Interview with Prof. Douglas Irwin of Dartmouth College, author of *Clashing Over Commerce – A History of US Trade Policy*

Trump's Tariffs Considered in the Context of US Trade Policy History

By *Japan SPOTLIGHT*

Tariffs are a popular trade policy means in the United States, and Donald Trump is not the first US president to use tariffs as a means of economic coercion. But his trade policy is unique in the sense that it depends on one person's whims, and thus ambiguity is the essence of his policy which causes uncertainty among his trading partners. Our interview with Prof. Douglas Irwin of Dartmouth College, author of *Clashing Over Commerce – A History of US Trade Policy*, shows that history is a good resource for considering relevant policy directions for the future, as it can provide many lessons from the past in contexts similar to those of today.

Domestic Political Conflicts Determine US Trade Policy

Prof. Douglas Irwin

JS: Thank you so much for your time. Your book *Clashing over Commerce - A History of US Trade Policy* tells us that US trade policy is the outcome of domestic political conflicts. I think this marks a distinction from Japanese trade policy which, with the exception of agriculture, is basically determined by economics and not related so much to politics.

My first introductory question is why do you think this is so? And my second question is, how is it that, as the introductory part of your book tells, tariffs have always been considered the most important trade policy in US history, with typical examples being those of President William McKinley and President Warren Harding?

Irwin: On US trade policy being determined by domestic politics, I think there are a couple of reasons. The first is that since the establishment of the constitution, US government representatives have largely been elected democratically, and so they are not professional bureaucrats. So politicians are always looking to their local voters to see how they should think about trade policy. Local interests, regional interests, state interests matter a lot.

In terms of the way that politicians are going to vote in Congress about trade policy, the fact that we're a democracy means that trade policy is sort of inherently political. Another reason is that the US is a very large country with a lot of diversity in economic interests. This is something that James Madison, another US president, pointed out. In fact, the title of my book is based on his idea of clashing interests. So we had New England up in the Northeast, we had the mid-Atlantic states and we had the South, but then we also added the Midwest, and then the Far West, and all these different regions of the country with different economic attributes. Some are going to be agricultural, some are going to be industrial, some are going to be mining, and some will be engaged in shipping and merchant activities. It's very hard in a democracy when you have all these different interests to figure out what trade policy is going to be. There's not going to be a national consensus because the farm states, if they're exporting, want relatively open trade; but if you're a manufacturer or producer, and you're facing foreign competition, you want to limit trade. So that's exactly what Madison spoke about very early on in Federalist No. 51. Talking about all these different economic interests and trying to make policy in such an environment is challenging.

Now, the question about tariffs in particular also sort of dates back to the origins of the country. The reason we have the Constitution of 1789 – or at least one reason – is that under the Articles of Confederation the national government had no power of taxation. It could not pay for the national debt, could not pay for national defense. It could not fund its operations. And so the founding fathers of the country really want to remedy that and give Congress the power of taxation. Tariffs were considered as a means of taxation before income tax, before value-added taxes, before sales taxes, before all those things. Tax and trade were the major revenue raising mechanisms for the federal government. And also the government was very small, so we weren't doing industrial policy in an activist way. Alexander Hamilton, one of the leaders in founding the US, had thought about such ideas. But with the government being small and there being sort of a consensus that we wanted to keep government small meant that there weren't too many policy levers in the 19th century and into the 20th century. So tariffs – taxes on imports – became the principle mechanism over which politicians fought when thinking about trade policy. Now, this changed a little bit after World War II. When the federal government is a much larger regulatory body, non-tariff barriers become much more important, but still, even to this day you can see that President Trump talks about tariffs quite a bit. And so even though there are many other new policy instruments that governments can deploy, whether it's regarding semiconductors or automobiles and its regulation and subsidies, tariffs are still something that politicians come back to as a way of talking about US trade policy.

JS: So tax revenues are a very important goal for tariffs?

Irwin: Yes. And as you know already from reading the book, there are different periods in US history where each one has a different trade policy goal.

Economic Security as an Important Policy Goal

JS: Another trade policy goal that seems to be important today is economic security. US trade policy practitioners seems to have economic security in mind in trade policy discussions. How has this tradition been built up?

Irwin: At the beginnings of the nation, the US was very small compared to Britain, which had a lot of power. And so that's why Hamilton and the founders of the US wanted to create some manufacturing industries. Those industries would be essential for national defense. So defense has always been an important part of overall US economic policy. It hasn't been equally important throughout all periods of history. So the reason why Hamilton wrote his famous report on manufacturers in 1791 was precisely because Americans had just fought the War of Independence. The US was very much exposed to the fact that we were economically vulnerable to Britain and blockades, and so security was high on the minds of policymakers. But I would say for most of the 19th century into the 20th century, trade policy was largely about domestic politics and not so much regarding national security.

This begins to change again when US policies turned to isolationism. In the 1930s and 1940s, national security and trade policy began to intersect more frequently. So the GATT was definitely an agreement after World War II to foster trade policy cooperation but also came about because of the Cold War to some extent. And it was designed to strengthen the Western Alliance. So there was a national security aspect that was married with the trade policy aspect. I'm sure we'll get into what's going on today in national security, which is also very important.

JS: In the GATT discussions, national security was considered an exception to the application of free trade rules. That's what the US government had been advocating for a long time. Is that right?

Irwin: It is, but remember that from the 1950s until very recently it wasn't really heavily used. That's because the members of the GATT really consisted of the US, Western Europe and Japan, and we were all already aligned militarily and diplomatically. And so we didn't feel like we needed to invoke it against each other. Now in a more multipolar world, the US is much more sensitive to national security matters and it now worries about the trade aspects of national security.

JS: The TPP was once advocated by the US government, and this was also a sort of economic security policy to contain China.

Irwin: Yes. This is what makes it sort of interesting that the Trump administration in its first term walked away from the TPP because, once again, it's not just an economic agreement but has other foreign policy and national security implications. And I've always thought that even though Trump, who doesn't generally like these big trade agreements, likes bilateral agreements or cutting deals, at some point some future administration will be forced to reconsider the TPP because of its strategic importance for the US. So the US is outside of the TPP at the moment. It doesn't seem like there's any imminent move to go back to the TPP, but I think at some point if the US wants to be re-engaged in the Asia-Pacific region, something like the TPP will be part of US policy.

Domestic Politics Key to US Trade Policy Rather Than Economics

JS: In that case, perhaps US trade policy is not so much related to economics but more so to politics.

Irwin: Absolutely. In fact, there's an economist in the US, Richard Cooper, who wrote a famous article called "Trade Policy is Foreign Policy". And I think that's absolutely right. If we go back to the 19th century or early 20th century, trade policy was very much domestic policy. But I think that starting in the 1930s, trade policy and foreign policy have become very much interconnected.

JS: The Trump administration is certainly taking a high-tariff policy. But in terms of the historical stream of events in US trade policy, this is not so different from other presidents' trade policies. Rather, he's basically just in the category of presidents pursuing a free trade policy. What do you think?

Some economists would say that US trade policy has always been supported by economic theory. But in the light of history, economic theory has not been determining US trade policy. So in that sense, while Trump is of course different from Joe Biden or some other presidents, in the long run his policy is not much different from the basic trend of US trade policy, with politics as the priority. What do you think about this point?

Irwin: Well, I think he does mark a break in the trend of policy over the past few decades. But I think you're also right in the sense that there are historical analogs to what Trump is doing. And he's certainly drawing on history, and he reminded us of many US presidents long ago who had a very different trade policy than traditional postwar US policy.

Let's go back to the three "Rs" describing American trade policy history in terms of the policy goals as stated in my book – namely "revenues" as a crucial goal in the first era from the foundation of the nation to the Civil War when there was no income tax; then in the second era from the Civil War to the Great Depression where the main goal was "restriction of imports to protect domestic producers"; and then in the third era from the Great Depression to now, described as the era with its main goal being "reciprocal agreements to reduce trading partners' trade barriers". I think that's a nice framing device. A lot of the presidents since Franklin Roosevelt in the 1930s and 1940s have used trade policy as a way of reaching agreements with other countries to cement economic ties and political ties. Trade policy in this period was achieved not just for economic reasons, but for diplomatic, political and security reasons as well.

Then, Trump brought back the other two Rs – revenue and restriction – which had been forgotten in terms of trade policy, though he likes Reciprocity as well. He likes cutting deals with other countries because he thinks previous agreements have not been fair to the US. He also talks a lot about the revenue that is brought in with tariffs. And he also talks a lot about restricting imports to help out domestic industries in a way that is much more across the board. So I think one problem in determining Trump's trade policy is that he wants all these different objectives to be achieved with one set of policies. And it's very difficult to achieve multiple objectives with just tariffs alone. So we don't know if he really wants free trade in the end and just to cut deals to get better agreements, or whether he really wants to protect the domestic market from foreign competition.

The problem is there's strategic ambiguity in terms of what he's trying to achieve. That is partly by design. It maybe leads to better outcomes, but Americans and the rest of the world can never be sure of what exactly he wants in the end.

Ambiguity as a Keyword

JS: I see. Perhaps the distinction with Trump's trade policy is, as you said, ambiguity, and unpredictability. That does cause US trading partners uncertainty. Business considers uncertainty to be very bad.

Irwin: That's another reason why he's a little bit different from his predecessors. When issues are settled, you usually move on to some new issues. But when Trump reaches an agreement on trade, he is going to want to come back to it six months or a year later, maybe even renegotiate the terms. We saw this in his first term and second term. He didn't like NAFTA, so he came very close to pulling the US out of NAFTA. Instead, he renegotiated it, and came up with the USMCA, a successor agreement. But in his second term, he basically pledged to violate the terms of the USMCA, an agreement that he had negotiated by imposing high tariffs on Mexico and Canada for unrelated reasons. So even when you reach an agreement with him, sometime later the terms may be up for renegotiation.

JS: I have a question about the Indo-Pacific Economic Framework for Prosperity (IPEF). While in US trade policy tariffs have been always at the center, the IPEF is very different because it doesn't include any market access chapter. Instead, it includes some national security concerns and policies to deal with them. This is unique, and do you think this type of regional agreement could be a new paradigm for US foreign policy? But most likely Trump will not pursue the IPEF.

Irwin: Yes. I think the IPEF could well be forgotten in another two or three years. It was a Biden administration initiative and the Trump administration is not going to embrace that. They might try to reach their own deals that are similar to the IPEF, like one with no market access provisions.

On a different note, a key point here is that unless you get the agreement passed by Congress, it's not really binding and it's not really of substance. In terms of changing US policy, the USMCA was a big deal because Congress had to approve it and it became the law of the US. But the recent agreement the US reached with the United Kingdom on trade policy is non-binding. If it's non-binding on either side, it can be violated, it could be ignored, it could be forgotten, once the new administration takes over. So it's not a firm commitment on the part of the US. I think the Trump administration may reach some of these agreements that will be non-binding as a way of diffusing tensions, though I'm not sure that there are going to be substantive, deep changes in the direction of the content of US trade policy.

JS: I think the IPEF is a way to contain China, frankly speaking. And even for the Trump administration, a policy for dealing with China is very important. In this light, on national security issues, would it be better for the Trump administration to work with its allies?

Irwin: Most trade policy observers in the US definitely believe it is in the US interest to work with its allies to contain China by strengthening the economic position against China. Unfortunately, I don't think the Trump administration has taken a very strategic approach to doing that. Allies in Western Europe, Canada, and Mexico, and others could help the US by this alliance. It's not very productive to alienate them. With respect to China, the US raised tariffs and then brought them down temporarily, but at the same time you hear Trump saying he just wants to meet with Xi Jinping to reach a deal with him, and believes that if they could just talk one-on-one they could solve these issues. I'm not sure that would solve many issues, and I'm not sure exactly what they want, either to engage with China or to separate from China – there's this term "decoupling". Do we want to decouple our economy from China or do we just want to rewrite the rules on which we're connected? So there's once again ambiguity and uncertainty about what the ultimate policy goal is.

JS: It is almost impossible to decouple from China under globalization, and of course it is impossible to decouple from the US as well. But some Europeans and Asians are now talking about decoupling from both those superpowers because they are taking unilateral policies that could damage the rest of the world economies. It's not possible to decouple in particular from the US in the context of dealing with China. So in order to cope with China, I think the US would have an incentive to cooperate with its Western allies in venues like the G7, at least.

Irwin: It goes back to the point I made just now, that there's no strategic vision in the current US government. Under the Trump administration, what will our relationship with China be like? When we speak about decoupling, I think the only thing that makes possible sense is strategic decoupling, where you select certain sectors which you think are important for national security or the economy, and you decouple there. So I think the ones that have become evident are semiconductors and electric vehicles, and maybe batteries. Once again, you can't decouple whole economies. But you can identify certain sectors that are of strategic importance, where if you don't decouple, at least you have a domestic industrial policy to ensure that you're not as dependent on China, as the US assumes.

Implications of Industrial Policy

JS: As you know, industrial policy has been considered a very bad policy in the US, but it is drawing attention today internationally and maybe it is a policy to cope with China's own industrial policy that takes advantage of its scale economy. Do you think that allies like the US and Japan should cooperate in the domain of industrial policy to cope with China?

Irwin: Well, I would certainly agree with that. And the question is whether the Trump administration is willing to do it. A couple of points to be made here. One is that any industrial policy is going to be controversial because it will be viewed as helping out certain industries or certain regions of the country at the expense of others. Another problem is that because industrial policy is political and unless there's some sort of bipartisan consensus, it's very difficult to sustain it over time.

For example, about the CHIPS Act, which was providing subsidies for domestic locations, the problem is that this is a Biden administration policy and has only been in effect for about two or three years. It may be stopped now. And then maybe some future administration will restart it. But this creates uncertainty, and you spoke about the negative impact of this on business investment. You need continuity in policy to reduce such uncertainty.

And if you're turning the industrial policy switch off, it undermines that objective. I think the US does have an interest in securing domestic sources of batteries, drones, EVs, and semiconductors. But it's not clear that we'll have the policy continuity that will make the business environment stable.

JS: How about protecting sensitive technologies? We may need a sort of collaboration in industrial policy to maintain the security of sensitive technologies, or in the area of critical minerals to cope with Chinese economic coercion. For example, CPTPP countries cooperate with each other to provide critical products to a country facing economic coercion from China.

Irwin: I certainly agree with you. But unfortunately the Trump administration doesn't necessarily share that view. So when Trump makes statements that our friends have treated the US just as badly as our foes, that doesn't bode well for cooperation. I think the Trump administration is naturally very suspicious about the allies' intentions. The big agreements we've had in the past are absolutely cooperative. Besides, there are some domains where the US really does need cooperation from allies. For example, ASLM, the Dutch producer of semiconductor fabrication equipment, a major producer of semiconductors in the world. It's not up to the US to impose controls on these products. We have to get the Netherlands and other countries to agree to such controls and Samsung and other firms in Japan as well. And this requires some cooperation. Unless you're willing to work with your allies, it would be very difficult to contain the technology and prevent it from leaking out. Then you raise another problem – that it's not only that Western countries have leverage over China, but China has leverage over them in terms of rare earths and other things. And so this raises another question concerning what the US is trying to achieve and that it doesn't have unlimited power to just directly affect China.

JS: My next question is on the impact of Trump's policy on the US domestic economy. A high-tariff trade policy is not a good solution for protecting the domestic economy. That's what many economists would say. I'm curious about your view on this point.

Irwin: You're absolutely right. Steel is a great example. It is an input to so many manufacturing industries. Yet Trump has been obsessed with trying to protect the steel industry. However, rigorous restrictions on imported steel would hurt many other manufacturing industries that depend on steel and it hurts their competitive position. And so for every job you might gain in the steel industry, you're going to lose many more jobs in downstream industries. In terms of net impact, it's actually going to hurt manufacturing in the US, not help it. And if you multiply this negative impact across other industries, you can just see the difficulties of protectionism in a world of global supply chains and high degrees of economic integration.

Business Views Impact on the US Trade Policy Not Much Expected

JS: The views of business do not seem to have been closely connected with US public policy. But as you pointed out in your book, on the occasion of the adoption of the Smoot-Hawley Tariff Act of 1930, perhaps this could be interpreted as the outcome of cooperation between business and government. How do you think this was possible, given the US tradition of less communication between business and government?

Irwin: Well, this goes back to the fact that the US political system is very open. And it is a democracy. And so you have not just voters and workers, but also businesses being able to influence the direction of government policy. And it's usually thought that there's an imbalance between businesses and consumers on their impact on policy, because businesses are very concentrated. They're very focused on receiving the benefits of certain government policies and those who would pay the price for that. The policy impact on consumers is much more diffuse and they don't organize lobbying activities against the government nearly as much on such policies. There's an interesting interplay between what the business community wants, like access to foreign markets, and certainly access to cheaper supplies, and what the Trump administration envisions for the economy, which is more self-containment. The steel industry wants high protection, but a lot of industries don't want that. And yet they're politically weaker in influencing administration policy. So we don't often see that business-government collaboration.

JS: American business understands very well about the demerits of Trump's tariff policy.

Irwin: Important for Japan is tariffs on automobiles. Trump has old-fashioned views that just imposing high tariffs on automobiles will lead to more production in the US. But of course, the supply chains are stretched across Canada, Mexico, and the US, and the auto industry is not asking for those higher tariffs. It's very much unlike in the early 1980s. Did they want protection against Japan? Yes. It was because cars were produced in Japan and in the US. However, now car production is achieved globally and so there's not so much a domestic interest in those high tariffs, and yet the president wants to impose those tariffs even though the business community doesn't want them. I think if you talk to any business leader in the US they'll say that dealing with this administration is needed because of the uncertainty of policies. Since the president has very fixed views, it would be difficult to work with the government towards a cooperative solution.

Inequality as a Background to Political Nationalism

JS: I have a couple of questions remaining. One is about income inequality, which is considered a very important policy background for protectionist policies. In the US, trade adjustment assistance used to be working, such as re-skilling or retraining of workers, so why doesn't this policy work anymore?

Irwin: I'm not sure it ever really worked well. There has been a change in the tone of US trade policy since the mid-2000s. There were a couple of earlier developments to be noted. First, there was the so-called China shock leading to certain communities losing factories and the loss of manufacturing jobs was regionally concentrated. And that was followed by the great recession and the financial crisis of 2008 and 2009 which wiped out the wealth of many American households or reduced their wealth significantly. And the recovery from that was very long. Now those are two separate events, but I think they reinforced the American public's awareness of vulnerability.

Either these financial shocks or these trade shocks led to the sensitivity of Americans about the impact of trade policy on workers. But when you look back at the historical evidence on trade adjustment assistance, it's generally not been very positive. It was a cheap way in which members of Congress would buy off potential opposition to new trade agreements such as NAFTA. In my book *Free Trade Under Fire* (April 2020), I noted that job retraining programs have not been working very well. I think there's always a case for a social safety net working to a certain extent, but worker retraining programs provided by the government for ensuring more earnings for workers in the future do not seem to be working well. Trade policy, trade, trade shocks, and then income support are all linked to each other. Most people who are adversely affected by these trade shocks might appreciate the support, but they really want their old jobs back. They don't want change. And of course, that's not always possible.

History an Important Resource for Policy Decisions

JS: My last question concerns your history research. History is important as it provides very significant lessons, particularly today when so many unexpected events occur and make us feel uncertain about the future. Looking at history and thinking about long-term trends, gaining a long perspective on some specific issues could provide us with some relief and more objectivity in analyzing reality. In this light, are you planning to do some new work on the history of the US economy or whatever?

Irwin: Not so much, but all of the work that I do is focused on history and how events unfolded and some of their implications for today. So many countries around the world, including China and India, opened up in the 1980s and 1990s. They traditionally had been very closed economies. And yet they really changed and became big players in global economy. That's not because the WTO forced them to open up their markets. It's not because the US forced them to open up either, as when the US wanted Japan to open up. These were domestic decisions to open up made in India and China and Vietnam and so many other countries. And I'm looking at how that process was unfolded. With such learning, we can examine what the possible avenues of future policy might be. We have no alternative but to study history to do it, because that's the only roadmap or guidebook we have. And obviously it's not going to apply one for one with today, but it'll show us how countries have viewed various options in the past and what the outcomes of those options chosen have been, whether for good or bad. And so I think we always need to keep some historical perspective. Otherwise we really don't know where things might lead with respect to current policy.

JS: Thank you so much for your insightful remarks.

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