'Donald Trump and I both took economics degrees in the 1960s. This book describes the history which I learnt and Donald Trump has forgotten – or never understood. Philip Coggan's masterly exposition is easy to understand and (almost) impossible to forget' John Kay, author of *The Corporation in the Twenty-First Century* and *Obliquity*

'This book is a tour de force. The arguments are very clearly and succinctly put in a way that should convince anyone of the madness of the tariff policy' David Miles, professor of financial economics, Imperial College Business School

Philip Coggan is a former *Economist* and *Financial Times* journalist. In 2009, he was voted Senior Financial Journalist of the Year in the Wincott Awards and best communicator in the Business Journalist of the Year Awards. Among his books are *The Money Machine*, *Paper Promises*, the highly acclaimed *More: The 10,000-Year Rise of the World Economy* and *Surviving the Daily Grind*.

ALSO BY PHILIP COGGAN

More: The 10,000 Year Rise of the World Economy

Paper Promises: Money, Debt and the New World Order

The Money Machine: How The City Works

Surviving the Daily Grind:
How to Get by and Get on at Work Today

THE ECONOMIC CONSEQUENCES OF MR TRUMP

What the Trade War Means for the World

PHILIP COGGAN

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PREFACE

This book was written at speed because I was both amazed at Mr Trump's tariff announcement on 2 April, and energised into action because the grounds for criticism were so wide. Nevertheless, there were two daunting aspects. First, I do not have the intellect or the qualifications of John Maynard Keynes, whose book *The Economic Consequences of Mr Churchill* was my inspiration. Second, writing a book on the erratic and illogical policy of a temperamental president was always a hostage to fortune, as it proved until the last day. I persevered because the historical parallels are so striking and the case against the Trump tax needs to be stated. The chaos of the regime's policy changes is a key part of the argument; this is no way to run the world's largest economy.

Clare Grist Taylor and the team at Profile Books deserve enormous credit for recognising the merits of the idea and for acting so swiftly to bring it to fruition. I am grateful for wise advice from David Miles and Andy Haldane. And the wonderful Patrick Lane of the *Economist* read through the book to weed out errors and solecisms; Patrick is the epitome of the professional journalist and a class act.

INTRODUCTION

> 'Over the past 200 years, not only has the argument against tariffs and trade barriers won nearly universal agreement among economists but it has also proven itself in the real world, where we have seen free-trading nations prosper while protectionist countries fall behind.'
>
> President Ronald Reagan, radio broadcast, 1988

> 'I always say tariff is the most beautiful word to me in the dictionary.'
>
> President Donald Trump, January 2025

> 'For every complex problem there is an answer that is clear, simple and wrong.'
>
> H. L. Mencken, satirist (1880–1956)

On 2 April 2025, President Donald Trump unveiled a package of tariffs on products from almost every nation in the world. The scale of these tariffs (which are taxes on imports) surprised observers around the globe and quickly sent financial markets into a tailspin. While Mr Trump said the announcement represented 'Liberation Day', the *Economist* quickly dubbed it 'Ruination Day'.

Exactly 100 years previously, in 1925, Winston Churchill, as chancellor of the exchequer, took Britain back onto the gold standard. John Maynard Keynes, the great economist, advised against the decision and published a book lambasting the move called *The Economic Consequences of Mr Churchill*. This book is a homage to Keynes's polemic and will argue that Mr Trump's package, and the confusing announcements that followed it, was one of the greatest economic policy mistakes in history.

The tariffs, or Trump tax, are a mistake in many different ways. But the most important error is a fundamental misunderstanding of the global trading system. The US does not make wholly American goods, nor the UK wholly British goods. Products are constructed from materials and components brought in from all over the world. Around half of all US cars are made from imported parts, for example.[1] When you impose tariffs on imported components, you increase the costs of domestic producers.

Furthermore, while Mr Trump keeps insisting that tariffs are paid by foreign countries, they are initially paid by the importing company; as revealed by the president's demand that Walmart, along with China, 'eat the tariffs' when the retailer said it would be forced to raise prices to reflect its increased costs.[2]

While Mr Trump seemed not to be aware of these issues, business groups and the financial markets definitely were. In the week following the 2 April announcement, there was financial turmoil, with share prices, bond prices and the dollar all falling. So, on 9 April, Mr Trump suspended for ninety days the higher tariff rates he had imposed on much of the world, cutting them back to a base level of 10 per cent.

The exceptions were Canada, Mexico and China. For the latter, after a surreal bout of tit-for-tat retaliation, the US raised tariffs to a prohibitive 145 per cent. But then, after a drop in deliveries at US ports and warnings from retailers about empty shelves, there was another retreat. On 12 May, both the US and China suspended the retaliatory measures for ninety days, leaving the US level at a still high, but not completely prohibitive, 30 per cent. Like the grand old duke of (New) York, Mr Trump had marched his tariffs to the top of the hill, and then marched them (mostly) back down again.

The markets reacted with relief, regaining all the losses suffered in early April. The hope was that Mr Trump had learned his lesson in the face of harsh reality. Nevertheless, the effective tariff rate on imports was much higher than before Mr Trump came to office. And, far from being discouraged from using the tariff weapon, the president seemed happy to wield it again. In mid-May he implied that he would levy differential tariffs on other nations within weeks, a breach of the previously announced ninety-day suspension and another bewildering change of tactic. And then on 23 May, he threatened to impose 50 per cent tariffs on imports from the European Union, only to withdraw that threat two days later.

At the end of May, the Court of International Trade in the US ruled that Mr Trump has exceeded his authority by imposing tariffs when the power should belong to Congress. Mr Trump had cited a 'national emergency' to justify his actions but there was no emergency; the US economy grew rapidly in 2024, unemployment was low and inflation was falling. While the ruling was good news, the world still could not rest easy. The Supreme Court might well overturn the decision and the president might find other ways to push the tariffs through. But the ruling emphasised the one consistent theme behind all the president's actions: chaos.

It is hard for readers (and authors) to keep up with this blizzard of announcements. To avoid confusion it is best to keep one thought in mind; by imposing tariffs, Mr Trump has made the goods Americans buy more expensive, and disrupted the global economy, without doing anything to help those who voted for him.

The hundred-year echo

The decisions of Winston Churchill and President Trump have some striking parallels. Keynes lamented that the consequences of a return to the gold standard would be a decline in the standard of living in the form of lower wages. Economists today worry that US workers will face a reduced standard of living in the form of higher prices.

Nostalgia also links the two proposals. Churchill was trying to recreate the conditions that existed before the First World War when Britain was the centrepiece of the global financial system, sterling was the pre-eminent currency and British industries were matched only by those of Germany and the US. Mr Trump is trying to recreate the conditions of the 1950s and 1960s, when US industry dominated the world and the men (and they were mostly men) employed in manufacturing could afford a house, a gas-guzzling car and all the latest gadgets.

Churchill's strategy was a mistaken reading of history. The First World War had immeasurably weakened Britain's position, such that the pre-war exchange rate against gold was completely inappropriate. His decision led to deflation and industrial unrest (as employers tried to cut wages) that prompted the general strike of 1926, the only such event in British history. Britain's economy only really recovered when it left the gold standard in 1931.

Mr Trump is making a similar mistake. Any hopes of returning the US to a golden age of manufacturing employment are doomed. Factory jobs have been declining, as a proportion of total employment, across the western world, even in Germany which has run consistent trade surpluses (where the value of exports exceeds that of imports).

If there are similarities between the mistakes of Trump and Churchill, there are also big differences. With the exception of Keynes, most experts in 1925 urged Churchill to rejoin the gold standard. Most modern economists would advise Mr Trump against his trade policies – but he relies on his own instincts and the support of a narrow coterie of acolytes. Worst of all, Churchill's policy mainly did damage to his own economy, but Trump's approach is causing turmoil both in the US and in the rest of the world.

Stop the world, Trump wants to get off

An elaborate system of global trade has been created since the Second World War. Raw materials, components, finished goods and services now move across national borders with increasing ease and frequency. Almost any resident of western Europe, the US or the Anglosphere (Australia, Britain, Canada and New Zealand) will have grown up in a world where they could pick from a range of global products. Indeed, trade is even more free than when Keynes wrote of the world before 1914: 'The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep.'[3]

Arthur C. Clarke, the science fiction author, wrote that 'Any sufficiently advanced technology is indistinguishable from magic.' It is not magic that fills our homes with goods from around the world, but the result of a trading system to which few of us give much daily thought. These words are being typed on a Samsung laptop, which may have been assembled in South Korea but on its website, Samsung Electronics lists 100 different suppliers from many different countries.[4] And the laptop will have been brought to Britain by ship or plane and then transported, first to a warehouse and then to the retailer, by truck. The ships, planes, trucks, warehouse and retail store will have been built by companies with their own long chain of suppliers. Just typing this sentence probably required inputs from hundreds of thousands of people.

Apple currently uses 187 suppliers across twenty-eight countries to make the iPhone.[5] These are not relationships that can be picked up overnight and dropped back into the US. Trying to deconstruct a supply chain this intricate is like asking someone who has baked a cake to turn it back into eggs, flour, sugar, butter and baking soda.

This system of global trade is not the result of any individual's plan but arose from decades of trial and error, as businesses sought the best and cheapest ways to bring their goods to market. Just as evolution means those animals which adapt to the environment are most likely to survive, global trade means companies must adjust their supply chains to prosper. Governments have certainly been involved in the process, especially through deals to encourage greater trade, but the network has largely been created by companies operating within a free market.

This wave of globalisation has had enormous positive effects, with wealth spreading out from Europe and its former settler colonies to the rest of the world. The proportion of the world's citizens living in extreme poverty has dropped from 38 per cent in 1990 to 8.5 per cent in 2024.[6] As prosperity has spread, global life expectancy at birth has risen from 32 years in 1900 to 46 in 1950 and 73 years today.[7]

Back in the 1980s, the Republicans under President Ronald Reagan made much of their free-market principles and belittled the Democrats for their belief in government intervention. All that has changed. What could be more interventionist than dictating to companies where they should source their supplies? But that is what President Trump, with his 145 per cent tariffs on China, tried to do. He looked at the global trading system and, like a Marvel character shouting 'Hulk, smash!', vowed to destroy it.

Ironically, much of the immediate damage will be felt in the US. By setting a 145 per cent tariff on Chinese goods, in particular, Mr Trump effectively imposed an embargo on his own economy. If the word 'embargo' strikes a chord, that is because it is a familiar wartime tactic. Britain and France tried to impose an embargo on Germany in the First World War and Germany used its U-boats to cut off vital imports to the UK. This was an effort to defeat the enemy, not, to adapt Mr Trump's phrase, a way of 'making Britain great again'.

Within the first few weeks of Mr Trump's policy, shipments from China slumped. In many areas, like children's toys, China is the main supplier so the risk was that presents under the Christmas tree would be in short supply. Mr Trump, in a nod to Charles Dickens's Scrooge, said that children would have 'two dolls instead of thirty dolls' and they would cost a 'couple of bucks more'. In a neat summation of the whole policy, the comedian Mike Drucker tweeted that 'Your family will have less, but it will be more expensive.'[8]

Other sectors such as footwear manufacturing also warned that the sheer scale of the tariffs would lead to closed businesses, lost jobs, higher prices and shortages on shelves. There was simply no prospect that production could be moved back to the US in any realistic timescale. Indeed the footwear industry pointed out that Mr Trump had even placed a tariff on the machinery and materials needed to make footwear in the US.[9] This is not, to say the least, an example of joined-up thinking.

All these warnings prompted Mr Trump's retreat in May, a retreat that did not involve any concessions by China (which simply dropped its retaliatory tariffs). But the effects will linger. It will take time to replace the shipments that should have arrived in April or early May. Even the revised 30 per cent tariff will make some goods a lot more expensive.

But the broader point is that businesses cannot rest easy. They do not know what will happen when the ninety-day suspension periods expire (the global one is set to end in July, as this book is being published, and the China suspension in August). There is also the risk that Mr Trump will switch his attention to a new sector, like computer chips, and lob a grenade into its trading systems. Like a spouse who has found out that their partner has been unfaithful, companies will be braced for the next betrayal.

Tariffs are a blunt instrument

Even if US policymakers are worried about their trade deficit (when imports exceed exports), the blame does not lie with foreign tariffs. The tariff rates imposed by other countries have been steadily falling over time (the trade-weighted average for the EU in 2024 was 2.7 per cent and for China 3 per cent).[10] Tariffs started to fall significantly after 1991, a year in which the US ran a trade surplus. So if tariffs are the factor blocking the export of US goods now, how come they weren't a problem back then?

A country that imposes tariffs generally makes things worse for itself. An academic study that examined the effect of tariffs in more than 150 countries over a fifty-year period found that tariff increases were followed by adverse effects on output and productivity that were economically and statistically significant. Tariff increases were also followed by higher unemployment and greater inequality.[11] They are self-inflicted wounds.

The people who voted for Mr Trump may argue that, whatever the academics might say, globalisation hasn't worked for them. The standard of living of the ordinary worker has barely risen, jobs are less secure, and goods have become less affordable. As the book will point out, these developments weren't inevitable; other countries exposed to globalisation are more equal than the US, have better rights for their workers and stronger social safety nets. And trade with China can hardly be the main culprit when real wages began stagnating in 1973, long before China became a significant part of the global trading system.

But the main counter-argument is that the Trump plan won't help. It is a little like a patient with a persistent stomach ache who has despaired of over-the-counter remedies, and decided to check in with a private clinic for minor surgery, only to find that the surgeon in the operating theatre is Elon Musk with a chainsaw.

This book will explain why Trump's economic programme is misguided and will do a lot more economic harm than good. It will argue several points:

- Trade deficits are not disastrous, particularly for the US which finds it easy to attract international investors. The US deficit is driven more by the structure of the domestic economy than by the actions of foreign economies.
- If the aim is to cut the trade deficit, then Mr Trump's tax cuts for the wealthy will drive up the budget deficit and thus make the trade deficit worse.
- Tariffs are initially paid by importers, not by foreign

countries, and are mostly absorbed by domestic businesses or passed on to consumers. They make no sense in an era of global supply chains and will lead to higher prices and potential shortages of goods.
- A decline of manufacturing jobs has occurred across the developed world over many decades, even in countries with trade surpluses, and has a stronger link to automation than trade practices.
- US companies buy goods from overseas because they are cheaper (or not available in the home market). The manufacturing sector has switched its focus to higher-value goods. Trying to force domestic production back into low-value goods like toys or clothes will reduce productivity and, in any case, businesses will find it hard to attract the workers.
- The burden of higher tariffs will fall on lower-income consumers, either through tariffs, or because domestically made goods will be more expensive. Meanwhile tariff revenues will be used to justify a tax cut for the wealthy.

Furthermore, the way that economic policy has been carried out, with its arbitrary announcements and reversals, is itself incredibly damaging. Businesses do not know where to invest until the tariff rates settle so they will pause investment altogether. Andy Haldane, the former chief economist of the Bank of England, says the most persistent impact of Mr Trump will be to increase economic uncertainty, as his policies follow a long list of shocks from the great financial crisis through Covid and Russia's invasion of Ukraine.

Nor is the damage done by Trump's policies confined to trade. His assault on the independence of the Federal Reserve, the US central bank, led to a brief loss of confidence in the dollar and the safety of Treasury bonds. The cost of government borrowing rose again in mid-May when it became clear that Mr Trump intended to slash taxes, substantially increasing the budget deficit.[12]

Diluting the independence of the Fed is a great risk since investors tend to rely on the central bank to constrain governments which risk inflation by running big budget deficits. Investors might react by selling the dollar, pushing up the price of imports even further. When bond yields rise, the US government must pay more to service its debt, worsening its budget deficit. Another risk is that Mr Trump's attacks on US universities, a key source of research and development, threatens to weaken the long-term growth prospects of the US economy.

Finally, there is no sign that Mr Trump has a plan to replace the global system he has been smashing. This system emerged after 1945 as the US led an effort to rebuild the global economy after the Great Depression and the Second World War. Far-sighted US leaders, such as Harry Truman and George Marshall, sent aid to rebuild the European economies, helped Japan to recover and slowly dismantled the protectionist barriers that had been erected between the two world wars. The result was thirty years of unparalleled economic growth across the western world. This is the age that Trump voters are harking back to, but it was marked by liberalisation of trade and high taxes on the wealthy, not by increasing protectionism or tax cuts for billionaires.

Of course, this improvement in living standards in the developed world has stalled, particularly in the wake of the 2007–9 financial crisis. But Trump's plans will worsen the problem, not solve it. The 2 April version of the Trump tax could have sent the US into a Trump slump. Within weeks of the announcement of his planned tariffs, economic forecasters, including the authoritative International Monetary Fund, were slashing their forecasts for global economic growth, with US estimates taking the biggest hit.

Higher tariffs will mean higher consumer prices, and thus a pick-up in US inflation. That will make it harder for the Fed to conduct monetary policy. Should it cut interest rates to cushion the economy and risk stoking inflation? Or refrain from cutting rates in a bid to control inflation and risk an economic slowdown?

Some believe that Mr Trump is just using a tactic of maximum pressure. He will win some token concessions from other countries, declare victory and then retreat. The problem with this optimism is twofold. The first is that, if Mr Trump has any virtues, patience is not one of them. He will see something in the news that annoys him and after a tirade on social media, announce some new restrictions. Indeed, this happened in late May when he announced the doubling (to 50 per cent) of tariffs on steel and aluminium imports.

The second problem is that the damage has already been done. The global trading system was built with the help of international treaties and collective bodies, such as the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), that tried to develop global rules and settle disputes in an orderly fashion. Under the WTO's most favoured nation rule, countries must be treated equally; offer a sweetheart deal to one country and you must offer it to all. All this has been replaced by the whims of one man; the WTO has been effectively neutered.

Even if other countries make a deal with the US, they know that high tariffs could be reimposed at a moment's notice. The 'deal' announced with the UK in May was a classic example; just five pages long and incorporating a statement, on page 1, that it was not a legally binding agreement.[13]

A contract with Mr Trump is only valid until the president changes his mind; Mexico and Canada, which signed deals with the US in his first term, have discovered this to their cost. So much of economic activity depends on trust. When a purchaser buys goods from a supplier, they must trust that the goods will be delivered and that they will be of the desired quality. The supplier must trust that they will be paid. If they lack that trust, they will be less willing to make a deal. Changing the terms of the deal in the middle of the transaction by, for example, suddenly imposing tariffs, undermines trust significantly.

Mark Carney, the former governor of the Bank of England who became Canadian prime minister because of a perception that he could stand up to Trump, summed up the problem when he said: 'The system of global trade anchored on the United States is over. The eighty-year period when the United States embraced the mantle of global economic leadership is over. While this is a tragedy, it is also the new reality.'

Mr Carney's concerns raise a much broader point. The way in which the US exercised power after 1945 created an informal American empire, in which other democratic countries were happy to accept US hegemony. Broadly speaking, they adopted many items of American culture from its rock music through its movies through to its fast-food chains. While other democratic nations did not always approve of US foreign policy, in Vietnam or Iraq for example, they did not feel threatened by it. When the US wanted to act, it could count on other nations to join its gang; when it developed new goods, it had a ready market.

By declaring 'America first', and bullying its allies, Mr Trump has dissolved this informal empire. This is bad news for democracy in general. After 1945, there was, at least in the democratic world, a liberal international order; as the historian Timothy Garton Ash notes, the president 'is now tearing down what remains of the edifice with unparalleled speed and recklessness'.[14]

Mr Trump's approach also undermines the image of the US as the embodiment of the liberal democratic system. He bypasses Congress, attacks the courts and the free press, and only believes in elections when he wins them. This book is mainly concerned with trade policy but Mr Trump's authoritarianism, by eroding US soft power, has an economic impact too.

The world has got used to the president's extraordinary style, which involves sending out messages in block capitals that insult allies or threaten to annex their territory. But it is still remarkable. Any other president who called the Federal Reserve chairman a 'major loser' would, in the past, have been denounced by the corporate titans of Wall Street. Although the financiers don't protest (probably out of fear), Trump's style still undermines investor and business confidence, both vital for long-term prosperity. The economic consequences of Mr Trump are still unfolding, and the courts may yet bring the most damaging parts of his programme to a complete halt. But the risks are that he will destroy a global system that has brought benefits to billions.

1

WHERE THERE IS ORDER, LET THERE BE CHAOS

> 'Trade wars are good and easy to win.'
>
> President Donald Trump, 2018

> 'Here's my guess. Never in human history has a whimsical decision by a single person destroyed so much wealth.'
>
> Arindrajit Dube, Provost professor of economics, University of Massachusetts Amherst, April 2025

In the first 100 days of his administration in 1933, Franklin D. Roosevelt stabilised the US banking system, introduced regulations to reduce the chance of a future stock-market crash, set up one scheme to prop up crop prices and another to find work for the unemployed, and created the Tennessee Valley Authority to control flooding and provide electricity. The result was that he restored confidence to a citizenry suffering from the Great Depression, declaring that 'the only thing we have to fear is fear itself'.

In the first 100 days of Donald Trump's second term, he took an axe to the global trading system, laid off vital public employees, cut funding for scientific research, threatened to annex the territory of a long-standing ally, prompted a decline in consumer confidence and caused alarm in significant parts of US industry. He took an economy that had grown 2.8 per cent in the previous year and brought it to a halt. Immigrants were snatched off the street and sent to prison in El Salvador with no judicial process. The aggressive treatment of those holding visas discouraged many tourists from visiting the US while academics, and even Wall Street financiers,[1] fell silent in case they faced retaliation. His major achievement was thus fear itself.

This book is mostly concerned with analysing the trade policy, rather than the broader set of policies, of the second Trump administration. And it is worth recounting the trade policy steps undertaken, just in the time between his 20 January inauguration and the end of May 2025.

1 February Trump announced 25 per cent tariffs on imports from Canada and Mexico (tearing up an agreement made in his first term), and 10 per cent on China.

3 February The Canadian and Mexican tariffs were suspended.

4 March The Canadian and Mexican tariffs were reinstated, and an additional 10 per cent imposed on China.

12 March Tariffs of 25 per cent were levied on all steel and aluminium imports.

26 March Announced 25 per cent tariffs on all imports of cars and car parts.

2 April Unveiled a wide range of levies on imported goods from around the world, using a formula based on bilateral trade deficits, with a maximum of 50 per cent. Imposed a base tariff of 10 per cent goods from all countries – bar Russia and North Korea.

9 April The formula-based tariffs were suspended for ninety days, leaving a base rate of 10 per cent, but China was hit with an additional 84 per cent of tariffs because it had retaliated. After a further Chinese response, total tariffs on Chinese goods were raised to 145 per cent.

11 April Some electronic goods and components were exempted from the punitive levies imposed on China, although a 20 per cent tariff on such goods remained.

29 April Exemptions and tariff reductions were offered to car manufacturers.

5 May Announced a plan to impose a 100 per cent tariff on all foreign-made films.

8 May Announced a trade deal with the UK. The UK lowers tariffs on agricultural products and gets some relief on cars and steel. The 10 per cent base tariff on British goods remained.