demands for better treatment in check, according to *Africa Today*, an academic journal published by Indiana University. Colonialism had shed its 19th-century European military uniform for a modern American business suit.

The appalling conditions for the South African people led American anti-apartheid activists to call for corporations and investors to pull money and resources out of South Africa until the apartheid government had been replaced by a democratic order. As the divestment movement gained momentum on college campuses, a group of neoliberal lawyers and economists began advancing arguments explicitly attacking the prospect of democracy in South Africa on the grounds that democratic politics would be incompatible with free markets and free trade.

Wesleyan College historian Quinn Slobodian details this project in *Globalists: The End Of Empire And The Birth Of Neoliberalism*. The most prominent anti-democracy advocate of the era was Milton Friedman, who argued that universal suffrage in South Africa would be “a system of highly-weighted voting in which special interests have far greater roles to play than does the general interest." It was critical not to let the "political market" interfere with the economic market. As with Ricardo, the abuses on the ground evaporated into airy economic theory.

By the 1980s these arguments were too gauche to win much favor in American politics. And so President Ronald Reagan and a crop of future Republican power brokers including Grover Norquist, Jack Abramoff and Jeff Flake advanced a modified version: The best way to reform the apartheid government was not to cut off its money but through the magic of free trade.

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Many U.S. companies had agreed to a set of corporate responsibility principles outlined by Philadelphia pastor and General Motors Director Leon Sullivan that called for equal treatment of black and white workers. Additional U.S. investment, these voices argued, would bring American values and freedoms to South African workers and lead to political reform.

"The American companies pulling out who have abided by the Sullivan Principles, did much good for the black population there," Flake told the Utah State Senate in 1987, while working as a lobbyist for a Namibian mining company with substantial South African operations. "Since 1977 they have contributed more than $140 million to black education, to social programs, to housing, and when our corporations pull out and these sanctions are opposed, it leaves these South African subsidiaries to take up ownership who are not obliged to follow the Sullivan Principles, and who would just as soon make a profit."

By the time Flake was testifying, however, the free traders had essentially lost the battle on apartheid. The Comprehensive Anti-Apartheid Act of 1986, passed into law over Reagan's veto, imposed economic sanctions against the country that weren't lifted until the apartheid government had put in place a series of reforms, including Nelson Mandela's release from prison.

The experience of American corporations in South Africa wasn't far from the minds of leading neoliberal intellectuals as the Cold War drew to a close, and international negotiators began developing the treaties that would create The World Trade Organization. As Slobodian notes, these agreements were intended to control emerging democracies and prevent them from Keynesian economic policies that would privilege the rights of their citizens over the interests of American and European capital.

By eliminating tariff barriers with nations that had poor labor standards and a record of human rights abuses, these trade pacts encouraged U.S. companies to shift domestic jobs to countries where labor was cheap. While most of the agreements paid lip service to labor rights, these provisions were only rarely enforced in practice. In countries like Guatemala and Colombia where the U.S. eventually brought North American Free Trade Agreement-style agreements, dozens of union leaders were murdered every year after free trade agreements were signed, most of them unpunished. If new factory jobs in the developing world were designed to lift people out of extreme poverty, there were limits to the new system's generosity, as demonstrated by the deaths of 1,100 workers in a Bangladesh factory making garments for U.S. retailers in 2013.

But though WTO architects continued to use the language of "free trade," they had left Ricardo's idea of free trade behind. They weren't just talking about tariffs anymore. They wanted to reach across national borders and into the domestic political life of post-colonial nations to block potential labor, environmental and consumer protection rules before they were written while guaranteeing broad rights to international investors. The same was true for a new slate of trade pacts former President Bill Clinton began signing into law beginning with NAFTA. These rules had little or nothing to do with Ricardo's ideas about comparative advantage. They weren't based on natural differences in climate, culture or expertise. They were an attempt to construct an international law that favored a particular brand of inegalitarian politics.

The spirit of this new era of globalization was most obvious in the realm of intellectual property — an arcane, technical arena with life and death implications for millions of people. Once again, South Africa became the epicenter of a global economic conflict.

When Nelson Mandela's government was elected in 1994, the HIV rate in South Africa was spiraling out of control, with roughly 10 percent of the country's 39 million citizens already infected. American pharmaceutical companies had developed powerful and effective new drugs to treat HIV, with the capacity to extend lives by years, even decades. But the treatments came at a price. AIDS and HIV medication cost roughly $12,000 per patient, per year in a country with an average annual income of about $2,600.

This was obviously unaffordable for both individual South Africans and the new democratic government. South Africa's entire economy generated roughly $140 billion a year. Treating every AIDS and HIV patient would have required shipping one-third of the nation's annual wealth to American pharmaceutical companies every year. In the United States today, it would be comparable to spending almost $6.6 trillion — 65 percent more than the entire annual federal budget — on AIDS and HIV alone. There was simply no way to establish a functional national economic program with such costs.

The Clinton administration argued that WTO treaties on intellectual property gave pharmaceutical firms clear rights to charge what they wanted. WTO agreements included 20-year patent rights that guaranteed monopolies on new drugs and prohibited generic competition or government price controls. These terms, of course, had nothing to do with Ricardo's ideas about comparative advantage. But they were still defended with the language of "free trade."

Mandela had a deadly pandemic on his hands. In 1997, he signed a law authorizing his administration to shop around the world for cheaper drug prices. The United States, citing a WTO treaty, threatened to retaliate with trade sanctions on the grounds that the new law would "abrogate patent rights." Mandela put the implementation of the new law on hold, even as the AIDS crisis spread to terrifying new proportions. By 2000, more than 22 percent of the country would be infected.

A new Indian pharmaceutical firm began producing HIV medication for the "humanitarian" price of $1 a day, portending a revolution in public health strategy, but the Clinton administration took pride in holding the line against South Africa on its "international commitments." Clinton only relented when protesters descended on Vice President Al Gore's presidential campaign announcement rally in Tennessee, unveiling a banner for the cameras reading "Gore's Greed Kills: AIDS Drugs For Africa."

Obama would prove to be nearly as aggressive. Higher global drug prices were a primary goal of his Trans-Pacific Partnership trade pact, and everyone from his deputy director of the U.S. Patent and Trademark Office to Secretary of State John Kerry leaned on India to curb the production of generic drugs, which were lowering treatment costs around the world. In 2016, the Obama administration and Senate Finance Committee Chairman Orrin Hatch (R-Utah) even threatened to spike a peace deal between the Colombian government and Marxist rebel group Revolutionary Armed Forces of Colombia, known as FARC, over pricing for a leukemia drug (they only backed down after the private threat leaked to the press, prompting an international outcry).

Clinton had set a grisly diplomatic precedent. In front of the cameras, however, he presented his trade agenda as a grandiose humanitarian project. When he finalized a new trade pact with China in 2000, Clinton boasted the deal was ”likely to have a profound impact on human rights and political liberty,” creating pressure for China to “choose political reform.” The argument was essentially a refurbished version Flake’s case for free trade with apartheid South Africa.

“The process of economic change will force China to confront that choice sooner, and it will make the imperative for the right choice stronger,” Clinton said.

Today, Trump refers to Chinese President Xi Jinping as “the king of China” with admiration, while Chinese democracy advocates die in prison. But the global economy has indeed changed as a result of the choices made in the 1990s. Under the WTO, the American corporate colonialism of the apartheid era turned in on itself, cannibalizing the U.S. social order in the quest for higher returns on capital. “The China Shock,” as it became known, probably eliminated about 2.4 million American jobs — many of them concentrated in communities that have never really recovered.

Part of Trump’s appeal in 2016 was based on his promise to overthrow this order. In the Republican primary, he won 89 of the 100 U.S. counties hurt most by trade with China. In the general election, he swept the Rust Belt, taking conventional Democratic Party strongholds in Wisconsin, Michigan and Pennsylvania. Millions of people who voted for Obama voted for Trump based in part on his promise to save manufacturing jobs.

He has instead offered belligerent, xenophobic chaos. But there is plenty of important work a thoughtful reformer could do. What we call free trade today is not a stable system reflecting several decades of consistent economic thinking. “Free trade” is a label that political leaders have applied to a variety of different colonial systems. It has changed before, and it can change again.

Old trade deals can and should be reopened to establish stronger international rights for workers and communities. And it makes good national security sense to establish some degree of American economic independence from a rising authoritarian superpower. Nearly every supply chain for things Americans buy runs through China at some point. That’s a dangerous amount of political leverage for one country, and limiting it will require a few tariffs.

These changes would take time, and cost money. But it is a matter of managing the transition. We do not face a choice between reason and the abyss.