

Trade: It's about class, not country

By Dean Baker

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There is a fundamental flaw in the way that both Donald Trump and his critics generally talk about trade. They make it an issue of country versus country, raising the question of whether China, Canada and other trading partners are treating the United States fairly as a country.

Trump of course does this more explicitly with his “America First” rhetoric and complaints about other countries cheating us because they run trade surpluses, but his critics also often use similar language. After all, it is common for the adults in the room to make assertions about China’s theft of “our” intellectual property.

Have you had any intellectual property stolen by China?

The economist and policy types who have been pushing the trade agenda of the last four decades often make assertions like “everyone gains from trade.” This is what is known in the economics profession as a “lie.”

No models show that everyone gains from trade. Standard models show that some groups are benefitted by trade and others are hurt. The usual story is that the winners gain more than the losers lose.

This means in principle that the winners can compensate the losers so that everyone is better off. In the real world, this compensation never takes place, so when we talk about trade we’re talking about a policy that redistributes from some groups to others.

Our trade policy over the last four decades has been quite explicitly designed to redistribute income upward. This was the point of deals like NAFTA, or admitting China to the WTO.

These deals were about putting US manufacturing workers in direct competition

with much-lower-paid workers in the developing world. The expected and actual effect of these policies is to reduce employment in manufacturing. This also put downward pressure on the wages of the manufacturing workers who kept their jobs, as well as on the wages of less-educated workers more generally, since manufacturing has historically been a source of relatively high-paying employment for workers without college degrees.

This is not a story of free trade. Our trade deals did little or nothing to make it easier for highly educated professionals to work in the United States. As a result, our doctors earn on average roughly twice as much as doctors in other wealthy countries, even as our manufacturing workers earn considerably less than their counterparts in Germany and several other countries.

In the last decade, China began running huge trade surpluses with the United States in large part because it deliberately held down the value of its currency. This has the effect of making China’s exports more competitive in the world economy.

China is still holding down the value of its currency. As the CIA World Factbook tells readers: “because China’s exchange rate is determined by fiat rather than by market forces, the official exchange rate measure of GDP is not an accurate measure of China’s output; GDP at the official exchange rate substantially understates the actual level of China’s output vis-a-vis the rest of the world.”

In other words, China is still holding down the value of its currency, according to the assessment of the CIA World Factbook.

But contrary to Trumpian rhetoric, the resulting trade deficit doesn’t mean China wins

and the United States as a whole loses. Companies like GE that have manufacturing facilities in China are very happy to have China keep down its production costs.

The same is true of big retailers like Walmart that are able to undercut competition with their low-cost supply chains in China. Higher-paid professionals who are largely protected from foreign competition also benefit, since they get access to cheaper imports without having to lose anything on the wage side.

Trump could have tried to at least partially reverse the upward redistribution from the US trade deficit if he had followed through on his campaign promise to put China's currency management (he calls it "manipulation") front and center in his trade policy. Instead, currency management appears nowhere in his vague and ever shifting complaints against China. Perhaps the beneficiaries from the overvalued dollar put enough pressure on Trump to drop one of his main campaign issues.

Instead, we have been treated with endless stories from news outlets where commentators express concern that Trump may not be sufficiently focused on the question of China

"stealing" technology from US corporations. This is again where it is essential to remember it is class, not country, that matters here.

If Chinese corporations use technology developed by Boeing, Microsoft, or other US giants, this is bad news for their stockholders, but it doesn't directly harm the rest of us. In fact, if the Chinese corporations can then produce the same products at a lower price and then export them to the United States, this would be a gain for non-stockholders. This is the classic argument for free trade.

In fact, if China has to pay less money to companies for patents and copyrights, it will have more money to buy other goods and services from the United States. Supposedly, economists are worried about inequality in the United States. If China doesn't honor our patents and copyrights, it will be a step toward addressing this problem.

The long and short is that when Trump or anyone else tries to argue about the US interest in a particular trade policy, we'd better look more closely. They are trying to conceal who is really winning, and losing.