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Opinion

Training not tariffs: How to protect US free trade victims

Instead of unleashing a trade war against China and criticising European trade policies, US workers would be better off if Trump adopted European-style labour policies, says ING's Raoul Leering

There is still a chance that President Trump will impose steel and aluminium tariffs on the EU. The EU is exempted for the time being, but there is no reason to suppose that Trump's dissatisfaction with the American trade deficit with the EU has suddenly disappeared. Germany, in particular, has been accused of unfair trade policies by the US president. So it is far from unthinkable that Trump will return to pressure Germany and, in general, the EU to lower its trade surplus with the United States.

Higher tariffs for US imports of European products will continue to be the obvious stick to get that done. If Trump were to apply tariffs and the EU retaliated in kind, a full-blown trade war would not be out of the question.

A full-blown trade war is not out of the question

A tit-for-tat battle would lead to serious economic damage on both sides of the ocean. Building tariff walls may help to save or add some US jobs in domestic industries. But these will almost certainly be countered by jobs lost in the US export sector, which will run into tariff walls abroad in case of retaliation. What's more, higher import prices equal lower purchasing power for US households and that will suppress economic growth. Bad news for jobs. So if tariffs will not save or create a significant number of jobs in the rust belt, what could help?

Trump should arm US workers by investing in their employability, instead of taking up arms with their trade partners. EU countries have proven there is a better way of dealing with the negative side effects of trade liberalisation. Research by David Author shows that Americans who lose their job because of competition from China are not very successful at finding a position of equal pay elsewhere. Many of them end up unemployed or withdraw completely from the labour market, often through disability schemes. Those who do find a new job, often have to accept lower pay and worse pension schemes than in their previous jobs.

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OECD research indicates the skills of American employees are not well aligned with the requirements of American business. Moreover, according to this research, US workers relatively don't often perform at the level that might be expected by employers given their observable characteristics such as education level. For European workers who lost their job due to free trade, it is also not easy to find a new job but they succeed better in finding new positions with little or no loss of income. Investing more in employability is necessary in the US to ensure that those who lose their job due to foreign competition are able to find a new one and do not suffer long-term decreases in their income.A tit-for-tat battle would lead to serious economic damage on both sides of the ocean

American economic policy is failing in this regard. The aid programme Trade Adjustment Assistance (TAA), for those who lost a job due to the effects of free trade, was hardly used in the years before the financial crisis when competition from Chinese companies was already taking a toll.

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Only a third of those who lost their jobs participated in this programme. This is understandable given that the programme had just $1700 available per participant, which buys a couple of days training at most. Even in 2012, when the US unemployment rate was 1.5 times that of, for example, the Netherlands, the US spent seven times less on labour market policy than the Dutch (in % GDP).

For schooling and training, the US spends two and a half times less than the Dutch. So it is not surprising that Dutch workers are more successful in finding a new job with similar pay and working conditions. The US ranks lower on the international list of 'lifelong learning list' than North West European countries, like Finland, Denmark and the Netherlands. Although European experiences show that not all labour market policies are effective, policies that are well targeted could reduce the mismatches on the American labour market. In other words, adding a European flavour to US labour market policy could help victims of free trade to recover faster. This takes time but is a far better solution than artificial protection through tariffs.

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