



Trump, Trade and US Working Class Discontent

Par [Jack Rasmus](#)

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With the Republican and Democrat party conventions in progress or upcoming, it has now become clear that the 2016 USA presidential election is unlike preceding elections in recent decades. Large percentages of those who consider themselves members of either party do not approve of their presidential candidates, for one thing. That includes more than a third of both Republican and Democrat voters. For another, both candidates have assumed positions on issues that in previous elections would have been considered anathema to the dominant ruling economic and political elites. For example, both candidates have been highly critical of US trade and free trade policies—especially Trump.

Trump's more vehement criticism of US trade policies in particular has US elites concerned, to put it lightly. Almost hysterical might more accurately express their emotional state when the subject of Trump and trade is raised.

US Elites Nervous About Trump & Trade

For example, the president of the biggest and most influential US business lobbying group, the Business Roundtable's John Engler, a former governor of Michigan, in a recent interview stated "There's a great sense of frustration here". Trump's views on trade are "diametrically opposite" and a "cause for great concern" to the Roundtable, whose corporate members collectively represent more than \$7 trillion in annual revenues and employ 16 million workers. "Everything has been upended", according to Engler.

Chicago billionaire, Penny Pritzker, current US Commerce Secretary, has voiced similar concerns, as has Obama—i.e. Pritzker's protégé since his early days in the Illinois state legislature. While Obama the candidate in 2008 promised to rewrite the NAFTA free trade treaty if elected, as soon as he was elected he morphed into the biggest presidential advocate of free trade in US history—thus coming around to the view of Pritzker's Chicago corporate clan of free traders. Most politically well-connected economists, and media mouthpieces in and out of academia—like Paul Krugman, Thomas Friedman, and a host of others—all defend free trade and therefore have joined the growing army of pundits attacking Trump's positions on the subject. Christine Lagarde, director of the Washington-based and US dominated International Monetary Fund, IMF, has chimed in recently as well, labeling Trump's trade proposals "disastrous" for the world economy. The presidents of the NAFTA economies—the USA, Canada, and Mexico—recently met in their 'three amigos' NAFTA summit in Ottawa, Canada recently and jointly reaffirmed their elites' view of the benefits of free trade, and the dangers of 'Trump-like' trade protectionism.

According to the academic theory of free trade all countries involved benefit from trade. But

do they? Free trade theory says nothing of how the benefits get distributed and to whom—i.e. to corporations, investors, and shareholders or to wage earners. If corporations and investors benefit on both ends of the trade exchange, the same is not necessarily so their respective working classes. Free trade theory conveniently ignores income distribution effects. However, that doesn't deter mainstream economists treating it like a 'holy grail' of neoliberal economics nonetheless.

Trade and Working Class Incomes

The record of US free trade policies for working and middle class America reveals devastation, not benefit. For example, total US employment since NAFTA and China trade the past two decades has witnessed a loss of more than 6 million US manufacturing jobs. Perhaps as many as two thirds of which have been due to free trade alone, according to studies. Additional millions of jobs have been lost in communications, professional services, and other non-manufacturing industries. For the jobs that remain, moreover, wages in US companies that export more have risen less than wages have fallen in companies harmed by the rise in imports. The net result is that both jobs and wages—and therefore median working class incomes—are both negative. And that's due to direct export-import effects. There's more.

Free trade is also about money and investment flows, as well as goods and services net export-import flows. Read the provisions of NAFTA. It's as much about terms and conditions for US corporations ease of US money investing into Mexico as about goods and services. With free trade enabled money and investment outflows from the US have come US investment offshoring and consequent US job offshoring. Job offshoring is thus an indirect, and no less significant, consequence of free trade. In the past 15 years, US households' median wages and incomes have declined by more than 10%—much of that due to the above free trade direct and indirect job and wage effects.

In the past two decades, and especially since 2009, US workers have become more informed and conscious of the negative impact of trade on their jobs, incomes, and living standards. They see the wealthiest 1% of household take 95% of all the net income gains since 2010, while their wages and incomes decline. They see high paying manufacturing jobs disappear to other countries, while more than half of the jobs that have been created in the US since 2010 have been low paying, part time, temp jobs averaging less than \$36k a year. And they sense even less opportunity for their children. Recent reports project that more than 90% of new jobs created in the next decade will earn about the same \$36k a year. Due to all this, they are, legitimately, pissed off.

Trump has identified and played to this discontent. That Trump is popular and leading in polls in states with a high concentration of white, middle age and up, male, non-college educated working class voters is not surprising, given his aggressive criticism of US trade policies and their devastating effects. Trump has embraced the trade issue in no uncertain terms, and his attack on US trade policies have resonated deeply with this working class segment—i.e. a voting bloc in key swing states and a group that cares little what Trump says on other non-economic issues, however outrageous, whether on race, ethnic, gender, foreign policy, or other subjects. Trump speaks to their 'rage' at being ignored by US political and economic elites now for decades, and especially since the 2008-09 recession, the recovery from which has mostly passed them by, as well as to their fears for future prospects for their children. The more that US economic elites, in whichever party, attack Trump the more this working class bloc is convinced he, Trump, must be for real because

they're attacking him.

Donald Trump: Populist or Panderer

The important question, however, is whether Trump is honestly serious about changing US free trade policies, or whether he is just cleverly pandering to the discontent of this bloc of working class voters. He has called for 'tearing up' the NAFTA treaty; imposing tariffs on imports from China and Mexico of 45% and 35% respectively; stopping China from manipulating its currency; and building a fence to stop immigration flows from central and Latin America.

But he won't say what he means by 'tearing up', which therefore appears more a rhetorical appeal than a proposal. If he means it literally, treaties cannot be 'torn up' by Presidents in the US system. That's potentially grounds for impeachment. Nor has any president legal authority to unilaterally raise tariffs, except temporarily for 150 days and no more than 15%, after which Congressional legislation is required, according to the 1974 trade act. Nor is Trump correct that China is a currency manipulator, since for more than a decade now China has pegged its currency, the Yuan to the dollar in a narrow trading band. Its Yuan has risen and fallen in synch with the US dollar. If any countries are currency manipulators, they are Japan and the Eurozone—both having made their currencies more competitive by 20%-30% to the dollar by monetary means in recent years in order to gain exports at US expense. But one hears nothing from Trump (or US elites) complaining about Japan or Europe currency manipulation. And Trump has said nothing about changing US tax policies that subsidize US multinational corporations offshore investing and therefore promote job offshoring. And he conveniently ignores the impact of hundreds thousands of high paying tech jobs being given every year to tech workers imported to the US on H1-B and L-1 visas, most of whom come from Asia and not Latin America. Asian tech workers take high paying jobs Americans want; Latin American immigrants mostly assume ultra-low pay service jobs that US workers generally don't want. Does Trump maybe want to build a wall along California beaches and pacific coastline as well?

Certainly Trump and his advisers know all this. One can only conclude, therefore, that Trump is not really serious about attacking free trade. He is pandering to those with a legitimate and serious real concern who have been deeply harmed by US trade policies. Trump is in that great US presidential candidate tradition, promising voters what they want to hear and then, if elected, doing whatever the economic elites want them to do. US presidential candidates, of either wing—Republican and Democrat—of the Corporate Party of America, are habitual liars and cannot be trusted. We had our pseudo-populist from the 'left', Barack Obama, elected eight years ago promising to reform free trade treaties. And he became the biggest free trade advocate in US economic history. In Trump, we have our Obama analog, a pseudo-populist this time from the 'right', promising the same. And who then will do the same. To paraphrase an ancient saying, US voters now considering voting for Trump based on his anti-trade views would do well to 'Beware of Billionaires Bearing Gifts'.

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