A Research Agenda for Trade Policy Under the Trump Administration

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International trade policy under the Trump administration can be maddening to follow, partly because of the apparently thoughtless and unsystematic character of the White House’s rhetoric and actions. Are there structural features of the global order that run deeper than the tweets and the tariff skirmishes? In this short comment, I argue that three structural dynamics in economic globalization should provide the basis for a new research agenda for trade policy: namely, the relationships between international trade and (1) economic inequality, (2) global finance, and (3) national security. The Trump administration—and even more temperate past administrations—have had to navigate these dynamics in crafting U.S. trade policy. But they may be misunderstood today due to the lingering influence of two exceptional historical periods: the three decades of the immediate post-war period—the Trentes glorieuses of high and shared growth—and the roughly two decades following the end of the Cold War, when unrivalled U.S. power smoothed the path toward global economic liberalization.

I. Trade and Inequality

The relationship between trade and inequality came to new prominence during the 2016 presidential election in the United States. The immediate political setting was the debate over congressional ratification of the Trans-Pacific Partnership, which was opposed by both presidential candidates as well as by the influential candidate for the Democratic nomination, Senator Bernie Sanders. The deeper intellectual context was the response to Thomas Piketty’s blockbuster Capitalism in the Twenty-First Century and a series of high-profile reports on inequality and job loss that put trade in the political cross-hairs.† Given

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† Thomas Piketty, Capital in the Twenty-First Century (2014); see also David Singh
the rhetoric of then-candidate Trump about reinvigorating America’s manufacturing base, the loss of manufacturing jobs in particular became a political flashpoint.

The more or less uncontroversial fact that prompted the debate was the sharp decline of manufacturing jobs in the United States, as reported by the Bureau of Labor Statistics. The number of these jobs held steady at roughly 15 million during the post-war decades, only to abruptly decline by a third—about 5 million jobs—between 2000 and 2010. The puzzle as to how trade, particularly the entry of China into the World Trade Organization (WTO), figured in this job loss has become the subject of dueling reports. The Economic Policy Institute suggested that the culprit was a drop over this period in manufacturing output owing to international competition from trading partners, as opposed to productivity gains from automation, as an institute at Ball State University contended. A study conducted at the Massachusetts Institute of Technology found that 2.1 million job losses in the United States were occasioned by rising imports after China’s accession to the WTO. An official publication of the WTO, the World Trade Report 2017, made the job loss controversy its focus and sided with those who blamed automation, not trade.

Manufacturing job losses, whether driven by trade or automation—or some complex interaction of the two—need to be assessed against the more general backdrop of stagnating working-class wages in the United States. Thomas Piketty’s recent study of the bottom of the U.S. income distribution (rather than top incomes) reveals a dramatic fact: the bottom 50 percent of the population since the mid-1970s has seen no growth in real incomes, meaning that not one but two generations of U.S. workers have been trapped at the real wages of fifty years ago. This flattening of incomes for working people has tended to be disguised through debt-financed consumption fueled by cheap private or public money. While the political consequences of this stagnation in working class income continue to be debated, it may have had substantial repercussions in the


7. Wolfgang Streeck argues that when the post-war period of high growth came to an end, a series of policies were attempted to disguise fact. See Wolfgang Streeck, The Crises of Democratic Capitalism, 71 NEW LEFT REV. 5 (2011).
last presidential election, and in political shifts to come.\textsuperscript{8}

How are we to understand these trends? To the classical political economists, the fact that trade would generate economic inequality would have been unsurprising: the division of labor produced what Adam Smith diagnosed as “modern” inequality (that is to say, economic inequality amid formal equality of legal status) and justified on the ground that the division of labor would, in absolute terms, lift up everyone, including the least well-off.\textsuperscript{9} In our own time, the fact that trade policy is not “Pareto optimal” is well known: there are always winners and losers in the pursuit of any complex public policy initiative.\textsuperscript{10} In the case of trade, these losers may be concentrated in particular regions, industries, and demographics—with politically potent consequences—while the compensation that might be relevant in theory is never paid out in practice.\textsuperscript{11}

Economic liberalization extends this unequal division of labor within and across national borders by bringing new participants into globalizing networks of production and consumption. Particularly when these new participants can do roughly the same work as earlier entrants for much lower wages, we should be unsurprised to find that international inequalities magnify domestic ones. But how much—and in what regions, industries, and demographics, and with what political effects? In addition to job losses, the flattening of wages may occur, not just through “offshoring” or “outsourcing,” but through the operation of “threat effects,” as has been both theorized and observed empirically.\textsuperscript{12}

Despite the fact that liberalizing trade should be expected to generate domestic inequality, it has long been assumed that a growing economy would be able to absorb these pains, which will not become politically consequential. Neither assumption now seems valid. We may have been misled in this respect, as in many others, by the post-war exception, the so-called “thirty glorious years” when high and widely-shared growth in the industrialized West allowed increasing trade liberalization for a few decades without obvious political costs.\textsuperscript{13} But as the “embedded liberalism” of that era gave way to the “neoliberalism” of


\textsuperscript{9} See Grewal, \textit{Laws of Capitalism}, supra note 1, at 629-30.

\textsuperscript{10} For a reflection on the uselessness of Paretoian analysis for public policy, see Guido Calabresi, \textit{The Pointlessness of Pareto: Carrying Coase Further}, 100 YALE L.J. 1211 (1991).

\textsuperscript{11} For example, the relatively small sums dispersed through the Trade Adjustment Assistance program may be of use in helping the affected, but the training and minimal benefits are very far from full compensation.


recent decades, burgeoning inequality (from both trade and other sources) has obviously begun to undermine the domestic political bargain in capitalist democracies, including the United States. A research agenda concerning trade and inequality must account for the political consequences of concentrated “losses” borne by some citizens without compensation from others—which will be determined by the different constitutional mechanics of any affected country. In the United States, for example, the Electoral College and the Senate were designed to give an effective regional veto to the Southern states to protect the “peculiar institution”—which may now magnify the effects of regionally specific dislocations owing to trade liberalization.

II. TRADE AND FINANCE

A second headline-grabber in the Trump era has been the problem of trade deficits, especially the U.S.-China trade deficit, which in 2017 hit a record high of $375 billion, eliciting angry presidential tweets and a range of tariff measures against Chinese goods. Country-specific trade deficits such as this one may matter for particular industries, sectors, or regions, and for geopolitical reasons. However, as is well known, bilateral deficits need not be the cause for concern sometimes alleged. A balanced mix of global trade can emerge from many country-specific variations: that is indeed part of the point of an international monetary regime, which enables nations to be in balance “with the world” even when they are out of balance with individual trading partners (which would be impossible to achieve via barter).

But the U.S. is not just out of balance with China: it maintains a trade deficit with the entire world. As the graph below shows (Figure 1), the United States’ current account balance in the post-war era with all countries, in aggregate, indicates a persistent and generalized trade deficit. This is a different sort of problem from a country-specific trade deficit. To understand how this can occur—how the U.S. can, year after year, import a surplus of goods and services from the rest of the world in exchange for IOUs in the form of treasury bonds—that requires revisiting the relationship between international trade and global finance.


15. As Adkins and I have noted elsewhere, “different regions of the country have historically had different economic modes of production; hence, a conflict among economic interests will be realized in political terms as a regional conflict.” Cory Adkins & David Singh Grewal, Two Views of International Trade in the Constitutional Order, 94 TEX. L. REV. 1495, 1522 (2015).


The relation between liberalized trade and global finance should be a second major prong in any research agenda concerning trade under the Trump administration, particularly because Trump’s tariffs aimed at restoring the balance of trade may prove ineffective given the broader financial structure in which international trade occurs. The starting point for such an inquiry must be recognition that under both the original Bretton Woods arrangement (the dollar-gold peg) and the current *de facto* reserve currency arrangement, the supply of U.S. dollars must do more than mediate transactions within the U.S. economy. It must also lubricate the growth of the entire globalized economy. Even countries that do not use dollars domestically need to accumulate them to perform many international transactions, including transactions involving countries other than the U.S. This means that the dollar (and dollar-denominated debt) will be seen as a safe asset to the extent that it is valued by many parties both within and outside the United States. Understanding the global role of the dollar allows us to understand how the U.S. can maintain its persistent trade deficit. In effect, the U.S. now “specializes” in providing the money that a globalizing economy requires in the form of dollar-denominated debt.

A research agenda focused on trade and finance should focus on many questions that this global monetary regime raises. Historically, how did this arrangement come about? What are its benefits and downsides? What are the global and domestic effects of a world economy powered by dollar-denominated debt? What institutional arrangements look likely to supersede this one—and how would or could they come about?

As Robert Hockett notes, the current arrangement effectively requires the
U.S. dollar to perform two roles that can end up at cross-purposes. On the one hand, the dollar remains the fiat currency for the U.S. economy, which means that the Federal Reserve relies on manipulation of the interest rate for purposes of Keynesian macroeconomic smoothing, varying the money supply to stimulate or moderate U.S. economic growth. On the other hand, the global role of the dollar supply means that its supply also affects growth in the entire world. This can mean that the U.S. either holds back global growth or pursues a looser monetary policy than it might otherwise. Hockett shows that the U.S. has generally resolved this dilemma by favoring global growth—and thus those industries at home, such as finance, that are best positioned to take advantage of it.

Hockett argues that the consequences of the cheap money generated by this strategy include deindustrialization, the financialization of the American economy, and a persistent tendency to boom-bust cycles—in other words, many of the problems driving political polarization and the rise of Trump. The alternative to using the U.S. dollar as the de facto reserve currency of the world would require an international solution along the lines of Keynes’s International Clearing Union, or some similar effort to untangle trade from finance. While it is hard to see any such effort even getting a hearing today, the deeper problem of the persistent U.S. trade deficit is not going to go away without a frank reassessment of the role of the dollar in supporting global imbalances. More remains to be done, both at the level of empirical research and in terms of developing credible institutional proposals for rethinking how international trade and global finance are hitched together.

III. TRADE AND NATIONAL SECURITY

The final dynamic that has exploded under the Trump administration is the relationship between trade and national security. President Trump has famously used a national security exception (a Section 232 action) to impose tariffs on foreign aluminum and steel, as part of an aggressive stance toward China in particular. This strategy allowed him to bypass congressional approval and International Trade Commission review. It might even get a pass in the WTO under the national security exception, though the Department of Defense has stated that its own consumption of steel and aluminum is a small fraction of the

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20. Id. at 446-53.

21. Id.

22. See generally id.


U.S. market. Thus, it seems clear that national security is being used as a pretext for protection of U.S. industries and broader geopolitical objectives.

While it is straightforward to criticize Trump’s disingenuous use of the national security exception, renewed attention to the relationship between international trade and national security is overdue, and should be part of a new research agenda on trade going forward. Historically, there have been two broad arguments concerning the national security implications of international trade. The first argument, which can be traced back to Montesquieu, is that trade reduces interstate violence. This is the *doux commerce* (or “sweet commerce”) thesis familiar since the eighteenth century. The second argument is that trade increases international tensions by altering the balance of power between competing countries by allowing the quicker development of military rivals. The latter argument depends on the obvious proposition that economic development is evidently useful in military development because economic resources can be turned to military power.

The most articulate defense of the latter argument was made by John Maynard Keynes in his famous essay, “National Self-Sufficiency,” which argued for reducing international economic “entanglement” for the sake of peace. The ongoing relevance of Keynes’s warning seems clearer now, in the Trump era, than it did in the two decades before, when we built institutions based on a modernized version of the *doux commerce* thesis, adapted for the post-Cold War world. However, even a casual perusal of the international landscape today—not just in the United States—suggests the possible rehabilitation of long-standing Keynesian concerns about trade, global finance, and national security.

While Trump’s actual tariffs may be orthogonal to these deeper concerns, the fundamental question of the relationship between international trade and national security may have been usefully raised by the current fracas. How should—we order a world of global commerce driven by competing nations, some with outright military rivalries? A range of historical, empirical and normative inquiries follow for scholars of international law, history, and politics willing to take up this problem.

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25. See David Lawder and David Chance, *U.S. Defense Department Says Prefers Targeted Steel, Aluminum Tariffs*, Reuters (Feb. 22, 2018), https://www.reuters.com/article/us-usa-trade-steel/us-defense-department-says-prefers-targeted-steel-aluminum-tariffs-idUSKCN1G706A (summarizing contents of Department of Defense memo, in which Secretary Mattis stated that direct defense needs accounted for only about 3 percent of U.S. steel and aluminum production). Perhaps the best case that could be made for such an action would be a dynamic one to the effect that U.S. steel and aluminum production will realistically be reduced over time, given foreign competition, such that the military will one day be unable to meet its needs.


CONCLUSION: TRADE LAW SCHOLARSHIP AFTER TRUMP

At a moment of heated rhetoric and aggressive international posturing about trade, it can be easy to forget how highly globalized the world remains—and is likely to remain. And just as there will be trade and trade law after President Trump, so too will there be trade law scholarship. What form it takes will of course depend a great deal on how trade policy evolves in the final years of this administration and the next. In retrospect, it may prove tempting to attribute the present turmoil in the international trading system to political contingencies and a clash of outsized personalities. But I have argued in this essay that one benefit of the current turmoil is that it might help reorient trade law scholarship to take up basic and neglected issues: the relationship between international trade and economic inequality, between international trade and global finance, and between international trade and national security.