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How have Trump's trade wars affected Rust Belt jobs?
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DOLLAR: Hi, I'm David Dollar, host of the Brookings trade podcast Dollars & Sense. Today my guest is Sandra Polaski, a senior research scholar at the Global Development Policy Center at Boston University. She's one of the lead authors of a new study "How trade policy failed U.S. workers—and how to fix it." It's a very relevant topic as we head into our election. So welcome to the show, Sandra.

POLASKI: Hello, David. Glad to be here. Glad to join you.

DOLLAR: So let's start with the big picture. President Trump had specific criticisms of the results of U.S. trade policy, and he's used tariffs and new trade agreements to try to reduce the trade deficit and bring back manufacturing jobs. What do you think is the overall scorecard for this approach?

POLASKI: Well, let's start with the trade deficit, David, because that's actually President Trump's preferred scorecard. He likes to refer to that as what will judge whether he's been successful. And on that scorecard, on the trade deficit, it's a fail. I give him a fail on that. The overall trade deficit, including both goods and services, has gotten worse every year of Trump's presidency than it was when he took over from Obama. The deficit in goods alone— think manufactured goods, think inputs, intermediate goods— all of those things that you can touch and handle, the things that would bring jobs back, has actually been the worst in the last couple of years that it has ever been in U.S. history. So that's a good first indication of how Trump scores on his trade approach. By the way, this year the trade deficit is on track to again set a record as the worst ever in U.S. history.

Turning to manufacturing jobs; you asked about manufacturing jobs. Well, Trump, as most people know, inherited a very long recovery after the 2008 financial crisis and the recession of 2009. There was a big stimulus package, there was an auto industry bailout, and the U.S. economy began to recover in general and the manufacturing industry began to recover. So over the years of the Obama administration there was a gradual recovery in manufacturing jobs and hours worked. Trump managed to destroy that through his ill-advised tariff tantrums in a short two years and put manufacturing into a recession. He was like a child taking a toy, a nice toy that somebody had, playing rough with it and breaking it. And this was even before the economy went into a tailspin due to his mishandling of the coronavirus. So, again, on manufacturing jobs, he gets a fail.

DOLLAR: I think some of these results are counterintuitive for people who are not professional economists studying these issues. It seems that if you put on a tariff and you restrict imports, everything else being equal you would think the trade deficit would go down. But, obviously, there are powerful indirect effects. Could we go into a little more detail about what are the indirect effects that undo what would seem to be kind of an obvious result but turns out not to be true?

POLASKI: Sure. Let's take the example of Trump's steel tariffs. So he put a 25 percent tariff— that's big, that's like having a new tax put on something you buy of 25 percent. He put it on imported steel from Canada, Europe, Mexico, India, China, everybody in 2018. This meant that industries that use steel— metal-using industries like autos and trucks, appliances like washing machines, construction— all had to pay 25 percent more for their inputs. So they raised their prices and they lost market share in the global market to competitors from other countries who didn't have to pay this 25 percent tax. That's a very, very big differential, 25 percent. So, businesses lost market share, other businesses downstream like auto, and they laid off workers. But that's just the beginning of this story.

Our trade partners don't like it when we impose tariffs arbitrarily on them. And frankly, they don't take it sitting down. They don't have to. So what did they do? They imposed equivalent tit-for-tat tariffs on U.S. goods, including U.S. steel and aluminum. Now, you can kind of see where this story is going. [They also imposed tariffs] on autos, airplanes, soybeans, corn, and lots of other agricultural imports that they had been buying from the U.S. That meant that the very industry, steel, that was supposed to be the beneficiary, lost export markets. And many other industries suffered the collateral damage from the retaliatory tariffs. So, after a very brief increase, the steel industry itself started to shed jobs even before the economic downturn caused by the pandemic. Today, it employs almost 2,000 fewer workers than it did when Trump took office.

Now, there have been various studies that tried to estimate the overall effect of the tariffs. They have all found a net job loss in the U.S. as a result of Trump's tariffs, and the numbers are big. They range from 175,000 in one credible study to 300,000 in another credible study jobs destroyed by Trump's tariffs and the retaliation that they inevitably drew.

DOLLAR: I agree with you, Sandra. Those are the two main effects. And I've also looked at those studies about the overall effect. The one I looked at had, I think, about 170,000 fewer manufacturing jobs because of the effects that you describe, but overall about 300,000 fewer jobs. I would just add that one other effect is that these tariffs actually make us poorer, and therefore people spend a little bit less. Not dramatically, but they spend a little bit less on lots of other things. We actually had job losses across a whole range of service sectors that you might think are not connected to international trade. That's an example of the kind of indirect effects we're talking about.

Sandra, one thing I liked about your study was the detail on some specific states, Michigan and Ohio in particular. These are key in the old industrial heartland of the United States and also important battleground states in the election. So, can we take each of those states in turn, perhaps starting with Michigan, and talk a little bit about the detail of what's happened in Michigan manufacturing as a result of these trade wars and other policies in the last few years?

POLASKI: Well, our study found that Trump took what was a gradual recovery of Michigan manufacturing employment. As I said, there had been this long recovery from the 2008 crisis. And in Michigan in particular, because of the auto industry bailout that was part of the Obama-Biden administration, manufacturing employment was recovering when he took office from Obama. Again, he caused it to stall out. Today, there are 55,000 fewer manufacturing jobs in Michigan than there were the day he took office. This was partly the result of the tariff wars that we've been discussing which led to job losses in steel and especially in the auto industry which is both a heavy user of steel but also a very big employer in Michigan. And it affected all of their downstream industries as they started to lose market share.

It also reflects, David, a broader point, which is that with Trump's tariff tantrums and a lot of his other very erratic economic actions and economic tweets, economic threats, he introduced a lot of uncertainty into the global economy and into the U.S. economies. That has led to lower investment. I mean, it's very evident in all the charts that investment in the U.S. has been less than it was under the Obama administration. For example, in Michigan, the auto firms’ investment declined by 29 percent over the three full years of Trump's presidency compared to the last three years of Obama's presidency. Well, when you look at all of these factors together, it affected overall job growth in Michigan, not only in manufacturing, which began to slow in 2017 and 2018.

Job creation in Michigan plunged in 2019. Now, it has basically collapsed. It's down 360,000 from when Trump took office.

DOLLAR: And what about Ohio? You've got a lot of nice detail about both employment but also wages in manufacturing and in the broader Ohio economy.

POLASKI: The story on employment is very similar in Ohio as it was to Michigan. There are 26,000 fewer manufacturing jobs today than when Trump took office. Ohio was hit very hard by Trump's tariffs and the retaliation in particular that they provoked. An Ohio State study, for example, found that there are 36 jobs in Ohio's metal using industries for every job in steel and aluminum industries, and that the state's manufacturers who were hurt by the tariffs outnumbered the winners by nine to one. So, you can imagine how that ripples through the economy.

Manufacturing wages declined under Trump, and the steepest declines were in fabricated metal products where workers lost about five percent of their paycheck with wages declining. Now, that was not only Trump's trade policy. It was the fact that he has appointed people to the Labor Department, to the National Labor Relations Board, to all of these agencies that have some impact on workers whether it's through minimum wages or through enforcing overtime rules or through collective bargaining rights. And in all of those areas, he was pushing down on the wages and the rights of workers. So, it combined with his trade policies to mean that manufacturing workers in Michigan are earning less today per hour than they were earning when he took office.

And then Ohio soybean farmers were hit hard. They watched their market share in China, which is their largest export economy, they watched it shrivel— if I can use the image of soybeans shriveling. And the rest of the Ohio economy, which depends on those incomes of farmers and manufacturing workers to go and spend in the stores, they all took a hit from it. Last year in 2019, even before the pandemic, Ohio experienced a net job loss across the entire state.

DOLLAR: Most of the results we are talking about are from data before the coronavirus hit— the pandemic and the recession— so most of that is really just focused on the trade war. I do find it quite striking, looking more recently, that our stock market is up over the past year whereas the total wage bill is down quite dramatically. So there really seems to be this dramatic separation in how capital and labor are experiencing this recession and recovery.

POLASKI: It's really hard to explain. For me, the best way to think about this entire disconnect, broader than ever before really between Wall Street and Main Street, really has to do with the fact that the Federal Reserve has had to pump money into the economy to try to keep it going in the course of the pandemic-induced recession. And all that money that's being pumped out there, a lot of it is being sucked up by Wall Street, sucked up by financial firms, and that money is looking for a place to invest. So, it's investing. Whatever the argument today is about this biologic company or that tech company— well, maybe they will make out well because of the coronavirus— the money's going there. Not because of any greater value that those companies are producing, not because they really are worth that, but because there's all this money coursing through the economy because of the Fed policy, the monetary policy.

DOLLAR: One of the themes we've developed in earlier shows, Sandra, is that it would be difficult to deal with the manufacturing issues. We have legitimate issues about decline in employment, wages, certain locations in the U.S. really lagging behind. It would be difficult to use trade policy alone to correct that. So I'd like to broaden the agenda a little and talk about what kind of policies would make up a positive agenda. Perhaps we could start with tax policy and thinking about what is it that really could help some restoration of manufacturing and in particular communities.

POLASKI: Good point. And I think I've already referred to the idea that part of the harsh effect of Trump's policies on manufacturing workers in Michigan and Ohio was not just his trade policy and his tariffs tantrums, it was his labor policy and his appointments to responsible positions who have, in fact, been foxes guarding the chicken coop for example at the Department of Labor. But you're absolutely right. You have to look across the suite of all of the important policy levers that the government can pull in order to try to get results.

So many people think that the only achievement of Trump's administration— achievement in the sense of having produced anything of any import— was the 2017 tax reform, the tax cuts of 2017. And the idea was that these tax cuts, which went overwhelmingly to corporations and to billionaires, only a very small proportion of it went to average people, certainly a very small proportion went to workers, but these tax cuts for the corporations and the billionaires were supposed to spur investment. The idea was they are paying less to the government so they will invest it in new factories and jobs and technology services and so on. But, as we already mentioned in Michigan, more broadly the investment didn't come. The corporate tax cuts went into share buybacks, dividends to shareholders, executive pay increases, fabulous executive pay increases in some cases, and not into factories and equipment and service businesses or things that would help Main Street and that would help the average American. So it was very lopsided and unfair, but it gets worse.

The 2017 tax cut actually introduced several new incentives for corporations to send jobs offshore. To send jobs overseas. For example, the offshore profits of U.S. corporations are not taxed until they exceed 10 percent of the corporation's tangible assets overseas. Tangible assets: what's that? Buildings, factories, equipment, it's all the things to produce overseas in many cases what they had previously been producing in the U.S. So, by sending more machinery and more factories overseas, the corporation can actually avoid taxes because if they have a bigger base of their tangible investments their profits are more likely to fall below 10 percent of that. And that means they pay zero in taxes. But even if their profits are more than 10 percent of these burgeoning assets that they have overseas, they still pay a tax rate on overseas profits of only half of what their domestic counterparts pay. So the tax rate on overseas profits above 10 percent is 10.5 percent whereas their domestic counterparts pay 21 percent. It actually makes domestic producers who don't offshore the jobs look like suckers by comparison. And it gets still worse.

The net effect of these tax cuts— which, as I say, went overwhelmingly to billionaires and to corporations— according to the Congressional Budget Office is going to produce a deficit for the U.S. government of income it otherwise would have received if not for those cuts of 1.9 trillion dollars over the next decade. Now, that's money that we desperately need to try to dig out of the hole of this pandemic-induced recession. We desperately need that money for so many things. To rebuild the U.S. economy, to invest in infrastructure, to create jobs at home. So as part of a suite of policies that can take on the problems that we already had, that were already building before Trump and that got so much worse under Trump, the 2017 tax reform needs to be repealed and completely redone in order to restore fairness to the tax system and to eliminate these perverse incentives.

DOLLAR: One of the really striking statistics in your study is that despite the trade war and a lot of tension and talk of decoupling between China and the U.S., the U.S. foreign investment in China has actually increased in the last few years. So these tax incentives you're talking about are really quite powerful in attracting U.S. investment. I don't have any problem with U.S. investment in China, but I don't see any reason why we're subsidizing it through the tax code in the way that you have just described.

Let's talk a little bit about Vice President Biden's plans for a big push in infrastructure investment, particularly with the focus on...I don't think he wants to necessarily use the phrase Green New Deal, but I think that's a general and broad enough phrase. He's talking about investment in renewable energy, new vehicles, public transportation, perhaps high-speed Internet throughout the country. How could this kind of infrastructure program make a difference for the manufacturing sector?

POLASKI: Well, I think that Biden's economic plan is a big step in the right direction. I'm not saying it goes as far as I would like to see or that we ultimately will need, but it gets us off the wrong path and onto the right path. And it gives enough specificity that we can see how there could be some real momentum over one or two or three years. For example, we need investment in all kinds of infrastructure in the U.S. If you drive around the country, you'll see that many of our roads and bridges are crumbling. Our rail system is in radical need of repair. Much of the rest of the world has high-speed rail, but we don't have it in the U.S. Why is that? Why don't we have high-speed rail in the U.S.? There are ports, airports, so much that needs to be built. He has proposed spending a lot of money on those things, hundreds of billions of dollars to rebuild infrastructure, but to rebuild it in an environmentally friendly way so that we can start to get away from the environmental deficit that we're in now and to begin to grow out of it. His proposals for renewable energy sources and for public transport will help us to face up to the climate challenge that right now we are not taking seriously enough. Those investments will create jobs in the short-term. Those are big job creators. But they'll also improve American productivity and therefore its prospects for growth and rising incomes over the medium- and the long-term.

I particularly like his proposals for investments in high-speed Internet and broadband all over the country for regions that are underserved right now. Big investments in education and childcare. And specifically plans for economic development in left behind communities. You kind of referred to that, but he has proposals, for example, encouraging industry clusters in manufacturing or information technology or setting up business incubators. These are very positive proposals because a lot of the damage that has been done by his policies, but also by the pandemic and the economic recession, are very uneven. Everyone has felt the harsh health effects of the pandemic, but some communities have felt much more of the harsh effects economically. So, the proposal has to be not only for investment in infrastructure and green energy overall, but it also has to look at these left behind communities and have a coordinated economic plan that can address that. He's got a price tag on his plans for those kinds of things, research and development and so on, of about 700 billion. That's probably not enough, but a very good first step. Let's take that step and then we can make an assessment and see what we need after that.

DOLLAR: I like to combine your two ideas, the last two things we talked about, because if we repeal the tax cut— and I have some sympathy for that— or at least repeal many elements of that, normally you wouldn't raise taxes in the middle of a recession. You'd worry about things from a macroeconomic point of view. But actually, if you raise taxes and then you spend it on the kind of infrastructure we were just discussing, the net effect is actually stimulative for the economy. So I think for me as macro economist, the rational policy would be to raise taxes, undo some of the distortions of that 2017 tax cut, have a big push in infrastructure, and then presumably you would not necessarily need to continue that over time. Eventually we are going to have to get back to more of a sustainable fiscal policy, but I wouldn't rush into that as we are still in the midst of this pretty serious recession.

POLASKI: Well, you make a good point. You may have noticed that the International Monetary Fund (IMF) came out with its periodic report a day or two ago and they make that specific point, which is that the advanced economies should not step on the brakes when we get out of this pandemic. That's very significant because in past recessions and much of its past lending, the IMF in fact has been very much for fiscal discipline and even austerity. What they're saying is that would absolutely be a mistake right now. It would be a mistake in the U.S., it would be a mistake in Europe. In fact, what these governments should do is spend the money but invest it wisely. As we said, invest it in infrastructure, invest it in education, in research and development and the kinds of things that will grow your economy and you'll be able to pay your way out of it in terms of the overall macro-economic balance but you also will have invested in your people. You will have given people skills. You will have given them the logistics to get product around the country more effectively and to get themselves around to work when the pandemic is over more effectively so you can expect more productivity and a higher growth rate. I think when even the IMF is singing from this songbook that you and I have in front of us we can take that as a pretty good endorsement.

DOLLAR: I've worked closely with the IMF for over 30 years and I think it's actually encouraging the way in which thinking [and] attitudes have changed about a whole range of issues there. So that's actually quite impressive that the institution has been able to adapt to reality. It has been a pretty tough reality over the last fifteen years or so.

For the last question, Sandra, I want to come back to the issue of trade. Your study also has recommendations about the process of negotiating trade agreements. So, can you share with us your thinking about that?

POLASKI: Yeah. There's a lot that could be done to improve the trade policy making process, but let me just make one single, clear cut recommendation. To people inside the trade policy community this will seem very radical, but to everyone else, which is 99.9 percent of the population, it's going to seem like pretty self-evident and commonsense. In fact, they'll be rather surprised that it's not already the policy. And that would be to eliminate the secrecy of trade negotiations.

Right now, every proposal that the U.S. puts on the negotiating table with the trading partners— suppose we're negotiating with the UK, or we've just started negotiating with Kenya, or we negotiated, of course, the U.S.-Mexico-Canada agreement. Every proposal that we put on the table and every proposal that we receive from our trading partners is classified in the official government system. It's classified as secret and it is illegal to reveal what's in that proposal. The people who handle it are under secrecy clearances and they're not allowed to tell anybody. You don't know what's in that trade agreement until the final deal comes down, which, for example in the case of the new NAFTA, is thousands of pages of detail. And then there is usually a very short period to read it and vote on it. The average person is not possibly going to be able to comprehend all that's in there, and even trade experts very often don't see all of the implications. Well, what has happened? In this secrecy, it's much easier for corporate lobbyists to get in there, to sweet talk the trade negotiators. Let's hope it's only sweet talk and that it's not something more serious— bribes or whatever. But to get their special interests that they're lobbying for into these trade agreements. Then at the end when you're living with it you realize, oh, why did we do that? That's not in the public interest.

I'll give you a very practical example. U.S. agreements include extremely stringent protections for pharmaceutical companies and their profits. It protects their intellectual property beyond anything that other countries, other advanced economies, want to do. They make the test data— and we know a lot about test data these days because of following the vaccine adventures— they make the test data a secret for 10 years so that competitors can't even get the information that's used for testing things to be able to compare their results. This is very bad for product innovation, but it's very good for keeping an exclusive patent and charging high prices on pharmaceutical products. That's just one example of the many, many things that get tucked away in these trade agreements not in the public interest. So if the proposals that we are making and that we are receiving were not secret, if they were public, people can report on them. You can talk about them on Dollar & Sense. I can write about them. Members of Congress will have to be able to account to their constituents in every congressional district in the country: why do we want to have this in a trade agreement? That in itself, I think, would do more to improve trade policy than almost any single thing that I can think of.

DOLLAR: I can buy into that greater openness, but I also feel like we need a serious civics course in a sense on the benefits of free trade. I think Americans have benefited a lot from trade, but we take it for granted now. And I share your concern about the pharmaceutical patents— the length of that. I think there are a lot of things we could improve. But I'm heartened that we see in public opinion surveys that most Americans are still generally supportive of an integrated world economy.

POLASKI: I think that's right. I certainly am, but I find that as well in discussions. What people want is for the integrated world economy to operate under rules that are fair. Not only fair between countries, but fair within the U.S. and between the interests of the haves and the have-nots.

DOLLAR: I think that's a good note to end on. I'm David Dollar and I've been talking to Sandra Polaski about her new study, "How Trade Policy Failed U.S. Workers— and How to Fix It." I encourage you to look at the study, and thank you very much for joining us, Sandra.

POLASKI: It's been a pleasure to talk with you.

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