



## Trump's tariffs will not restore American manufacturing

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Employment in U.S. manufacturing peaked a long time ago back, in June 1979. Since then, the most recent data for January 2025 show that U.S. manufacturing employment has fallen by 35%, or more than a third.

In building his unique support base, Trump has especially targeted these blue-collar manufacturing workers who have seen their employment prospects dashed and who are looking for someone else to blame. And who better to blame than foreigners and foreign competition, which it is naturally assumed must be unfair if it has triumphed. As Trump goes on to therefore conclude,

tariffs are the most beautiful word in the dictionary.

However, while Trump and his followers want to believe that foreigners are responsible for the loss of American manufacturing jobs, this is not what the evidence tells us.

### The decline in U.S. manufacturing

First, if we want to understand the impact of foreign competition and tariffs, we need to focus on production and not jobs. This is because foreign competition is represented by competing *products* that have been manufactured overseas and not in America. Similarly, demand for American made manufactured products is increased by its exports. In this way, trade can be beneficial to both America and its trading partners.

Second, tariffs are a tax on the imported product paid by the importer, and tariffs cannot be directly levied on the labour that made the imported product.

But the data for American manufacturing production shows that it peaked as recently as October 2007, much later than the employment peak back in 1979. Further, the drop in production since then is only 6½%, again much less than the employment drop of more than one third.

In other words, it is the increase in productivity that is by far and away most responsible for the loss of American manufacturing jobs. Thus, it is technological change, principally in the form of automation, that has reduced American manufacturing blue-collar jobs, and tariffs cannot help change that.

But equally important, this increase in productivity has been the principal driver of the increase in American living standards over time. Also, this loss of manufacturing jobs has been more than compensated for by job creation elsewhere, so that overall employment participation is higher than ever.

## **The comparative Australian experience**

In this context, if we want to better understand the American experience, it is also useful to examine the data for Australian manufacturing. Same as in the U.S., Australian manufacturing production peaked in 2007-08, just before the Global Financial Crisis took hold. Also, since the GFC, economic and productivity growth in all the developed economies has stagnated, suggesting a common cause, most likely a slowing in technological progress, at least for a time.

Returning to Australia, unfortunately Australian data for the employment in each industry are not available before November 1984, but these data show that employment in manufacturing peaked back in May 1989. Since then, the employment in manufacturing has been declining continuously, and has fallen by 24.7% from its peak by November 2024.

Thus, Australian manufacturing experience has been very similar to America's. In both countries, production peaked at the same time just before the GFC, while on the other hand, employment started to fall many years before—by more than a third in America and by almost a quarter in Australia where the fall in manufacturing employment started a decade later.

What is also interesting about the Australian experience is that Australia removed its tariff protection in the early 1990s, but this made little or no difference to Australian manufacturing production. Thus, the average annual rate of increase in Australian manufacturing production between 1974-75 and 1988-89 was 1.9%, only slightly higher than the average growth rate of 1.5%, between 1988-89 and the peak in 2007-08.

Further, it is quite likely that even this small deceleration in manufacturing growth had nothing to do with the removal of protection. Tariffs were removed at the beginning of the 1990s and Australian manufacturing was depressed during those first few years by a recession. However, the average annual growth rate of manufacturing production after the recession, in the decade from 1992-93 to 2002-03, was as much 2.7%—higher than it had been previously with the tariff from 1974-75 to 1988-89.

Thus, just like America, Australian manufacturing production eventually peaked in 2007-08 and the removal of tariff protection had little or no impact. Instead, as stated above, the subsequent

economic stagnation has been the common experience of most developed economies since the GFC, although we are not sure why technological progress seems to have slowed down.

## **Increased tariffs will not help U.S. manufacturing**

In sum, the loss of U.S. manufacturing jobs is similar to the general experience of developed economies. But the irony is that Trump, in his ignorance, will further damage U.S. manufacturing with his tariffs.

The first problem is that Trump believes that if the U.S. has a trade deficit with another country, then that indicates the other country is cheating. What Trump fails to recognise is that the U.S. trade deficit in total is determined by the gap between U.S. demand and U.S. production capacity. Consequently, because of its excess demand, the U.S. is bound to have a trade deficit with more countries than not.

Thus, if the objective is to reduce the U.S. trade deficit, the only way to succeed is to reduce U.S. aggregate demand to bring it back in line with U.S. productive capacity. In other words, the U.S. needs to save more and spend less, and the obvious starting point would be to reduce the budget deficit which is running at close to 7% of GDP. But instead, Trump wants to give tax cuts, while Elon Musk will never reduce public spending by as much as 7% of GDP, given all the spending that is exempt from his attention.

The second problem is that tariff increases lead to higher prices which, despite what Trump says, are passed on to consumers. Indeed, modelling by the highly regarded Petersen Institute in Washington found that Trump's tariff increases will cost the average household at least \$US2600 a year. Other studies have estimated even more.

The tariff increases are also likely to disrupt supply chains and reduce manufacturing output. For example, more than half the value of U.S. automobile production is accounted for by parts produced by U.S. auto firms across the border in Canada and Mexico and assembled in the U.S.

Finally, the Petersen Institute modelling found that because the tariff increases are likely to result in a fall in U.S. imports that will, in turn, lead to an appreciation of the U.S. dollar and a consequent reduction in exports. Even if the increase in U.S. tariffs does not provoke higher tariffs in retaliation by U.S. trading partners, the Petersen Institute found that a 10 percentage point increase in tariffs leads to real U.S. GDP falling by a net 0.36 percentage points by 2026.

## **Conclusion**

In short, the decline in U.S. manufacturing jobs is not unique to the U.S. It is common to most developed countries. Tariffs will not help, but will only make things worse. Trump's refusal to look at the evidence, however, means that the U.S. will only find out the hard way.