

Straight Talk

Economics for the Real Economy

Jamieson Greer says trade theory must catch up with tariffs, industrial policy, and the costs of globalization

For roughly 30 years, tariffs and import regulation were policy pariahs. To paraphrase English writer G.K. Chesterton's quip about Christianity: Tariffs were not tried and found wanting but rejected by our current economic models and left untried. Policymakers, scared of challenging the elite consensus derived from such models, closed off the universe of options and strategies to solve America's challenges. But President Donald Trump has changed that and, in doing so, given a gift to economists. The return of tariffs and import regulations creates an opportunity to update old assumptions and dated models with the hard evidence of real-world data and experience.

It is interesting that these policies ever became off-limits. The architects of the post-World War II international economic system knew the risks of unrestricted trade, such as significant trade



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imbalances or dangerous import dependencies. These architects prioritized national sovereignty and security as equal goals alongside broad-based prosperity. The General Agreement on Tariffs and Trade was deliberately negotiated to allow robust use of tariffs to ensure essential security, prevent damage to domestic industries, respond to unfair competition, foster economic development, and address balance of payments challenges. The Coordinating Committee for Multilateral Export Controls aligned export control policies across the United States and its allies to present a common economic front against the Soviet Union and its satellites. Plurilateral agreements, such

as the International Tin Agreement, actively managed trade in key commodities to safeguard supply chains.

By the 1990s, policymakers, economists, and business leaders had forgotten the nuances and pragmatism of their forebears—failing to realize that there are good reasons for preserving countries' ability to manage their trade relations according to national interests. In the heady days following the fall of the Berlin Wall, there was a rush to adopt the simplicity of hyperglobalization: Would it not be better for all the people of the world to eliminate barriers to trade all together? And so were born the World Trade Organization, the North American Free Trade Agreement (NAFTA), and our present predicament.

It was thought that this approach would bring peace and prosperity, but it really just allowed multinational firms to chase subsidies and weak labor and environmental rules around the world. In the US, voters grew more skeptical as they saw working-class jobs move overseas, and economists responded with highly quantitative methods to calculate, often with false precision, enormous theoretical gains to be achieved by letting in floods of imports. And, at the same time, many other countries retained high tariff rates and nontariff barriers. So much for the post-Cold War optimism.

By the time President Trump first took office, the gulf between theory and practice was too large to ignore. Americans lost millions of high-quality manufacturing jobs, more than 70,000 plants shut down, working-class wages fell behind, the industrial base weakened, innovation slowed, real productivity in manufacturing declined, and communities across the country were harmed. The goods trade deficit exploded to \$1.2 trillion annually, which in turn fed the country's unsustainable current account deficit.

Turning point

Writing with humility in 1933, for it represented a change in his views, John Maynard Keynes expressed doubts about “whether the economic loss of national self-sufficiency is great enough to outweigh the other advan-

tages of gradually bringing the product and the consumer within the ambit of the same national, economic, and financial organization.” This was a turning point for Keynes, who went on to be among the most vocal advocates for stronger trade-regulating mechanisms at the Bretton Woods negotiations. As President Trump is crafting a new international economic order—predicated on balance, reciprocity, fairness, and resilience—it is time for the economics profession to take a cue from Keynes and catch up with the world as it is, rather than how we may wish it to be.

Mistaken assumptions

Nowhere is this catch-up more needed than in economic modeling. The models typically used to predict the effects of trade policy have many blind spots. They often assume full employment and seamless worker transitions between industries and geographies. The models do not reflect the complexity of supply-chain linkages and focus primarily on long-run efficiency gains—defined as the ability to source products at the lowest-possible cost. Such theoretical gains are treated as unalloyed social goods. These models mostly assume away realities that regular people, or trade practitioners like me, experience on a daily basis.

The economy rarely runs at full employment. Labor force participation declines in particular regions or for specific demographic groups, including working-class men, are proof of that. Transition costs are also real and severe. For example, David Autor and others have tracked what happened to the American workers and towns most exposed to the “China Shock.” Geographic mobility declined in trade-exposed places. Cross-sector reallocation of former manufacturing workers was minimal. When jobs eventually returned, they were lower-skill occupations and went to different people. Incumbent manufacturing workers, often Black and White men in midsize or smaller cities, never recovered their earnings. They aged in place and did not, as America's policy elite encouraged, move to Phoenix to become home health workers or

Seattle to code software.

The cost can be measured in human lives—and this is not hyperbole. A recent study by Amy Finkelstein and coauthors found that areas with average exposure to Mexican import competition under NAFTA experienced a sustained 0.68 percent increase in annual age-adjusted mortality. The damage was concentrated among working-age men and was distributed across most major causes of death. The authors found that this mortality impact more than erased the welfare gains identified in a leading economic analysis of NAFTA, making the agreement a deadly net loss for the people it was supposed to help.

Many models also fail to account for the sector-level linkages that influence how trade flows shift under rules of origin in modern trade agreements. We often do not gather the statistics we need to enable more accurate empirical analysis, including on supply-chain dynamics. Furthermore, limitations in statistical or modeling approaches feed false political narratives. For example, research by Susan Houseman has found that oft-touted gains in US manufacturing output were driven by how we measure increasing computing power, not by actually producing more stuff. Accounting for distorted computer industry figures, US real manufacturing output fell 6 percent between 2007 and 2016.

Achieving balance

The traditional case for unrestricted free trade made by economists was grounded in the principle of comparative advantage. It is absolutely true and nontrivial that specialization brings efficiency. However, contemporary economics must account for a world where scale economies and government intervention combine to create structural trade imbalances divorced from comparative advantage. How can it be that the United States, with the most bountiful cropland in the world, runs a trade deficit in *agriculture*? How can it be that South Korea—with limited energy resources, no coal, and no iron ore—became a steelmaking powerhouse? Economic interventions by countries have rigged the global economy in ways that persistently put some

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countries in deficit and others in surplus. This is not healthy for the countries in either category.

Recent IMF research found that persistent trade imbalances harm deficit economies and benefit surplus ones by reallocating productivity gains. The Bank of England put a finer point on it: When a country “combines industrial policy with different forms of consumption suppression—such as weak social safety nets, capital controls, or high precautionary saving—subsidies generate persistent trade surpluses and become a beggar-thy-neighbour policy with negative international spillovers.” The Trump administration could not have said it better.

The IMF acknowledged recently that imbalances are “concentrated and persistent” and driven at least in part by surplus country policies. In its most recent Article IV report, the IMF raised the alarm on the US current account deficit (driven primarily by the trade deficit), noting that the resulting negative net international investment position “raises the risk of an eventual disorderly external rebalancing.”

But, to address this problem, the IMF recommends untenable and outrageous solutions: large-scale tax increases (including a 10 percent federal sales

tax) and austerity measures (including deep cuts to popular entitlement programs). They acknowledge this would at best have only a moderate effect while requiring that surplus nations also take action to boost demand. The IMF’s recommendation to achieve that? “Work constructively with trading partners” to address “concerns over the fairness of the global trading system.” The growing imbalances of the past decade demonstrate the ineffectiveness of asking nicely for structural economic changes.

Misguided models

Why does the IMF recommend drastic and unpopular policies while criticizing the Trump administration’s tariff-driven approach? The answer lies, partly, in model assumptions. The IMF’s Global Integrated Monetary and Fiscal (GIMF) model shows that tariffs would have a negligible effect on narrowing current account imbalances. The IMF points to that result in its 2025 *External Sector Report* to dismiss the tool as a solution to what it says is an urgent problem. But the IMF acknowledges that the model does not account for “tariff jumping through the cross-border reallocation of production.”

This minor technical note contains multitudes. Tariff jumping is precisely

the mechanism through which protective tariffs and other trade measures have induced the “reshoring” of production and changed patterns of trade. President Ronald Reagan’s restrictions on Japanese autos in the early 1980s incentivized an onshoring boom that produced over 100,000 new American auto jobs at more than 300 new production facilities by the 1990s. President Trump’s 2018 safeguard tariffs on washing machines triggered a wave of investment, including in large new facilities by Samsung and LG in South Carolina and Tennessee. Mercedes-Benz is investing \$4 billion in its Alabama plant, explicitly citing tariffs as the cause. McKinsey’s research shows how recent tariffs have already caused a large-scale reordering of supply chains around the world. How can we write off tariffs based on a model that assumes away the mechanism through which they work?

There are those who acknowledge the social and economic problems posed by structural trade deficits but recommend tools other than tariffs to address them. Warren Buffett, among others, famously recommended requiring companies that want to import goods to buy a certificate from a domestic exporter of any goods or services of an equal value. While perhaps viable on paper, this

approach would likely present significant implementation challenges. Others have suggested a market access charge on foreign financial inflows to reduce the deficit by gradually depreciating the currency. Such a solution would likely elicit organized insurrection from the financial services sector, could be seen as a tax on incoming investment, and is difficult to explain to the public.

Tariffs that directly target the primary sources of the deficit are the simpler, and more flexible, solution. This was long accepted across party lines before the shift in focus to hyperglobalization, including in the 1980s, when future Democratic House Majority Leader Dick Gephardt’s proposal to impose mandatory large-scale tariffs on persistent surplus economies passed the House of Representatives (before ultimately being dropped in favor of the strengthened Section 301 authority my office is currently using). We are already seeing the salutary

effects of President Trump’s tariffs. The US trade deficit with China was down 32 percent, year over year, in 2025. The overall trade deficit in goods has decreased, year over year, every month since President Trump began implementing his reciprocal tariff policy in April 2025.

As we move forward, we need models that capture what matters to the real economy. This includes distributional consequences of trade, labor market frictions, network and scale effects in manufacturing, effects of regulatory arbitrage on workers and producers, impacts of detailed rules of origin on global production networks, and—in light of the new NAFTA research—public health outcomes. If we want smarter policy, we need richer empirical tools that study how trade actually works.

New challenges, new tools

We do not have time to wait. The United States is using tariffs and agree-

ments on reciprocal trade to encourage inbound productive investment, increase incentives for domestic production, and open markets for US exports. The IMF concedes that durable rebalancing requires action by both surplus and deficit economies. Without real pressure a surplus economy has no reason to act, but that does not mean that deficit countries must remain inert. Hence, the United States is taking bold action to lay the foundation for an international economic system grounded in balance, reciprocity, fairness, and resilience.

Alfred Marshall once wrote, “Economic conditions are constantly changing, and each generation looks at its own problems in its own way.” It is urgent that economists take that advice. As the global economy changes, so too must the economics profession. Economists may be dismal scientists, but they have no reason to live with their heads in the sand. **F&D**

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