

Tariffs Two Book Reviews
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Tariffs are coming. The aggressive approach to international trade that began in the first Trump administration will get renewed life in the next four years. What will it mean for Americans struggling to get by month to month? The United Ways' annual ALICE study (Asset-Limited, Income-Constrained, Employed) is ample evidence of this constituency. The most recent ALICE data shows that 1 in 3 households in Brown County struggle to meet their basic needs. As a member of ENVISION Greater Green Bay's Upward Mobility Signals Team, I wanted to better understand this renewed focus on tariffs and what they will mean for our low income citizens.

I would like to review what I learned in two recent books on the subject:

No Trade Is Free by Robert Lighthizer, and
Trade War Is Class War by Matthew Klein and Michael Pettis.

Mr. Lighthizer is a federal trade negotiator with a career going back over 40 years to the Reagan Administration. He served as US Trade Representative in the first Trump Administration and played a key role in the renegotiation of NAFTA into the new USMCA agreement. He comes with a strong American First focus and strongly favors tariffs as a means to correct the serious faults of an international trading system that goes back decades. In particular, he focuses on the harm done to the American workforce through a series of open, free trade policies.

It is worth noting that an international trade system based on a belief in free trade and built on foreign access to the American consumer market was set up at the end of World War II with two purposes in mind 1) help allies rebuild war-shattered economies, and 2) prevent international trade conflict from escalating into another war. The two major initiatives have been GATT (General Agreement on Tariffs and Trade) in 1947 and the creation of the World Trade Organization (WTO) in 1995. Looking back over the last 70 years, some credit might be afforded the system, but Lighthizer is very critical of what it has brought to the United States, particularly since the admission of China into the WTO in 2001.

There was certainly a time from the mid-1990s into the first decade of this century when NE Wisconsin was overwhelmed with the negative effects of global trade. I stood in front of thousands of middle-aged, gravitationally-challenged factory workers in our region who had lost good-paying manufacturing jobs during those years. Many struggled to recover.

Lighthizer provides an insider's view of trade policy and negotiations over the last 40 years. His account is straightforward and very readable for non-economists. He understands that free trade policies have brought cheap goods to Americans, but at the cost of manufacturing jobs and growing trade deficits. The policy has allowed the rise of

China, and the European Union as well, as growing competition to American economic dominance. He concludes

Economic efficiency, low prices, and corporate profits are important goals—but they should be secondary to improving the lives of and opportunities available to regular working people in this country.

Lighthizer advocates for a dismantling of the one-size fits all WTO system (in fact, he played a key role in neutralizing it during the Trump administration) and use tariffs to protect critical industries in America and gain reciprocal access to foreign markets that have long been denied us. His account of the renegotiation of NAFTA into the new USMCA agreement provides a model for moving forward in this new international environment.

In Trade Wars Are Class Wars, Matthew Klein and Michael Pettis focus not on the dangers of trade wars leading to international conflict but on the global ramifications of international trade leading to an unacceptable level of wealth inequality throughout the world. Mr. Klein is a noted global financial analyst and commentator. Mr. Pettis is American professor of finance at Guanghai School of Management at Peking University in Beijing and nonresident fellow at the Carnegie Endowment for International Peace.

Klein and Pettis offer a more detailed economic analysis of where the current system of international trade has brought us with a similar focus on the negative effects trade policy has had on the American workforce. Under the current system, nations develop trading surpluses by suppressing national consumption, in effect depriving their workers of the benefits of their labor, as well as by reducing government benefits. Surpluses are then exported, particularly to America, to the benefit of the wealthy and political elites in each country. This has led to dangerous levels of wealth inequality all over the globe. They imagine a more robust international trade in which all workers are able to participate fully in the benefits of their work. China and Germany are singled out as countries that have kept worker wages and government subsidies low to build wealth for the few. Since the Asian financial crisis of the 1990s, using those subsidies to invest in US assets as created an additional crisis for the US.

Their answer to aggressive tariff policy on the part of the US is to steer toward policies that encourage nations to invest more in their own workers, raise internal consumption levels, and invest in national infrastructure:

Convincing the Chinese elites to allow Chinese workers to consume a greater share of what they produce is one of the greatest political challenges of our time.

Europe's large private surplus is ultimately a function of the rise in inequality. That means it can be reversed through straightforward policies that shift income from the ultrarich and the businesses they control to ordinary households.

In their scheme, greater demand for goods and services globally would lift all economies and serve to prevent conflict.

Both books share a common focus on the wellbeing of the American worker and both are critical of where current international trading policies and agreements have brought us. The economic environment of the last three decades, however, presents new challenges with the rise of international competition, particularly in China and the EU, but also with technological advances and the silver-tsunami retirement of the baby boom generation which has increased the demand for talent. The last US election provided clear evidence of widespread discontent with the lack of opportunity to participate in economic benefits. Klein and Pettis document the global nature of this problem. Tariffs will likely accomplish little without such a broader vision of how to spread those economic opportunities to all workers, not just Americans. Will the development of AI technology and the promise of productivity gains it brings go to the benefit of the few or be enjoyed by the many?