

The Rise of Protectionism Among American Politicians

By [Prof Rodrigue Tremblay](#)

Global Research, June 27, 2024

Region: [USA](#)

Theme: [Global Economy](#)

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“Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each... By increasing the general mass of productions, it diffuses general benefit, and binds together ... the universal society of nations throughout the civilized world.” —**David Ricardo** (1772-1823), British political economist, (in ‘*On the Principles of Political Economy and Taxation*’, 1817).

“Trade wars are good and easy to win”. —**Donald Trump** (1946-), 45th American president (2017-2021), (comment on Twitter (X), March 2, 2024).

[Donald] “Trump doesn’t get the basics. He thinks his tariffs are being paid by China. Any freshman Econ student could tell you that the American people are paying his tariffs.” —**Joe Biden** (1942-), American politician and 46th president of the United States (2021-), (statement made by then candidate Joe Biden, on Twitter, June 11, 2019).

“When every country turned to protect its own private interest, the world public interest went down the drain, and with it the private interests of all.” —**Charles Kindleberger** (1910-2003). American economic historian, (in his book ‘*The World Depression 1929-1939*’, 1973).

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Unpopular politicians in power are currently floating old economic ideas, which have proven in the past to be disastrous to their own economies and to the world economy.

Indeed, a leading cause of the [Great Depression](#) of 1929-1939 was the implementation of severe [protectionist trade policies](#) by industrial economies, which turned the financial crisis and subsequent economic recession of the early 1930's into a full-fledged economic

depression. For example, protectionist members of the U.S. Congress enacted the [Smoot-Hawley Act](#) of 1930 in June of that year.

That measure raised American import taxes by some 20 percent. The goal initially was to help American agricultural producers, but other industries requested the same protection from competition for their own products and asked that goods imported from other countries be heavily taxed.

That induced other industrial countries to retaliate by raising their own barriers to trade to protect their industries. They ended up adopting similar—what was called “beggar-thy-neighbor”—protectionist trade policies, thus contributing to unravelling the entire international network of world trade. For example, U.S. imports from and exports to Europe fell by some two-thirds between 1929 and 1932. World trade contracted and so also did the entire world economy.

In other words, governments of the time threw gasoline on the fire. They made the early financial and economic situation much worse by raising import barriers that led to severe contraction of worldwide economic activity. Could history repeat itself today?

Trade Wars Are Likely to Lead to Net Economic Losses for Every Country

[Trade wars](#) amount to imposing heavy taxes on imports of goods and services from other countries, which in the end are paid by domestic consumers and local companies. The latter need cheaper imported parts and raw materials to remain efficient and competitive in domestic and world markets. Such an economic process is profitable on a net basis for a national economy, because it leads to higher standards of living. It is the result of a profitable but complex process of [international division of labor](#).

Domestic and highly efficient exporting industries also suffer from such artificially increased costs of their imports and from retaliations by other countries to their exportations, and they see a decline in their productions, their employment and their earnings.

The issue of employment in the economy is important. High tariffs and other protectionist measures may artificially increase employment in a few particularly less competitive industries, but this is not the end of the story. Ripple effects can be expected in other industries, especially in the export sector of the economy.

For the United States, for example, the rising costs of imports through high import taxes, and from reprisals from other countries against American exports of goods and services, hurt production and employment in the most efficient domestic exporting industries. This is likely, for instance, to damage the comparative advantage that the U.S. has in producing and exporting technological products and other services.

Therefore, when world trade contracts and even collapses, the net effect of such trade wars has a good chance of being net negative for all economies and for workers in general, as [labor productivity](#) and the productivity of capital decline in the whole economy. A trade war is likely to end up hurting all economies on a net economic basis.

The Special Place of the U.S. Dollar in the International Monetary System

A major preoccupation nowadays comes from the fact that just as the 1930's saw the U.S. dollar replace the British pound, the place of the U.S. dollar in international affairs is contested. In July 1944, the [Bretton Woods conference](#) officially established the U.S. dollar along with gold as the foundation of the postwar international monetary system. From then on, the currencies of many countries were fixed to the U.S. dollar, the latter being the only currency convertible into gold at \$35 an ounce.

However, the international role of the dollar was substantially reinforced on August 15, 1971, when the Nixon administration unilaterally ended the official [international convertibility](#) between U.S. dollars and gold, thus making the American currency a completely fiat means of payment.

Today, for different reasons, attempts are being made by some important countries, the [BRICS countries](#), to replace the American dollar as the principal means of payments for international transactions. If such a process of [dedollarization](#) were to expand and succeed, important geopolitical, financial and economic tensions between countries could ensue.

The United States reaps important economic and financial benefits when other countries hold dollars in their central banks' reserves or use it as the main trading currency in their international trading and financial transactions. This amounts to zero or low-interest rate loans being made to the U.S. economy by other countries, thus generating an important so-called [seigniorage](#) gain for the USA.

Therefore, such an inflow of foreign capital into the U.S. economy, firstly, helps the American central bank, the Fed, to support the U.S. dollar in foreign exchange markets. Second, it helps finance the U.S. government fiscal deficits and American trade deficits. And, thirdly, it increases the liquidity and profitability of American money and financial markets. That is why some consider such advantages to be an immense privilege granted to the United States by countries that use the American dollar.

An Increasingly Protectionist Biden Administration

As a sign of the times, when candidate Joe Biden was running for office in 2020, he was a sharp critic of the Trump administration's imposed barriers on trade with China. However, once elected, he maintained the tariffs previously decided by Trump.

On Friday, May 14 of this year, President Biden went a step further. In the middle of his current presidential campaign, and having to prepare for a public debate on CNN, on Thursday, June 27, with his main opponent, Donald Trump, he announced the imposition of a series of new tariffs on several American imports from China.

The new [customs tariffs](#) range from 100 percent on imports of electric vehicles (EVs) to 25 percent for imports of electric vehicle parts. Tariffs of 50 percent will also be imposed on the import from China of solar modules or cells, as well as on imports of semiconductors. Tariffs of 25 percent will also be levied on steel and aluminum imports from the Asian country.

Such import taxes are likely to raise domestic prices of the targeted products and parts, generating more domestic inflation. These new taxes are also likely to hurt American

consumers and American-based industries, when the latter use imports as inputs in their own production.

In fact, the Biden administration is increasing jobs in some industries among the weakest, and situated in some key states important for his reelection, but in so doing, he risks destroying jobs in other industries among the most efficient, in other states.

Moreover, U.S. tariffs as high as 100% are bound to intensify the US-China trade war, since the expected Chinese reprisals will most likely lower American exports to China. One might wonder whether these new import taxes by the Biden administration are not more the result of a short-term partisan political calculation rather than the product of a well-thought-out industrial policy.

It remains also to be seen whether such a shift toward protectionism by the United States is compatible with the trading rules of the [World Trade Organization](#) and its 166 members.

A Likely Even More Protectionist Trump Administration

If former president Donald Trump is elected next November 5, it can be expected that his administration would pursue a very protectionist foreign trade policy.

Indeed, on Thursday, June 13, candidate Trump already told a group of Congressional Republicans that he was juggling with the idea of replacing U.S. federal income taxes [\$2,176 billion in fiscal year 2023] with [high import taxes](#) [U.S. imports in 2023: \$3,112 billion]. Since such a policy would drastically contract imports, it would necessitate very high import taxes.

During his first term (2017-2021), Republican president [Donald Trump](#) slapped steep tariffs on billions of dollars' worth of goods from neighboring countries Canada and Mexico, and also from the European Union (EU) and China. All countries have retaliated by imposing their own tariffs on imports of U.S. goods and services.

Likewise, during its first term, the Trump administration significantly amended the North American Free Trade Agreement (NAFTA), which came into force on January 1, 1994, between the United States, Mexico and Canada.

That historic trade treaty was replaced, at the insistence of Donald Trump and his protectionist advisers, by the [United States-Mexico-Canada Agreement](#) (USMCA), as revised in its ratified 2020 version, largely to the advantage of the United States. Additionally, it is important to point out that the 2020 USMCA treaty is subject to renegotiations every six years, and that it could expire after just 16 years, if not renewed (depending on the so-called clause extinction of 16 years).

Conclusion

If unilateral barriers to international trade were to keep increasing in the coming years, this could undermine the influence of the World Trade Organization (WTO), as the only organization designed to regulate and facilitate international trade.

Possibly the WTO, as an inter-state organization, could follow in the footsteps of the United Nations (UN) and become less able to prevent trade disruptions and trade wars. This could have disastrous economic and political consequences on the standards of living of people in

many parts of the world. Taken to the extreme, unbridled protectionism could push the global economy into an economic depression.

Indeed, repeated destructive wars, whether they are military or commercial, make the world economy less stable and less peaceful, and, ultimately, less prosperous for the large majority of people.

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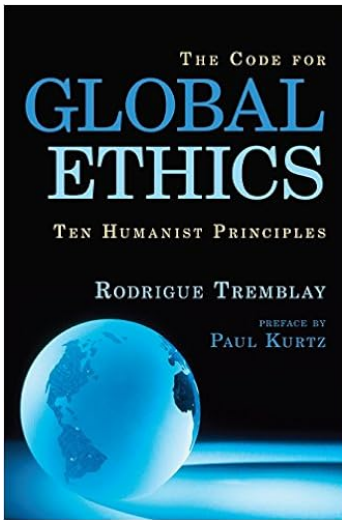
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This article was originally published on the author's blog site, Dr. Rodrigue Tremblay.

International economist Dr. Rodrigue Tremblay is the author of the book about morals "[The code for Global Ethics, Ten Humanist Principles](#)" of the book about geopolitics "[The New American Empire](#)", and the recent book, in French, "[La régression tranquille du Québec, 1980-2018](#)". He was Minister of Trade and Industry (1976-79) in the Lévesque government. He holds a Ph.D. in international finance from Stanford University. Please visit Dr Tremblay's site or email to a friend [here](#).

Prof. Rodrigue Tremblay is a Research Associate of the Centre for Research on Globalization (CRG).

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The Code for Global Ethics: Ten Humanist Principles

by [Rodrigue Tremblay](#), Preface by [Paul Kurtz](#)

Publisher: Prometheus (April 27, 2010)

Hardcover: 300 pages

ISBN-10: 1616141727

ISBN-13: 978-1616141721

Humanists have long contended that morality is a strictly human concern and should be independent of religious creeds and dogma. This principle was clearly articulated in the two Humanist Manifestos issued in the mid-twentieth century and in Humanist Manifesto 2000, which appeared at the beginning of the twenty-first century. Now this code for global ethics further elaborates ten humanist principles designed for a world community that is growing ever closer together. In the face of the obvious challenges to international stability—from nuclear proliferation, environmental degradation, economic turmoil, and reactionary and sometimes violent religious movements—a code based on the “natural dignity and inherent worth of all human beings” is needed more than ever. In separate chapters the author delves into the issues surrounding these ten humanist principles: preserving individual dignity and equality, respecting life and property, tolerance, sharing, preventing domination of others, eliminating superstition, conserving the natural environment, resolving differences cooperatively without resort to violence or war, political and economic democracy, and providing for universal education. This forward-looking, optimistic, and eminently reasonable discussion of humanist ideals makes an important contribution to laying the foundations for a just and peaceable global community.

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