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Currency manipulation and manufacturing job loss

Why negotiating “great trade deals” is not the answer

By Robert E. Scott • July 21, 2016

Donald Trump's recent speech in Pennsylvania about globalization and U.S. trade policy cited my research nearly 20 times. As a result, people have asked me if I agree with his trade policy prescriptions. The simple answer is no. There are particular issues that we agree on—such as the need to reject the Trans-Pacific Partnership (TPP). As I explain in a recent report (Scott 2016b), the TPP would cost jobs and drive down wages for most U.S. workers. But Trump's claim, in that speech, that "the negotiation of great trade deals is the quickest way to bring our jobs back" is just wrong.

In his speech, the text of which was posted by Politico (2016), Trump says that he would "appoint the toughest and smartest trade negotiators to fight on behalf of American workers," and immediately renegotiate the North American Free Trade Agreement (NAFTA). Like many of Trump's statements and plans, this reflects a terrible mix of ignorance and hubris. First, it misses the simple truth—that the entire process by which we negotiate trade deals has been fundamentally captured by corporate interests. The idea that a billionaire who promises to cut taxes and regulations on corporations would negotiate better bargains for American workers is simply absurd. Second, and much more important, it misses the broader truth about what—beyond the recent recession—is causing our job losses. Over the past two decades, currency manipulation by about 20 countries, led by China, has inflated U.S. trade deficits, which (in combination with the lingering effects of the Great Recession) is largely responsible for the loss of more than five million U.S. manufacturing jobs. While Trump's plan acknowledges the problem of currency manipulation, his plan for dealing with it—imposing tariffs on Chinese goods—would not work, and reveals a lack of understanding of how currency manipulation hurts U.S. workers and what to do about it.

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Relying on better negotiators to deliver more and better trade deals is not the answer

One of Trump's themes is that he can force other countries to give us better terms on trade deals because he is a tough negotiator. For example, in the Pennsylvania speech he said, "I intend to immediately renegotiate … the NAFTA agreement." If he doesn't get what he wants, he will withdraw from the deal, he says.

Even his policy toward China is based on negotiating better deals. As his campaign website says, "The most important component of our China policy is leadership and strength at the negotiating table." (Trump-Pence 2016).

He clearly has a point that our trade deals have been bad for American workers. And these deals have little to nothing to do with "free trade." Instead, NAFTA and other recent trade and investment deals such as the U.S.-Korea Free Trade Agreement and the TPP are designed to create a separate, global set of rules to protect foreign investors and encourage the outsourcing of production from the United States to other countries. These deals contain 30 or more chapters providing special protections for foreign investors; extending patents and copyrights (enriching the wealthy); privatizing markets for public services such as education, health, and public utilities; and "harmonizing" regulations in ways that limit or prevent governments from protecting the public health or environment. These rules are all enforced by special "dispute resolution panels," private arbitrators that transfer sovereignty from domestic courts to "independent" international lawyers (who work for multinational corporations [MNCs] one day and decide cases the next—so much for "unbiased" law). They do much more than cut tariffs or promote "trade." They promote outsourcing and shift the balance of power from workers to investors based in the United States and other countries.

Trump is also correct that the system for creating such deals is fundamentally corrupt. Government negotiators (trade lawyers who often have their own deregulatory agendas) are, by law, advised by committees composed of hundreds of representatives of MNCs who, in essence, dictate the terms of these agreements. The process is fundamentally flawed.

But we can't just wave a wand and undo NAFTA, and slapping tariffs on Mexican imports[1] (for no particularly good reason) will not solve any problems for American workers. Our economy is tightly integrated with that of Mexico and Canada. Any job-creating force from increased domestic production following the imposition of tariffs on Mexican imports would be strongly muffled by job-displacing effects of higher-priced U.S. goods—including parts used to produce other U.S. goods for export (thereby hurting U.S. exports).

And we can't expect that Trump could wade into this system and direct it to work for American workers. His party and the business interests they represent have been the chief proponents in the passage of these destructive trade deals. Two-thirds of the votes

needed to pass NAFTA in 1993 were provided by members of Trump's own Republican Party. In fact, NAFTA was Ronald Reagan's idea, and was first introduced and negotiated by President George H. W. Bush. More recently, 85 percent of Democrats in the House and 70 percent in the Senate opposed giving the president Fast Track authority for the TPP and other trade deals, while 87 percent of Senate Republicans gave final approval to the Fast Track bill (*New York Times* 2015). It was Republicans in Congress who helped these trade deals go forward. And it was Republican leaders who blocked legislation that would have given the Commerce Department tools to tackle the currency manipulation that is behind the loss of jobs to exporting nations that break the rules.

Because his calls for negotiating our way to better policy reflect so little understanding about this history and process, Trump would make little headway against our faulty, ingrained trading system until he recognizes that his party and the business interests they represent have been the chief proponents in the passage of these destructive trade deals.

Envisioning a corporate mogul as the savior is a joke because it radically understates how deep-rooted the capture of the whole process is by corporate interests, and also because the solutions Trump himself has put forward reflect no understanding of what a smart trade regime would look like. Instead of relying on negotiators to save us from a corrupt system of trade agreements, we should instead call a halt to the negotiation of all new international trade and investment deals. Meanwhile, instead of vague promises about "better" trade deals, we need a trade policy that addresses the fundamental causes of growing trade deficits—deficits that are causing our trade-related job losses and depressing the wages of most working Americans.

We need a trade agenda that addresses root causes

The core problem with Trump's trade agenda is that it is not based on a coherent analysis of why globalization and trade and investment deals have hurt U.S. workers, and what should be done about it. Globalization and trade and investment deals have opened up trade with countries that engage in currency manipulation and other unfair trade practices to make their goods less expensive and undercut the competitiveness of U.S. products. While I touch on unfair trade later in this paper, the focus is on currency manipulation, because I believe it is the least understood and most important cause of manufacturing job losses.

Currency manipulation acts like an artificial subsidy to the host country's exports (making their goods artificially less expensive) and as a tax on all U.S. exports, which undercuts the competitiveness of U.S. products, especially manufactured goods (which make up 70 percent of all U.S. goods exports [USITC 2016]). As a result, the growth of trade deficits since the late 1990s has eliminated millions of U.S. manufacturing jobs. Manufacturing provides good jobs with excellent benefits, especially for workers without a college degree. As unemployed manufacturing workers seek employment elsewhere, they are

competing for the remaining jobs available to U.S. workers without a college degree, bringing down wages for all such workers.

Thus in my view, the decline of U.S. manufacturing and its ripple effects throughout the economy can be traced directly to currency manipulation and misalignment, with other forms of unfair trade and low levels of public investment in manufacturing and infrastructure adding to the losses. Our trade and manufacturing strategy must be designed to address these root causes. While Trump recognizes that currency manipulation and unfair trade are hurting manufacturing, he fails to present a coherent plan for addressing these causes of the decline of U.S. manufacturing. His favorite trade policy tool, which he seemingly randomly threatens to wield, is raising tariffs. As enumerated on his website, one of his core trade proposals is to confront China with "tough countervailing duties," i.e., tariffs. (Trump-Pence 2016). Moody's reported that Trump's plan would impose 45 percent duties (tariffs) on goods shipped from China (Gimein 2016). But tariffs are a poor substitute for much-needed currency realignment. Tariffs make other countries' goods more expensive in the United States but do nothing to make U.S. goods less expensive in those countries. While tariffs, or the threat of tariffs, have been used in the past to persuade countries to revalue their currencies, financial markets are now so massive that direct intervention by the U.S. Treasury and other governments is the only tool that can reliably address the fundamental causes of currency misalignment—excess demand for U.S. dollars by foreign central banks and private investors (Scott 2009).

How to end currency manipulation and currency misalignment

Currency manipulators are countries that run large, persistent trade surpluses with the world, and that have intervened significantly in currency markets, or taken equivalent steps, to lower the value of their currencies to levels that support those trade surpluses. Governments manipulate currency by buying up foreign assets denominated in the currencies of other countries (such as U.S. Treasuries) and other assets to increase demand for the other countries' currency (for example, the dollar) relative to their currency. This process has had a bigger impact on the United States than on any other trading nation. By making the dollar more expensive, such manipulation makes U.S. goods more expensive and competing countries' products cheaper. Currency misalignment occurs when private investors (not the government) buy up Treasuries and other assets. The U.S. government and officials from the International Monetary Fund and other international agencies are at least partly to blame for the massive private capital outflows from China. They have been telling China for years that it should liberalize its capital markets, but China's domestic capital market is not adequately developed to handle the massive stocks of private capital that private savers have accumulated in private bank accounts.[2] When financial markets are liberalized under these conditions, massive capital outflows are the natural results. Thus, misalignment is tantamount to manipulation when the host

government (namely in China, and to some extent, in Japan), create the conditions for private purchases of these assets.

The most significant cause of growing U.S. trade deficits is currency manipulation and misalignment by China and about 20 other countries, primarily in Asia. These countries' governments have purchased trillions of dollars of foreign assets over the past 15 years, which has bid up the price of the U.S. dollar. This inflated dollar value has increased the price of U.S. exports in every country where we compete with currency manipulators, and it acts like a subsidy to all our competitors' exports. Growing U.S. trade deficits are largely responsible for the loss of 5 million manufacturing jobs in the United States between January 2000 and December 2014 (Scott 2014, 2015c).

As alluded to above, recently (in the past two years), private capital flows, especially from China, but also from Europe and other countries, have added to our currency woes, driving up the real value of the U.S. dollar by an additional 15 percent. This is likely to increase U.S. trade deficits and manufacturing job losses in the future. Overall, three countries currently or soon will run large trade surpluses with the world: China, Japan, and Germany. While the corresponding trade deficits are spread around the world and hit hard on other European countries, and many developing nations, the largest share of the losses has been absorbed by the United States.

Excess demand for dollars has driven up the value of the U.S. dollar to unsustainably high levels. A sustainable level for the dollar is one that would support roughly balanced trade for the United States (i.e., we would be running neither a trade surplus nor deficit). This balance would cause substantial growth in the demand for U.S. manufacturing products, since most traded goods are produced by manufacturing industries. Recent calculations show that the U.S. dollar must fall by 25 to 30 percent overall, and by substantially more against the currencies of China, Japan, and Germany (Bergsten 2016). By the same token, needed currency realignment can be estimated by calculating how much each currency must rise to produce balanced trade for the United States.

Over the past 10 years, there have been numerous attempts in Congress to enact policies to end currency manipulation, which is illegal under the rules of the International Monetary Fund and the World Trade Organization (though these rules have never been enforced). Proposed actions against currency manipulation have included efforts to include "enforceable restrictions" on currency manipulation in the TPP. But the TPP does not include such rules (which, given the stakes of this issue is reason enough to oppose the entire deal). There have also been calls for the Treasury and the president to do more to name and penalize currency manipulators, under rules established in the Trade Act of 1988. These rules were strengthened under the Bennet Amendment to the Customs bill, passed this year, but at best, these changes will only improve the process by which Treasury monitors currency manipulation.[3] New tools are needed to realign the dollar.

The most effective tools available are those that would directly intervene in currency markets. Several economists have recommended ways to do this. Fred Bergsten and Joe Gagnon of the Peterson Institute for International Economics have proposed that the United States and other deficit countries engage in countervailing currency intervention

(CCI) by buying up large amounts of foreign assets denominated in the currencies of the surplus countries (Bergsten and Gagnon 2012). John Hansen (2016), another distinguished economist, has proposed the imposition of an adjustable “market access charge,” a tax or fee on all capital inflows that would reduce the demand for dollar-denominated assets and hence the value of the currency. By revaluing the currencies of surplus countries, the U.S. trade deficit could be reduced by between $200 billion and $500 billion dollars, raising demand for U.S. exports (which are dominated by manufactured goods). (Rebalancing the dollar would also help exports in the services and agriculture sectors.)

While authority for engaging in both CCI and for implementing market access charges could be vested in either the Department of the Treasury or the Federal Reserve (the Fed), there are persuasive arguments for having the Fed execute these policies. First, the Fed is independent of both the executive and legislative branches of Congress (unless Congress and the president were to agree to restrict its authority). So, these policies could be implemented free of “political Interference.“ Second, the Humphrey-Hawkins bill of 1978, which is most famously known as the source of the Fed’s “dual mandate“ to minimize both inflation and unemployment (Steelman 2013), also charges the Fed with responsibility for “achievement of an improved trade balance“ and “balanced growth“ (Full Employment and Balanced Growth Act of 1978). Thus, the Fed has legal responsibility for improving the U.S. balance of trade.

Bergsten (2016) projects evolving global trade surpluses in 2020 for three major regions: The euro area (mainly Germany), China, and Japan. He estimates that if all three are required to achieve current account balances (the broadest measure of each country’s/region’s global trade in goods, services, and income), the currencies of each would have to rise by between 37 percent for China to 50 percent for Japan, vis-à-vis the U.S. dollar. Because all would rise together, this implies a much smaller “trade weighted” average revaluation for each of these countries ranging from 10 percent for China to 22.6 percent for Japan, and a concomitant 26.5 percent depreciation of the U.S. dollar, which would reduce U.S. trade deficits by between $200 billion and $500 billion.

Why tariffs alone won’t work

Tariffs or the threat of tariffs have been used by the United States to persuade surplus countries to revalue their currencies on several occasions in the past (Scott 2009). In August 1971, Nixon, in response to a foreign exchange crisis, imposed an import surcharge in order to persuade Japan, Germany, and several other large European trading partners to revalue. They reached an agreement on a revaluation plan and the tariffs were lifted by December 1971. In 1985, both houses of Congress passed laws that would have imposed high tariffs on imports from these same countries due to the rapid growth of U.S. goods trade deficits. The law was vetoed by President Reagan, but finance ministers from these countries reached out to U.S. Treasury Secretary James Baker and they negotiated the Plaza Accord to devalue the U.S. dollar. Tariffs were never imposed. But as noted earlier, while tariffs, or the threat of tariffs, have been used in the past to persuade countries to revalue their currencies, financial markets are now so massive that direct intervention by

the U.S. Treasury and other governments is the only tool that can reliably address the excess demand for U.S. dollars by foreign central banks and private investors (Scott 2009).

And the tariff proposed for Mexico is seemingly random. Mexico has run large, global trade deficits for many years. It is not, therefore, a currency manipulator, under the criteria outlined above. However, the rules established under NAFTA have encouraged MNCs from around the world to outsource production to Mexico, for export to the United States. Therefore, the United States has developed large trade deficits with Mexico and the result is the cumulative loss of nearly 700,000 U.S. jobs in 2010 (Scott 2011). One of the key problems with NAFTA is that the United States and Canada did not follow through on commitments to help Mexico develop. Hence, that country experienced wage stagnation and failed to develop the sizeable middle class needed to support projected demand for U.S. exports that would have supported balanced trade with this country. As a result, NAFTA was lose-lose for workers in both Mexico and the United States.

Imposing tariffs alone would only succeed in raising the cost of goods that the United States imports. Any net new job creation in import-competing industries would be extremely limited because of the negative effect of tariffs on prices and output in the domestic economy. Tariffs raise the cost of imported goods, per unit, so even if demand falls, consumers will have little or no “extra” income to spend on domestic substitutes.[4] The point of realigning (lowering the value of) the U.S. dollar is that it would reduce the cost of U.S. exports on international markets, while also raising the cost of imports. Thus, production of U.S. goods for export would be stimulated (as would production of import-competing products). Currency revaluation works on both sides of the trade equation, which is why it can have such a powerful effect on the demand for domestically produced goods. Most U.S. exports are manufactured products, so realignment of the dollar would have its largest effects on manufacturing industries. This is why it is important to realign the dollar by either purchasing assets denominated in the currencies of countries engaged in manipulation (such as Chinese government bonds) or imposing an adjustable fee on capital inflows into the United States.

Ending unfair trade

Another major cause of U.S. trade deficits and job losses is other forms of unfair trade by China, South Korea, and other countries. These policies include dumping, subsidies, illegal restrictions on exports, and the use of state-owned enterprise to capture and control domestic and foreign industries. China, in particular, has used these policies to develop massive excess capacity in a range of basic and advanced industries such as steel, aluminum, glass, paper, solar cells, and auto parts (Fan 2015). Excess capacity means that production facilities have the capacity to produce much more steel and other goods than the domestic market demands. High fixed costs, capital intensity, and the large scale of production encourages state-backed producers with excess capacity to maintain production in excess of domestic demand, and export the surplus at below-market rates. The glut of exports from global excess supply is targeted in particular at the U.S. market. The last major reform of U.S. rules against unfair trade was adopted in 1988, nearly three

decades ago. China was not a significant exporter at that time, nor was it a significant trading partner with the United States. The U.S. system for defining and enforcing unfair trade is in urgent need of reform, but Congress and the president have failed to address this critical aspect of trade policy (Stewart et al. 2014).

Rebuilding manufacturing

Currency manipulation and unfair trade are important because they have decimated employment in U.S. manufacturing industries. As of 2013, the United States had lost over 5.3 million manufacturing jobs since April 1998, nearly one-third of U.S. manufacturing employment (BLS 2016).[5] Meanwhile, over 80,000 manufacturing establishments disappeared between 1998 and 2013 alone (U.S. Census Bureau 2016). Rebuilding manufacturing is important for a number of reasons. First, manufacturing provides good jobs with better wages and benefits for workers without a college education, who make up nearly two-thirds of the domestic labor force. As of September 2015, average total compensation in manufacturing was nearly $8 more per hour (27.2 percent higher) than in the (mostly service) industries that have gained jobs since the beginning of the Great Recession (Scott 2016a).

In addition, manufacturing has an important footprint in the private economy. Although manufacturing was only responsible for 8.8 percent of total U.S. employment in 2014, and 12.1 percent of total gross domestic product (BLS 2016), the manufacturing footprint in the domestic economy is much larger (Scott 2015b). Manufacturing is a huge buyer of commodities and services from elsewhere in the economy. It generated $6.2 billion in gross output (net sales) in 2014, more than one-third (35.6 percent) of U.S. GDP in that year (BEA 2016). Manufacturing supported approximately 17.4 million indirect jobs, in addition to the 12.2 million people directly employed in that year, for a total of 29.6 million jobs directly and indirectly supported, more than one-fifth (21.3 percent) of total U.S. employment in 2014 (BLS 2016).

Manufacturing is also responsible for roughly two-thirds, or $208 billion, of all U.S. business research and development (as of 2012). Because of the high levels of R&D spending, and because of its capital intensity, manufacturing tends to have high rates of productivity growth. Multifactor labor productivity growth in manufacturing averaged 3.3 percent per year between 1997 and 2012. This was nearly one-third greater than in the private, nonfarm economy as a whole. Lastly, manufacturing led the way on trade with total exports of $1.4 trillion in manufacturing goods—60.6 percent of all U.S. goods and services exported in 2013 (Scott 2015b).

Trump was wrong when he claimed that eliminating the U.S. trade deficit would “Make America Wealthy Again.” As Krugman (2016) rightly notes, “America is going to be a service economy for the foreseeable future. If we want to be a middle-class nation, we need policies that give service-sector workers the essentials of middle class life.” This includes guaranteed health insurance, the right to organize and bargain for better wages, and adequate support for Social Security, all programs “which Democrats want to expand, but Republicans want to cut and privatize.”

However, in recognizing this truth we should not give short shrift to the importance of rebuilding manufacturing. The manufacturing trade deficit was $619 billion in 2015, or 3.4 percent of GDP (USITC 2016, BEA 2016). I estimate that eliminating it, primarily by ending currency manipulation, could create up to 3.3 million manufacturing jobs alone (not counting the jobs created as manufacturing workers spend and indirect jobs supported by manufacturing). In addition, reasonable investments in infrastructure and clean energy equipment could create millions of additional manufacturing jobs, getting us back to, or above, the level of manufacturing employment in 1997. These investments are also needed to overcome the lingering effects of the Great Recession, which has suppressed employment overall, and in manufacturing and construction sectors in particular (Scott 2016a).

No, it would not take manufacturing back to where it was in 1979, when manufacturing accounted for more than 20 percent of employment; or to the 1960s, when it was more than 25 percent. But nobody has claimed that it would—and this is a false benchmark for assessing the importance of manufacturing. The structure of U.S. manufacturing has changed since the 1960s and 1970s. In those days, companies such as Ford and General Electric employed large numbers of accountants, lawyers, and other “service” workers. In the decades since, they have outsourced much of that work to independent service providers. But many of those service firms still have most or all of their employees located in the United States.

Manufacturing is still one of the most important buyers of those services. That is why the value of “gross output” in manufacturing ($6.2 trillion in 2014) is so much larger than gross domestic product (or value added) in manufacturing, which was only $2.1 trillion in that year. Gross output is a measure of the value of final shipments from manufacturing, whereas GDP or value-added only includes the value of labor and capital directly employed by manufacturing firms (plus some taxes paid by manufacturers).

The size of the manufacturing sector will also directly affect the kind of service economy we want to have. Manufacturing firms are important buyers of high-wage, high-value business services such as law, accounting, programming, and other technical and managerial services. However, the services that have been growing most rapidly in the wake of the Great Recession of 2008–2009 have been in low-wage industries such as restaurants and retail trade. Thus, creating a healthy manufacturing sector is critical to supporting the creation of good service-sector jobs.

The politics of trade

No agenda for rebuilding manufacturing is complete without a discussion of the politics of trade. In our system of government, it takes two to tango. Although there are certain limited initiatives that the president can take, such as filing unfair trade complaints with the WTO, Congress must approve most major new trade initiatives. As noted above, most of the Republican Party is fully aligned with Wall Street and Big Business in favor of the TPP and more bilateral trade and investment deals, such as the proposed Transatlantic Trade and Investment Partnership (TTIP).

This is an important reason for emphasizing trade and other policies for rebuilding manufacturing that can attract bipartisan support, for example countervailing currency intervention and market access charges.

Indeed, there has been broad, bipartisan support in both houses of Congress for legislation that would require the Commerce Department to treat currency manipulation as a prohibited export subsidy, subject to countervailing duties. Only opposition from Republican leadership in the House and Senate has prevented this particular measure from being approved and sent to the president for his signature.

Focusing on “globalization” also allows for ignoring other needed policies to raise American’s pay

Trump’s focus on globalization as the cause of the problems affecting America’s working families is terribly incomplete. As Larry Mishel (2016) points out, globalization is only one of many causes of growing wage stagnation and inequality over the past 40 years. Trump excludes (or rejects) factors such as the abandonment of full employment as a policy goal and the fall in the real value of the minimum wage, which is worth about 25 percent less now than in 1968 despite the doubling of productivity since then (Cooper 2015). And Trump claims, wrongly, that businesses are overtaxed and overregulated. Yet, as Paul Krugman (2016) notes, rather than being one of the highest-taxed nations in the world, “we’re No. 31” among 34 advanced countries, and are far less regulated than Germany, which has a huge trade surplus and much higher wages than those in the United States. Tax cuts and deregulation called for by Republicans would hurt working people and enrich the wealthy without stimulating growth. Even if Trump’s trade agenda were redesigned to help manufacturing, the benefits would be offset by the rest of his agenda, which is contrary to the interests of working people.

Conclusion

> Even if Trump's trade agenda were redesigned to help manufacturing, the benefits would be offset by the rest of his agenda, which is contrary to the interests of working people.

Ending currency manipulation and realigning the dollar would be good for the economy and for many domestic manufacturers. However, it would be opposed by many firms on Wall Street, and by companies such as Apple and Nike that import all or virtually all of their products from currency manipulators (and thereby have been profiting from the implicit subsidies provided by that practice).

Rebalancing the dollar could reduce the trade deficit and expand U.S. GDP, and lead to increased government revenues and reduced expenditures as incomes (and tax payments) rise while costs for unemployment insurance and other safety net expenses fall. Thus, ending currency manipulation is one of the few policy issues that has strong, bipartisan appeal in Congress. Making progress on this issue could empower a new president to work with Congress on other, more controversial issues such as expanded infrastructure spending. Thus, rebalancing the dollar and rebuilding U.S. manufacturing are policy issues that could be adopted by any of the candidates running for national office in 2016.

After decades of policies that have redistributed ever-greater shares of income growth to only those at the top, it is time to rebuild U.S. manufacturing, boost public investment in infrastructure and R&D, and restore broadly shared prosperity (Bivens 2016). More, or even, better trade deals are not the answer.

About the author

Robert E. Scott joined the Economic Policy Institute in 1996 and is currently senior economist and director of trade and manufacturing policy research. His areas of research include international economics, trade and manufacturing policies and their impacts on working people in the United States and other countries, the economic impacts of foreign investment, and the macroeconomic effects of trade and capital flows. He has published widely in academic journals and the popular press, including *The Journal of Policy Analysis and Management*, *The International Review of Applied Economics*, and *The Stanford Law and Policy Review*, as well as *The Los Angeles Times*, *Newsday*, *USA Today*, *The Baltimore Sun*, *The Washington Times*, and other newspapers. He has also provided economic commentary for a range of electronic media, including NPR, CNN, Bloomberg, and the BBC. He has a Ph.D. in economics from the University of California at Berkeley.

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Endnotes

1. Moody's reported that Trump's tariff plan would impose duties of 35 percent on goods shipped from Mexico (Gimein 2016).

2. Given the massive surplus of private savings bottled up in China, and its underdeveloped capital markets, huge amounts of domestic private capital are now flooding out of that country. China can now stand aside and simply allow private capital to do what the state has been doing for years, buying up foreign assets and driving down the renminbi (RMB). As explained by Mitsuhiro Fukao (2003), the same thing happened in Japan during the 1980–85 period when Japan moved from a fixed to a flexible exchange rate and simultaneously liberalized its capital accounts. The result was a massive, secular depreciation of the yen that resulted in the mid-1980s U.S. trade crisis and led to the Plaza Accord (Scott 2009, 2015a). Wang Yongzhong of the Chinese Academy of Social Sciences has also written about these events (2009, section 3.5 pp. 28–33).

3. In his policy "Positions," Trump has stated that he would "Bring China to the bargaining table by immediately declaring it a currency manipulator…. a move that would force China to stop these unfair practices or face tough countervailing duties that level the playing field" (Trump-Pence 2016).

4. This is true because the price elasticity of demand for imports is roughly 1, meaning that a 1 percent rise in the price of any imported good will result in a 1 percent fall in the quantity of that good demanded. Thus, total spending on the imported component will not change. At a macroeconomic level, only changes in the trade balance have a significant impact on employment. If spending on imports does not fall, and the level of exports is unchanged (since import tariffs have no impact on the demand for U.S. exports) then the trade balance is unchanged and employment is unchanged.

5. 1998 is significant in that it was a year after the Asian Financial Crisis, and three years before China entered the WTO, in 2001. China significantly devalued its currency in 1994, and the countries hit by the Asian Financial Crisis did so in 1998.

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