Books

Why the US-China Trade War is Unwise and Unwinnable

Economist and Nobel laureate Joseph E. Stiglitz explains the hidden weaknesses of the American economy.

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|
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Joseph E. Stiglitz, a University Professor at Columbia, former chief economist of the World Bank, and recipient of the 2001 Nobel Prize in economics, spoke to *Columbia Magazine* about the ideas in his latest book, *People, Power, and Profits: Progressive Capitalism for an Age of Discontent.*

In *People, Power, and Profits*, you say that America is at war with itself over globalization. What do you mean by that?

It is clear that people have very polarized views about globalization. Some see it as part of America's strength. They attribute to globalization much of the country's increase in standards of living and its global economic dominance in recent decades. Others blame globalization for many of America's problems, particularly because it has exposed domestic workers to increased foreign competition. So while the first group searches for ever wider new trade deals, the second seeks to renegotiate existing ones more in America's favor.

There is a grain of truth in some of the criticisms of globalization. The deals were largely shaped by corporate interests, the potential gains were exaggerated, and insufficient attention was paid to the impact on America's growing inequality. The response, however, should not be the kind of trade wars that Donald Trump is waging — there are likely to be no winners from those — but a better-managed globalization, including a better management of the economic and social consequences. Some countries have done a much better job than the US at helping their citizens transition to a more globally integrated economy. Sweden and Norway, for example, have instituted industrial policies that ensure that new jobs get created when old jobs disappear, and they've invested heavily in retraining programs for workers.

Yet most economists still argue that globalization, with its promotion of free trade and the easy movement of goods, money, and information, is the key to growth and prosperity.

It's true that international trade can contribute to economic growth by allowing greater efficiencies. But the real keys to growth and prosperity are education, scientific breakthroughs, and advances in our understanding of how to organize large groups of people so that they might cooperate better. Economies that are guided by the rule of law and democracies based on the separation of powers are

examples of profound achievements in social organization. The main reason standards of living are so much higher today than they were, say, 250 years ago is that we have built stable institutions that promote human creativity and enable people to live up to their potential. The real threat of our current political moment in the United States is the attack against truth and our truth-assessing institutions, against our universities, and against science more broadly.

You write that the US government should spend more on education, scientific research, and infrastructure.

One of the fundamental issues I raise in *People, Power, and Profits* is that we've lost the balance between the private sector, the public sector, and institutions that include not-for-profits, cooperatives, foundations, civil society, and universities. Scientific and technological advances are at the heart of economic success, and underlying these advances is basic research, almost all of which is supported by the government. We've underinvested in basic research as well as in education and infrastructure. All of this undermines future standards of living and American competitiveness.

We've seen a resurgence of economic nationalism lately, with President Trump and other world leaders enacting tariffs and other restrictive trade policies. What is at the root of this trend?

There are a number of factors involved, but surely one powerful force is that large segments of the populations of many advanced countries, including the US, have not done very well recently. While citizens at the top have seen their incomes soar, those in the middle have largely seen stagnation, and those at the bottom have fared even worse. A middle-class life seems to be growing out of reach for many families. Of course, we shouldn't allow our vision to be clouded by nostalgia. It is easy to look back on a glossy version of the past, skipping over the realities of widespread racial and gender discrimination. Besides, the arrow of time moves in one direction: we can't go back to the decades after World War II.



Joseph E. Stiglitz (Daniel Baud and Sydney Opera House)

Do you think tariffs have any role in today’s global economy?

Closing ourselves off from others through tariffs and other trade barriers will not provide the solutions that discontented people are looking for. It will not restore manufacturing jobs or coal-mining jobs. The trade war with China won’t even bring manufacturing back to the US: if tariffs placed on Chinese goods make them significantly more expensive here, corporations will simply move their factories to other developing countries. To the extent that any “onshoring” occurs, production may largely be robotized. The jobs created will require different skills than those possessed by the workers who have lost their jobs, and they will be located in different regions of the US. Countries that shut themselves off from trade also close themselves off to new ideas and resulting innovations.

The US–China tariff war will soon enter its third year. Can you put this dispute in context — why is it so thorny?

At the end of the Cold War, there was a hope that all countries would converge to be liberal democracies with free-market economies, and that in doing so everyone would prosper. Those hopes have now been dashed. Growth in many democracies has slowed, and the increase in wealth has been mainly at the top. Meanwhile, China's economy — a complex system combining markets with strong state intervention — has done very well. Some 750 million Chinese people have moved out of poverty, and incomes have risen more than tenfold since our engagement with China began, some fifty years ago. Back then, no one could have imagined that this country with a per capita annual income of around $150 would by 2015 have a larger GDP than that of the US when measured in the standard way economists make such comparisons, by considering the two populations' purchasing power in local contexts. American firms could not have conceived of Chinese firms as rivals. China was viewed as a gold mine — a vast market for American goods and a place where our firms could make large investments and get large returns. But in the intervening years, Chinese companies have increased in strength, wages have risen, and regulations have been tightened. So even many of the corporations that served as China's cheerleaders in the US have lost their enthusiasm.

Though it is wrong to view the world through a zero-sum lens, in which increased prosperity for China comes at the expense of the US, this is the lens through which Trump and many economic nationalists see our relations.

Of course, there are some things that China does that are contrary to our interests, just as there are some things we do that are contrary to China's. But some of the accusations thrown around have little merit. For instance, China has been accused of manipulating its currency, keeping its value low in order to export goods more easily, even though it has not been doing this for years. China has also been criticized for requiring foreign firms that invest there to enter joint ventures, and often to share their intellectual property, with local companies. But many economists think that this is a good developmental policy, because it helps a country like China close the gap in knowledge between it and more advanced countries.

The question facing both the US and China is how to find a way to reap some of the gains from trade while recognizing that, for the foreseeable future, there will remain large differences in our economic and political systems. We will pay a high price if we try to de-link our economies.

There seems to be a growing feeling within this administration that the US should handle trade disputes with other nations directly, rather than working through the World Trade Organization. Has the WTO lost its teeth? Or is the US guilty of self-aggrandizement?

The US played a pivotal role in creating the WTO, and now it is the principal country trying to undermine it. Just as the rule of law must underlie a well-functioning domestic economy, so too must it underlie commerce across borders. Any international trade system has to have a mechanism for adjudicating disputes, and the WTO appellate body has shown itself to be effective and fair. (The dean of Columbia's School of International and Public Affairs, Merit Janow '88LAW, has served as a WTO appellate judge.)

The Trump administration is attempting to erode the international rules-based trade regime by refusing to support the appointment of new WTO judges, by engaging in trade wars rather than turning to the WTO to resolve disputes, by focusing on bilateral agreements, and by refusing in its bilateral discussions to promise not to engage in discriminatory practices. When combined with the unilateral abrogation of the Iran nuclear agreement, the betrayal of long-term allies in Syria, and other such actions taken by the Trump administration, the US is looking even to many of its friends like a rogue country.

You write that the US economy is essentially broken. Some observers might find that assessment overly harsh, given America's relatively high GDP and strong stock market. What would they be missing?

There are many aspects of the US economy that are truly impressive. Over the years, it has given rise to many important innovations — from the transistor to the laser to the Internet — that benefit not only Americans but people around the world. But America's economic model today is not sustainable economically, socially, or environmentally. Large segments of our society have not been doing well. Our life expectancy is on the decline — remarkable for a country that is at the forefront of medical research. Our carbon emissions per capita are among the highest in the world. The US economy experienced a "sugar high" after the tax cuts of December 2017 and the corporate-expenditure increases of January 2018, but that was short-lived. Most forecasts see growth in 2020 at well below 2 percent — even though we are likely to be running a $1 trillion deficit.

Would government regulation solve any of these problems?

We need to have more regulation to prevent another financial crisis of the kind we had in 2008, to stave off climate change's devastating effects, and to ensure that our economy remains dynamic and that our corporations don't exploit people — think of the opioid crisis, the epidemic of childhood obesity and diabetes, and Volkswagen's "dieselgate." Large parts of the US economy are now dominated by just a few firms, so government regulation is required to ensure that corporations act ethically and that capitalism works as intended and competition thrives.

You've railed against laissez-faire economics as overly simplistic and short-sighted. Why do so many Americans still consider low taxes and unregulated markets essential for economic growth?

We've had four decades of propaganda saying as much. But the promises of supply-side economics were never realized. Inequality grew, growth slowed, large parts of the country faced stagnation or worse, and life expectancy, as I observed earlier, is now in decline. I wrote my new book partly to disabuse people of this persistent myth. We've had four decades of this experiment in country after country, and in country after country it has failed. It's time to recognize this and to look for another economic model.

You advocate for "progressive capitalism." What does that mean?

I use the term first to emphasize the importance of progress — to say that change *is* possible, that we can have higher standards of living and a more enlightened society, with, for example, greater equality and respect for human rights. But we need a new social contract, one that achieves a better balance between the market and government. I say "capitalism" to remind us that the market — better regulated and better governed — will have to be an important part of this new social contract.

People have called you an idealist. Has your optimism been shaken?

What's happened in the last couple of years is enough to shake anyone's optimism. Still, I am constantly heartened by the grassroots movements across the country, and especially by our students, who know that another world is possible and who seem determined to fight for it.

This article appears in the Winter 2019-20 edition of Columbia Magazine *with the title "Rethinking Globalization."*

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