

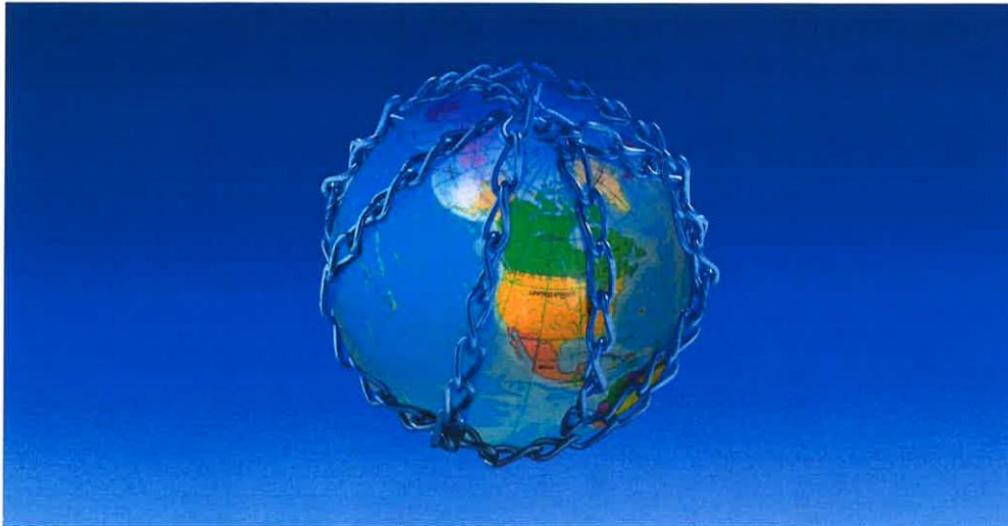
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Reaganomics Is on Its Last Legs

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Ideas

Joe Biden's new tariffs on Chinese goods mark the decisive rejection of an economic orthodoxy that dominated American policy making for nearly half a century.

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Illustration by Matteo Giuseppe Pani. Source: Getty.

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Democrats and Republicans don't agree on much, but for a long time, they agreed on this: the more free trade, the better. Now they agree on the opposite: Free trade has gone too far.

On Tuesday, President Joe Biden announced plans to impose steep new tariffs on certain products made in China, including a 100 percent tariff on electric cars. With that, he escalated a policy begun during the Trump administration, and marked the decisive rejection of an economic orthodoxy that had dominated American policy making for nearly half a century. The leaders of both major parties have now turned away from unfettered free trade, a fact that would have been unimaginable less than a decade ago.

Since the 1980s, American economic policy has largely been guided by the belief that allowing money and goods to flow with as little friction as possible would make everyone better off. So overwhelming was the agreement on this point that it became known, along with a few other free-market dogmas, as the "Washington Consensus." (You may know the Washington Consensus by its other names, including neoliberalism and Reaganomics.) According to this way of thinking, free trade wouldn't just make countries rich; it would also make the world more peaceful, as nations linked by a shared economic fate wouldn't dare wage war against one another. The world would become more democratic, too, as economic liberalization would lead to political freedom. That thinking guided the trade deals struck during the 1990s and 2000s, including the North American Free Trade Agreement in 1994 and the decision to allow China into the World Trade Organization in 2001.

A few voices on both the left and the right had long criticized these theories, but they were outside the mainstream. The first major rupture took place in 2016, when Donald Trump ascended to the presidency in part by railing against NAFTA and attacking America's leaders for shipping jobs overseas. The same year, a landmark paper was published showing that free trade with China had cost more than 1 million American manufacturing workers their jobs and plunged factory towns across the country into ruin—a phenomenon known as the "China shock." The coronavirus pandemic further undermined the Washington Consensus as the United States, after decades of letting manufacturing capacity move overseas, found itself almost entirely dependent on other countries for supplies as basic as face masks and as crucial as semiconductors.

Michael Schuman: China has gotten the trade war it deserves

These shifts strengthened the position of critics of globalization and laissez-faire capitalism. The Biden administration, stocked with Elizabeth Warren disciples, entered office eager to challenge the free-market consensus in certain areas, notably antitrust. But on trade, the administration's soul remained divided. In the early years of the Biden presidency, trade skeptics such as U.S. Trade Representative Katherine Tai frequently clashed with trade enthusiasts like Treasury Secretary Janet Yellen. Biden quietly kept in place the tariffs Trump had imposed on China (which Biden himself had denounced on the campaign trail), but he focused his economic agenda primarily on boosting the domestic clean-energy industry.

Then China's aggressive push into clean energy forced Biden's hand. As recently as 2019, China barely built electric vehicles, let alone exported them. Today it is the world's top producer of EVs, churning out millions of high-quality, super-cheap cars every year. An influx of Chinese EVs into the U.S. might seem like welcome news for an administration fighting to lower both inflation and emissions. But it could also devastate the American auto industry, destroying a vital source of well-paying jobs concentrated in key swing states. A glut of discounted solar panels and lithium-ion batteries, meanwhile—China currently produces the majority of the world's supply of each—would undermine emerging American industries before they could even be built.

To the administration, this presented a nightmare scenario. Already struggling parts of the country would experience a second China shock. The U.S. would become dependent on its biggest rival for some of the most important technologies in the world. Republicans would seize on the issue to win elections and potentially roll back the Biden administration's progress on climate change. (Trump has made the threat of Chinese EVs central to his 2024 campaign, talking about the "bloodbath" that would ensue if they were allowed into the country.)

Economics, political science, geopolitics, electoral math: Many of the administration's incentives seemed to point in the same direction. Which brings us to the tariffs imposed this week. In addition to the 100 percent EV duty, the U.S. will apply 25 to 50 percent tariffs to a handful of "strategic sectors," in the words of a White House fact sheet: solar cells, batteries, semiconductors, medical supplies, cranes, and certain steel and aluminum products.

A president announcing a new policy does not mean that the political consensus has shifted. The proof that we are living in a new era comes instead from the reaction in Washington. Congressional Democrats, many of whom vocally opposed Trump's tariffs, have been almost universally supportive of the increases, while Republicans have been largely silent about them. Rather than attacking the tariffs, Trump claimed credit for them, telling a crowd in New Jersey that "Biden finally listened to me," and declaring that he, Trump, would raise tariffs to 200 percent. Most of the criticism from either side of the aisle has come from those arguing that Biden either took too long to raise tariffs or didn't go far enough. What was recently considered beyond the pale is suddenly conventional wisdom.

The old Washington Consensus was built on the premise that if leaders got the economics right, then politics would follow. Cheap consumer goods would keep voters happy at home, trade ties between nations would destroy the incentive to wage war, and the desire to compete in global markets would encourage authoritarian regimes to liberalize. Reality has not been kind to those predictions. Free trade upended American politics, helping to elect a spiteful kleptocrat initially opposed by his own party. The immense wealth Russia amassed by selling oil and gas to Europe may have actually emboldened it to invade Ukraine. Access to global markets didn't stop China from doubling down on its authoritarian political model.

The new consensus on trade taps into a much older understanding of economics, sometimes referred to as "political economy." The basic idea is that economic policy can't just be a matter of numbers on a spreadsheet; it must take political realities into account. Free trade does bring broadly shared benefits, but it also inflicts extremely concentrated costs in the form of closed factories, lost livelihoods, and destroyed communities. A political-economic approach to free trade recognizes that those two forces aren't symmetrical: Concentrated economic loss can create the kind of simmering resentment that can be exploited by demagogues, as Trump long ago intuited. "Back in 2000, when cheap steel from China began to flood the market, U.S. steel towns across Pennsylvania and Ohio were hit hard," Biden said in his speech announcing the new policy, pointing out that nearly 20,000 steelworkers lost their jobs in those two states alone. "I'm not going to let that happen again."

Franklin Foer: Biden declares war on the cult of efficiency

A more cynical way to put this is that Biden's tariffs are a form of pandering to a bloc of swing-state voters. There's truth to that, but it isn't the whole story. The political-economic approach also acknowledges that foreign adversaries behave in ways that bear little



resemblance to the rational economic self-interest presupposed by mathematical models. They pursue their own geopolitical agendas, market forces be damned—and so America must do the same. China's dominance in clean-energy technologies is not a product of free markets at work; it was carefully engineered by Beijing, which for decades has poured trillions of dollars of state money into building up industries that it sees as vital to its national strength. To simply accept cheap Chinese exports under the banner of free trade would solidify that dominance, giving Beijing effective control over the energy system of the future.

The shift on trade is part of a broader realignment that Biden's national security adviser, Jake Sullivan, has aspirationally called the "new Washington consensus." What unites Biden's tariffs with the other core elements of his agenda, including massive investments in manufacturing and increased antitrust enforcement, is the notion that the American government should no longer passively defer to market forces; instead, it should shape markets to achieve politically and socially beneficial goals. This view has taken hold most thoroughly among Democrats, but it is making inroads among Republicans too—especially when it comes to trade.

The details of this new consensus, however, are still being worked out. Trump favors a blunt approach; he has proposed a 60 percent tariff on all Chinese goods and a 10 percent tariff on foreign goods from any country, including allies. Biden argues that Trump's plan would sharply raise prices for American consumers without much benefit. His administration instead favors what officials call a "small yard and high fence": major restrictions on a handful of essential technologies from particular countries.

These are the terms on which the debate is now being waged: not whether to restrict free trade, but where, how, and how much. That is a very big change from the world we were living in not long ago. The precise consequences of that change will take years to reveal themselves. But they're sure to be just as big.

