Trump’s Threat of a Tariff Wall

Prabhat Patnaik

Donald Trump is threatening to use tariffs as a weapon against other countries. He has already made three threatening statements: first, he threatened the BRICS countries that if they dared to move away from the dollar, then they would have to face 100 per cent tariff in the US market. Second, he has threatened the European Union that unless the EU bought more American oil and gas as a means of reducing its trade surplus vis-à-vis the US (the surplus on goods trade was $208.7 billion in 2023), it would face high tariffs in the US market. Third, he has announced that there will be a 10 per cent tariff anyway on global imports into the US and a 60 per cent tariff on Chinese goods. (China had a $279.4 billion surplus on goods trade vis-à-vis the US in 2023, which was lower than earlier, e.g., the $418 billion surplus in 2018, but quite substantial nonetheless).

Each of these proposed measures has important economic implications. For instance, while EU’s replacing its residual reliance on Russian gas by the purchase of American gas may not lead to cost escalation within EU, it will certainly raise gas prices within the US; in fact it has been estimated that US gas prices will rise by as much as 30 per cent in such an eventuality. Trump’s response to this has been to say that gas production will be raised within the US to cope with the increased demand for it. But raising gas production requires investment, and that too private investment in the US, which cannot be ordered to happen. Besides, given the environmental damage associated with oil and gas, and hence the general commitment to move away from them, such investment may not actually occur; and even if it does, the environmental concerns will only become more acute. Likewise, if 100 per cent tariffs are levied on BRICS countries, they would certainly retaliate, whose effects can be quite serious for American exports.

All this however is still in the realm of mere possibilities; what is more certain is the 10 per cent tax on global imports and the 60 per cent tax on imports from China; and I would like to discuss one obvious impact they would have on the world economy. Let us assume that such tariffs do not lead to any retaliation by other countries (and if they do, then this fact will only modify the argument presented below, not negate the thrust of it). They would however increase the demand for American goods within the US which should raise the level of output and employment within that country. In fact Trump has been complaining that while Americans buy large numbers of European cars, the reverse is not true; the imposition of tariffs on European cars will increase the demand for American cars within the US and hence raise their production (and employment in that industry).

As against this however the rise in the cost of living because of tariffs on imported goods, will reduce purchasing power in the hands of the consumers which will have an employment-contracting effect, that would be even more pronounced if the Trump administration undertakes anti-inflationary “austerity” measures to counter the rise in prices. But let us assume, as is more likely, that there would be a net increase in employment and output in the US because of this tariff measure of Trump.

In the rest of the world however by the same token the loss of American markets would reduce employment in the absence of any counteracting measures to boost demand. The US in such a case would simply have exported its unemployment to the rest of the world; it would have pursued through tariff measures a beggar-thy-neighbour policy towards the rest of the world. True, the rest of the world would not be actually affected adversely if there is a boost to its domestic demand through the pursuit of an expansionary fiscal policy (monetary policy for expansion is a blunt instrument); but this is not possible in economies other than China.

Such an expansionary fiscal policy must take the form of either a larger fiscal deficit, or heavier taxes on the capitalists, and the rich in general, who save a large proportion of their incomes; taxing the working people who consume the bulk of their incomes anyway and using such tax proceeds for boosting government expenditure would only change the composition of aggregate demand (less working people's consumption and more government spending), but not its magnitude. But such fiscal measures as would actually increase the magnitude of aggregate demand are precisely the ones that international finance capital opposes; it opposes fiscal deficits beyond a stipulated limit (typically 3 per cent of the GDP) and it obviously opposes any taxes on the rich, for such taxes fall heavily on the financiers themselves. An economy pursuing such demand-boosting measures therefore becomes a victim of capital flight and hence gets destabilised, which is why such fiscal expansion cannot occur within a neoliberal regime characterised by the hegemony of globalised finance.

Even if the imposition of tariffs by the US entails a certain shift away from neoliberalism, the essence of such a regime consists in the free cross-border movement of capital, especially of finance, and no compromise on this score will be tolerated by international finance capital; in fact it is significant that Trump, while championing protectionism has not said a word in favour of capital controls. The absence of capital controls exposes countries to the threat of capital flight in the +event of fiscal expansion which they would therefore like to avoid.

The case of China however is altogether different. In fact, successive US administrations have been protecting the US market from the entry of goods produced in China for quite some time, as is evident from the decline in China's goods trade surplus vis-à-vis the US mentioned earlier. China has managed to counter to a great extent this loss of the American market by expanding its domestic market. The reason China has been able to do this, while other countries cannot, is because China, notwithstanding all the "liberalisation" it has undertaken, still remains essentially a "command economy" where the political leadership's writ runs in economic matters: there is a substantial presence of public sector, and generally non-capitalist, enterprises in the Chinese economy, whose investment decisions, and even wage policy, can be influenced by the government. Indeed it is not surprising that even as there has been a general stagnation in real wage-rates over much of the world, including in the countries of the global north, China has seen increases in real wages as a result of government directives. The expansion of the domestic market in China therefore is not constrained by the dictates of international finance capital, unlike in the case of capitalist countries.

Hence, leaving aside China where the effects of American protectionism can in principle be countered, the rest of the world would see an aggravation of recession because of it (unless it moves away from a neoliberal regime). This effect will be particularly sharp in countries of the global south. The Bretton Woods institutions that remain silent in the face of trump’s protectionism will lecture to countries of the global south about the virtues of free trade and prevent them from adopting any protectionist policies of their own; at the same time they would be made to adhere strictly to “fiscal deficit norms” while avoiding any heavier taxation of the rich (so as not to disincentivise capital inflows). They would therefore be made to face American protectionism meekly and hence bear the brunt not only of the recessionary tendency it would generate but also of a drying up of capital inflows into their shores for relocating plants for producing export goods.

The accentuation of the recessionary tendency in the rest of the world would also entail a further strengthening of the neo-fascist tendency that is currently sweeping the world. Since neo-fascism gets a boost because of the alliance between corporate capital and the neo-fascist elements in a period of economic crisis, any aggravation of crisis will only lead to a further strengthening of the neo-fascist tendency, of the “othering” of some hapless minority group in each such crisis-affected country in an attempt to divert the discourse away from issues of material life.

Rosa Luxemburg’s statement that the development of capitalism ultimately leads to a denouement where mankind is presented with a choice between socialism and barbarism is thus coming true with a vengeance. The dead-end of neoliberal capitalism, which is the latest phase of capitalism, is bringing mankind to a situation of pervasive and barbaric neo-fascism, from which only a transition to socialism, effected in stages, can provide a way out.

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