

Is Donald Trump a New Herbert Hoover, With His Policy of Isolationism and Protectionism?

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"To treat [U.S.] auto imports like a national security threat would be a self-inflicted economic disaster for American consumers, dealers, and dealership employees," Cody Lusk, president of the American International Automobile Dealers Association, Wednesday, on May 23, 2018.

"Lots of countries have resorted to protectionism when their economies were doing badly. It almost never works. But Trump may be the first leader ever to do it when the economy is booming. He's trying to fix a problem that ain't broke. The auto industry is healthy." Rufus Yerxa, president of the National Foreign Trade Council, on Wed., May 23, 2018

"The 1929 depression was so wide, so deep, and so long because the international economic system was rendered unstable by British inability and U.S. unwillingness to assume responsibility for stabilizing it by discharging five functions:

- (1) Maintaining a relatively open market for distress goods;
- (2) providing countercyclical, or at least stable, long term lending;
- (3) policing a relatively stable system of exchange rates;
- (4) ensuring the coordination of macroeconomic policies;
- (5) acting as a lender of last resort by discounting or otherwise providing liquidity in financial crisis." Charles Kindleberger (1910-2003), American economic historian, and author of *The Great Depression 1929-1939*, 1973, revised and enlarged in 1986.

*"When every country turned to protect its own private interest, the world public interest went down the drain, and with it the private interests of all." Charles Kindleberger (1910-2003), American economic historian, and author of *The Great Depression 1929-1939*, 1973, revised and enlarged in 1986.*

American president Donald Trump seems intent to isolate the U.S. economy from neighboring economies, and even from the world economy, and thus to break with three quarters of a century of closer economic cooperation between countries, established after World War II. There is a clear danger that the [international economic system](#) could become structurally unsettled for years to come, which does not mean that such a system is not in need of reform.

What worries many economists is Donald Trump's approach to international economic

cooperation, or lack of it, which appears to be a dangerous throwback to the 1930's. — If his administration were to continue in that direction, the negative economic and industrial dislocations and consequences, both for the American economy and for other economies, would be severe, potentially very severe, considering how closely intertwined modern economies are today, through investment, industrial and technological cooperation, and through reciprocal international trade.

Trump: a Sorcerer's Apprentice in international trade?

Is it possible that American president Donald Trump is some sort of a [Sorcerer's Apprentice](#), as far as his protectionist trade policy is concerned? He seems bent on instigating a trade war with other countries, from neighboring Canada, to Europe and to China. In so doing, however, he may start a sequence of events, which could be impossible to control or to stop once set in motion, with very negative economic outcomes. Such outcomes could be a severe economic recession, similar to the 2008-2009 Great Recession, and potentially, in the most extreme case, an [economic depression](#), similar to the one the world experienced before World War II.

Indeed, during the ten years of the 1929-1939 Great Depression, international trade measured in dollars plummeted 65 percent, total U.S. production fell by 47 percent, wages fell 42 percent and the unemployment rate rose to 25 percent. This was truly an economic disaster, mainly brought about by bad public economic policies. Who would want to repeat such a failure?

Is Donald Trump set to repeat the mistakes of the 1930s?

By now, most everybody knows that hotel and casino owner Donald Trump is an extremely self-centered individual who operates in government as he did in his own business, when he was known, in New York, as being a [ruthless private real estate negotiator](#), constantly trying to pull the blanket over to his side, and not hesitating to violate rules and contracts when that suited him. — But a government is not a private corporation. Citizen Trump does not "own" the U.S. government. The U.S. government belongs to the American people and its main function is to pursue policies that promote the common good, not the private interests of a megalomaniac politician or the financial interests of his immediate family, or those of his rich donors.

We have some indication of the troubled economic thinking of Donald Trump, when we consider what he said in a tweet, on March 2, that international "[trade wars are good, and easy to win](#)"! I have never heard a statement as outrageous and as irresponsible as this one coming from a head of state, although in Trump's case, this seems to have become customary.

Trump seems to be oblivious to basic facts of history or basic economics. He doesn't seem to have a clue about the way international trade and international investment function. He doesn't seem to understand that the reason the [U.S. dollar](#) is widely used as a means of payment internationally, and as a key currency for other countries' central banks, is a direct consequence of the United States promoting harmonious and multilateral international economic relations. The United States collects important [economic and financial benefits](#) from this privileged situation.

Trump's economic ideas are primitive, obsolete and mercantilist. Let us consider his

pretention that for a country to “win” when it trades with other economies, it must have a trade surplus with everyone. In a multilaterally trading world, this is practically impossible. In a given year, a country may have current account surpluses with a number of countries, but will likely have current account deficits with other countries. And this is the normal outcome, if we assume that there are no capital movements between countries.

However, when there are capital movements between countries, as it is the case nowadays, a country can finance an excess of domestic investment over its domestic savings (without inflation) and reap the benefits of faster economic growth. In which case, a net borrowing country will register a [current account deficit](#) to counterbalance its net capital inflow, in any given year. That is because a country does not only borrow capital or savings from abroad, it borrows an excess of goods and services from other countries over its own domestic production, and this is paid for with an increase in its net foreign debt (foreign liabilities minus foreign assets). When this new capital is well invested, the country takes advantage of a faster rate of economic growth.

At the end of 2017, the United States had a net foreign debt equal to \$ \$7,845.8 billion. If the Trump administration were serious in wanting the U.S. economy to generate a trade surplus with the rest of the world, it would stop borrowing heavily from other countries to finance its budget deficit (\$440 billion in 2018) and it would take measures to increase domestic savings to cover the needs of all U.S. domestic investments.

But the United States is a net borrower of foreign savings, in a given year, and that is the reason it has a current account deficit. No pronouncements from American politicians can change that reality.

The general principle here is that the [balance of payments](#) of a country always balances and there is an economic adjustment, (through interest rates, exchanges rates and incomes), which makes sure that this the case.

That an individual who is the head of state of an important government like the United States does not seem to understand these simple economic and accounting principles is a scandal in itself.

Donald Trump goes rogue on international trade and border taxes

Thursday, May 31, 2018, could be known as the date when Donald Trump launched a [trade war](#) with a host of countries, many of them [close allies](#) of the United States either in [NORAD](#), as is the case with Canada, or in [NATO](#), as is the case with many European countries. And Trump had the gall to pretend that he is raising tariffs on imports from Canada and from European countries for “national security” reasons, relying on an obscure section 232 of the 1962 trade law (the Trade Expansion Act of 1962), without having Congress vote on the issue!



In Canada's case, one of Trump's demands to maintain the 1994 North American Free Trade Area ([NAFTA](#)) is to insert a sunset clause to automatically terminate and renegotiate the trade agreement each five (5) years. Considering that companies plan their investments twenty or thirty years in advance, only bad faith or mischievous intentions would explain why such an impractical demand has even been considered.

What are the likely negative consequences of an open trade war for its participants?

First of all, U.S. export industries, their production and their employment, will be heavily penalized and disrupted by the new border taxes and similar taxes imposed by other countries, in retaliation, on American exports.

Secondly, U.S. import industries will face higher prices for their supplies, thus raising prices for the consumers and raising the overall rate of inflation. Don't forget that border taxes are taxes, and that they are ultimately paid by the consumers when they buy goods, from the purchase of jeans to buying houses.

Thirdly, American companies operating worldwide will see their chain of supplies perturbed. They may also face a less welcoming regulatory climate in some countries, as a result of the Trump administration's hostile economic policies. —Their profit line is most likely to suffer. For instance, for the year 2012 (the last year for which data are available), American corporations reported that profits earned by their US-controlled subsidiaries abroad amounted to more than [one trillion US\\$](#). American investors profit directly for such foreign incomes.

Fourthly, a rise in domestic inflation is bound to translate into higher interest rates, which are bound, sooner or later, to derail the stock market, with heavy losses to be expected, and possibly an overshoot on the way down.

Fifthly, as economic uncertainty spreads, productive investments will decline, possibly resulting in a self-reinforcing general downward economic spiral, with lower productivity growth, lower incomes, lower employment and lower consumer spending.

Other countries will suffer similar contractions in their economies, causing negative multiplier effects worldwide.

This is a doomsday scenario that the world has seen before and has lived to regret. I do not know a single economist who would advise a course of action such as the one the Trump administration seems to be willing to take.

People who ignore history are bound to repeat it.

Indeed, the Republican Trump administration's frontal attacks against multilateral trade looks as reckless and as irresponsible as the much reviled Republican Herbert Hoover administration's move against international trade, in 1930. On June 17, 1930, indeed, President Hoover signed the [Smoot-Hawley Act](#) into law, — a law that imposed stiff tariffs on imports. First, American imports plummeted. And secondly, other countries raised their own tariffs in retaliation against American exports. The end result was a dramatic contraction of international trade, which transformed an economic recession into a full-blown worldwide economic depression, which lasted ten years.

It is relatively easy for politicians to start a trade war. It is much more difficult to end one.

Donald Trump has no knowledge or competence in international economics and finance, and he probably also is ignorant of the damage that the Republican Herbert Hoover administration did to the U.S. economy, when it precipitated a drop in international trade and international financial flows.



That Donald Trump wants to repeat, 88 years later, the mistakes of the Hoover administration is difficult to understand. [N.B. Franklin D. Roosevelt (1882-1945) defeated President Herbert Hoover (1874-1964) in a landslide, in the 1932 U.S. presidential election.]

Indeed, why would Donald Trump impose economic, and eventually, political isolationism, on the United States, with his improvised and destructive attacks on international trade and world economic prosperity? He should know that in so doing, he will do a lot of damage to the U.S. economy, to U.S. corporations, to American workers and to American consumers, and to the world economy as well.

In fact, the Trump administration risks destroying the post World War II system of international economic cooperation, which has been so beneficial to the United States, and which has contributed to raise the standards of living of people, not only in the United States, but in many other countries. American corporations and American banks, and their employees, have especially benefited from the [economies of scale](#), from economic specialisation and from the productivity gains (reduction in production costs) that the opening and stability of international markets have allowed.

Trump's partisan political motivations

What could motivate the Trump Administration to adopt the risky protectionist policies of the 1930s? This is certainly not for immediate economic reasons, since the U.S. economy is currently operating at full capacity... Unless, of course, what really guides Donald Trump is his political obsession regarding the U.S. mid-term elections of next November. [Polls](#) indicate that Trump's tax policies and other policies put forward for the benefit of the [ultra rich](#), and financed through future increases in public debt, are not very popular among the general population.

Therefore, the enactment of populist trade policies could appeal to the Republicans, at least in the short term and especially in some rust-belt states. In other words, Donald Trump and the Republican Party might believe it to be to their political advantage to ride a wave of economic nationalism and of trade protectionism, in some key industrial states. It will take several months before the negative effects of a trade war will be visible to the American public.

If that were the case, it would be an example of partisan political expediency to reap political gains; a case of short-term political gain for some, at the cost of longer-term economic pain for everybody else.

Conclusion

The conclusion is straightforward. It would be most irresponsible for Donald Trump to initiate a trade war, especially against allied nations, when the American economy is already prosperous. As a general rule, politicians should not play with the economy for their own narrow political benefits. Most Americans, workers or consumers, will pay a high price when American companies will be subjected to the new trade taxes, and will have to raise their prices. The same can be said for the citizens in other trading nations. Trade protectionism has been tried before, and it does not work.

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This article was also published on [Dr. Rodrigue Tremblay's website](#).

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