Economic Policy Institute

The U.S. approach to globalization has gone from bad to worse under Trump

How to construct a progressive policy agenda instead

Report • By Josh Bivens and Adam S. Hersh • May 29, 2025

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How to construct a progressive policy agenda instead

Summary: Globalization has created a challenging landscape for U.S. workers. Led by corporate interests, U.S. trade agreements from NAFTA onward have made matters worse rather than improving them. To counter this situation, we're proposing a progressive trade policy agenda that tackles these pressing challenges facing U.S. workers:

- drags on wage growth for workers without a college degree, stemming from low-wage import competition
- chronic trade deficits restricting jobs in U.S. manufacturing
- fragile global supply chains
- abusive labor practices and incentives for environmental pollution in foreign trading partners
- global evasion of equitable corporate taxation

Why this matters

The Trump administration has recklessly promoted historically high and broad-based tariffs as a magic bullet for the negative effects of trade on workers and their families. The reality is that it will take a range of domestic and international policy levers to make the global economy deliver broadly shared benefits to workers in the U.S. and abroad—not a short-sighted reliance on tariffs.

How to fix it

Policymakers should pursue an agenda that includes:

- support for domestic policies that boost wage growth to make up for drags from global competition
- macroeconomic policies to achieve a sustainable value of the U.S dollar
- incentives for countries to uphold labor rights and environmental standards
- industrial policies to support key sectors that build supply chain resilience, to counter unfair and mercantilist trade practices, and to position U.S. industry to lead in the advanced manufacturing industries of the future
- equitable tax policies that prevent the offshoring of manufacturing and ensure multinational corporations pay their fair share


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Recent public opinion polling indicates that Americans seem to have nuanced views on trade. They are skeptical of the benefits of trade with other countries (particularly China) and yet are also skeptical about the benefits of higher import tariffs, worrying that they could lead to higher prices (Gracia 2024; Lange and Lawder 2024). On the surface, these views may seem inconsistent, but they are perceptive about the differences between the effects of *trade* versus the effects of *trade policy*.

In recent decades Americans have seen a huge increase in trade (flows of exports and imports). This influx in global trade has posed significant challenges to U.S. workers. The trade flows (and policy responses to them) have contributed to anemic wage growth for workers without a college degree, caused severe damage to manufacturing communities throughout the country, and represent an increasingly unsustainable organization of global production and consumption.[1] People in the U.S. have good reason to be conflicted about the challenges that globalization and the rise in trade pose to their working lives and communities, and the potential benefits trade can create.

U.S. workers have also watched as too many policymakers enthusiastically push a proliferation of trade agreements. These agreements have accelerated trade flows and carved out corporate-driven "rules of the game" for a globalization that puts almost no priority on the well-being of regular people in the United States or the resilience and sustainability of the overall economy. Most of the Washington, D.C., establishment has supported these trade agreements, promising a supposed influx of good jobs and increased standards of living that would come because of increased trade.

Given this history, it is no surprise that many of these workers want something different from policymakers regarding our nation's approach to globalization. And the Trump administration's current approach is certainly different—it is even worse than what came before. This approach is motivated by ever-changing and contradictory goals and is built entirely on threats of historically high and broad-based tariffs that change by the day (or even hour) rather than opportunities for mutual benefit from cooperation.

SECTIONS

Ratcheting up tariffs across the board is not a serious response to, nor will it solve, the larger challenge of lackluster wage and job growth for noncollege workers. Lower tariffs were not a significant driver of the larger trade flows that pressured wages for these workers in recent decades. This is not to say that there are not real problems with the U.S.-led global trading system nor useful changes to be made to policies regarding globalization. But historically high and broad tariffs are not among them, and domestic policy choices have had much more to do with the wage suppression most U.S. workers have experienced in recent decades (Mishel and Bivens 2021).

In this paper, we provide a rough outline for how those concerned about the economic plight of working-class Americans should approach issues concerning globalization and trade. Often the best approach to issues intersecting with international trade does not directly implicate traditional trade policy tools (like tariffs). For that reason, we say that these recommendations constitute a progressive approach to globalization in the 21st century.

Key challenges that globalization poses to U.S. workers:

- Growing import flows from lower-wage nations and threats to offshore jobs put modest, but steady, downward pressure on wages of workers without a college degree.
- Chronic trade deficits have reduced employment in U.S. manufacturing and raised our foreign debt.
- The inflation stemming from pandemic and war shocks between 2020 and 2024 highlighted the fragility of global supply chains. These supply chains should be strengthened to prepare for a future prone to larger and more frequent shocks.
- Competition from foreign trading partners that permit unfair and abusive labor practices has made labor artificially cheap.
- A failure to harmonize climate regulations internationally threatens to see greenhouse-gas polluting production simply migrate away from the United States to low-standard locales rather than being reduced globally, undermining U.S. industry and forcing the burden of adjustment onto workers in greenhouse gas-intensive sectors.
- A failure to harmonize corporate tax treatment internationally allows corporations to play countries off each other and ensures that some countries will almost always have incentives to act as tax havens, making it harder for all countries to impose reasonable taxes on corporate profits.

Although policymakers from both parties have too often been reluctant to admit to the problems created by a U.S.-led, corporate-friendly global trading system, none of these problems presents insurmountable challenges. Our key recommendations to solve the central problems of globalization are the following:

- While trade flows have put downward pressure on wage growth for large portions of the U.S. workforce in recent decades, trade policy would have only weak and unreliable effects in reversing this. Instead, policymakers should **strengthen key domestic policy bulwarks** that underpin workers' leverage and bargaining power to boost wage growth. These domestic policies include a substantial increase in the minimum wage, protections for workers to freely associate and bargain collectively in unions, and full employment macroeconomic policy management, which will have larger and more reliable effects on wage growth.

- Reducing damaging trade deficits cannot be solely achieved through trade policy unless it is so restrictive that it functionally returns the country to an isolated regime with no trade at all. Instead, more balanced trade will only result from **macroeconomic policies consistent with lower trade deficits**, including exchange rate management and a reasonable mix of fiscal and monetary policies.
- Supply chain resilience is important, yet individual businesses will underinvest in it without public support. Collapsing supply chains initially sparked the post-COVID-19 inflationary spike across the globe. Supply chains remain vulnerable to disruptions from natural disasters, geopolitical events, and even human and computer errors. Unless one is entirely confident that these events will never happen again, the costs of supply chain fragility are potentially large enough that it's worth using policy measures to **build up supply chain resilience**. Trade policy tools like tariffs and subsidies are potentially useful measures here.
- The U.S. should **reward countries that respect labor rights** with preferential access for their imports and should incentivize other countries to enforce labor standards. This can be done by imposing tariffs that shrink as countries improve in upholding labor rights. These tariffs cannot fully protect U.S. workers from competition from countries where exploitation makes labor cheap, but tariffs can provide some buffer from this, and imposing them provides a valuable political signal that simple fairness matters for trade policy (as it does for all other types of policy).
- **Effective climate policy must be global**, if not universal. In terms of driving destructive climate change, it does not matter where greenhouse gas pollution originates. National policies that raise the price of pollution locally but simply push emitting factories offshore fail to deal with the overall problem while putting domestic industries at unfair disadvantage. Until there is a more coordinated global approach to greenhouse gases (a global carbon tax or something similar), national governments should be willing to **leverage trade policy tools** (like tariffs tied to the intensity of greenhouse gas emissions involved in producing imports) to promote lower-pollution industries while avoiding "carbon leakage," reduce global emissions, and incentivize industry investments in carbon-reducing technologies.
- **International coordination of tax policy** that ensures large multinational corporations pay their fair share in taxes would help U.S. workers far more than either higher tariffs or more trade agreements. The global tax system currently provides easy access to tax havens for corporations and encourages the offshoring of both paper profits and real factories away from the United States. Much of this problem can be solved unilaterally, but even the remaining problems constitute a far more important and pressing target for useful international coordination than further trade agreements do.

Policy recommendations to address these challenges

In this section, we provide some high-level recommendations about how policies should address globalization's challenges.

Trade policy can do little to spur wage growth, but domestic policies would be much more effective

The production of imports from lower-wage nations tends to intensively use noncollege labor relative to U.S. exports. This means that the pattern of trade flows between these nations and the U.S. reduces the demand for noncollege labor in the United States, as imports displace more noncollege labor than exports support. Hence, trade flows put steady, albeit modest, downward pressure on wage growth for noncollege workers, a group comprising over 60% of the workforce (EPI 2025). The downward pressure on wage growth is nontrivial. Between 1979 and the mid-2010s, these trade flows likely depressed wages of noncollege workers by between 5%–6% (Bivens 2013; Autor, Dorn, and Hanson 2011). For workers who have seen extremely slow growth in wages over this entire period, another 5%–6% of wage growth would have been most welcome.

Crucially, this downward wage pressure stemming from trade flows does not just affect workers in tradeable industries. It spills over and puts downward pressure on wages for noncollege workers throughout the economy. Further, the wage suppression that trade flows imposed on noncollege workers allowed income gains for college-educated workers and business owners. [2] Yet policymakers never offered compensation to noncollege workers at anything close to the scale of this redistribution of income away from them. Instead, policymakers offered vague promises of retraining and empty assurances that trade was always "win-win." This policy neglect added a deep insult to the injury of trade-induced wage suppression for these workers.

Yet it is important to remember that this policy neglect was not confined to globalization. In fact, nontrade forces supported by intentional policy decisions were putting far more intense downward pressure on wages than trade flows did.[3] One aspirational benchmark for wage growth is economywide productivity growth. In the 30 years after World War II, broadly equal wage growth among all workers was clearly a target for policymakers who supported strong institutions (from unionization to fast-growing minimum wages to the maintenance of full employment) to meet this target. But over the 1979–2019 period, wage growth for noncollege educated workers decoupled from overall productivity growth, and as productivity growth continued, worker wages lagged behind—cumulatively by close to 50 percentage points over this period.

Trade competition certainly contributed to this decoupling and stagnation of wages. But analysis shows that nontrade sources explain *three-quarters or more* of the entire wage suppression these workers experienced in this time (Mishel and Bivens 2021). Reversing the nontrade forces that have contributed to wage suppression would do far more to help noncollege workers than any policy that could influence trade flows. Further, besides these nontrade forces having more force in boosting wage growth, they are also far more reliable in their effect. The policy levers available to influence trade flows are generally weak and unreliable unless taken to utterly extreme levels.

Finally, while growing trade flows with lower-wage nations reduced wage growth for noncollege labor in recent decades, they also boosted business profits and wages for workers with a college degree. Using tariffs to reverse these trade flows *might*, after long periods of time, lead to a reorientation of production in the United States that boosts demand for noncollege labor and raises their wages (though it might not). If tariffs did lead to this production reorientation, however, it would also lead to reduced wages for college-educated labor and lower profits, and the decline in college wages and profits would be larger than the increase in noncollege wages.

To be clear, this distributional shift toward noncollege labor and away from college-educated labor and profits would be a progressive outcome, and if it was the only option available to policymakers to make noncollege wages rise faster, we would be in favor of it. But it would be an *extremely* inefficient way to boost noncollege workers' wages. Other wage-boosting policies like increased unionization or maintenance of full employment would not clearly lead to overall growth declines and might even boost growth. In short, while rising trade flows have put downward pressure on noncollege wages in recent decades, using the tool of tariffs to reverse this would be an extremely inefficient way to raise noncollege wages relative to other available tools.

Macroeconomic policies supporting a 'strong' dollar are the real causes of damaging trade deficits

Trade deficits are driven near entirely by the value of the U.S. dollar being too high to balance imports and exports—an outcome that can be traced to macroeconomic policy choices.[4] A high value of the dollar makes imports cheap to U.S. consumers and makes U.S. exports expensive on global markets. This, in turn, leads to an excess of imports over exports. It is often taken as given that the United States should pursue a "strong dollar" policy, and that has often been the implicit (sometimes even explicit) goal of Treasury departments during both Republican and Democratic administrations. This bias toward dollar strength has led directly to toleration of excess trade deficits.

A rule of thumb for thinking about policies to reduce trade deficits and boost manufacturing is simply that if a given policy does not lead to a reduction in the value of the U.S. dollar, it will not have any traction in reducing trade deficits. The value of the U.S. dollar is driven by the demand and supply of dollar-denominated assets in global markets—traditionally called the *capital account* of the United States' international balance of payments and now sometimes referred to as the *financial account*. When the demand for dollar-denominated assets is high relative to supply, the dollar rises in value and vice versa (Blecker 2009).

This rule of thumb is why tariffs are highly unlikely to be effective in reducing U.S. trade deficits unless raised to prohibitive levels. Tariffs actually raise the value of the U.S. dollar, which causes exports to fall roughly in proportion to the import declines following imposition of tariffs. This effect is compounded by the fact that many U.S. exports today contain substantial imported content, which causes export prices to rise directly in response to tariffs.[5]

Currency interventions from foreign governments

The demand for and supply of these dollar-denominated assets is set by macroeconomic policy decisions. One such decision is to allow the capital account to be influenced by intentional decisions of foreign governments. Often, for example, the Chinese and Japanese governments have intervened in global financial markets to purchase dollar-denominated assets to keep the demand for dollars high and to subsequently allow their own exports to gain a cost advantage in U.S. consumer markets. U.S. policy encouraged such policy actions through trade agreements that incentivized offshoring manufacturing production and strong support for financial liberalization that exposed countries to excessive risks of currency, banking, and financial crises.

The role of private capital flows

Another decision is to allow the capital account to be influenced by speculative private capital flows, even if they lead to an uncompetitive value of the dollar. In the late 1990s, for example, capital flowed from European countries to the United States largely due to European investors looking to buy rapidly appreciating U.S. corporate equities. When the U.S. stock market bubble eventually popped, the flow of capital from Europe largely dried up, and the dollar lost considerable value relative to the euro. This reversal led to a welcome decline in the U.S.–euro area trade deficit in the early 2000s. Until the end of 2024, a similar trend seemed to be occurring as the U.S. stock market had seen very large gains relative to those in Europe. This was associated with a large increase in the dollar's value in recent years. The recent sharp decline of U.S. stock markets has not been mirrored in Europe, so some welcome relief from chronic upward pressure on the dollar stemming from these capital flows may well arrive over the next year.

The safe haven of the U.S. dollar during financial crises

As liberalized global financial markets have grown more volatile and prone to crisis (Reinhart and Rogoff 2011; Claessens and Kose 2013), nation states and financial institutions have sought to insulate themselves by accumulating ever-greater reserves of U.S. dollar financial assets. This demand to acquire dollar-denominated assets led directly to upward pressure on the dollar, which, in turn, led directly to these countries running large trade surpluses (that is, selling more exports to the United States than the imports they buy from the United States). This practice of self-insuring against systemic financial risks caused by liberalized global markets accelerated following the 1997–1998 Asian Financial Crisis, when countries learned it was too costly to depend on external institutions like the International Monetary Fund to help manage these risks.

When instability threatens international capital markets, investors and financial institutions "flee to safety," meaning they sell off relatively risky assets and buy relatively safe U.S. dollar assets. The worsening of the dollar's overvaluation occurs at a time when U.S. exporters are under the highest stress. The upshot of all of this is that a more effective international regime to aid countries facing currency and financial crises could reduce the need for countries to "self-insure" by trying to build up dollar reserves. This would be good for both the self-insuring countries who could now use precious financial resources on other social goals and for U.S. trade deficits.

Fiscal and monetary policy choices

Fiscal and monetary policy decisions are other macroeconomic policy choices affecting the U.S. trade balance. In regard to fiscal policy, when the U.S. economy is near full employment, federal budget deficits can push up trade deficits. If budget deficits run at full employment lead to higher interest rates (as they often do), this will lead foreign investors to demand more dollar-denominated assets to earn these now-higher rates. Increased demand for U.S. assets, in turn, causes the dollar to appreciate and the trade deficit to expand.

In regard to monetary policy, the same dynamic holds when the Federal Reserve raises interest rates. Whatever the source, a widening spread between U.S. and foreign interest rates attracts more capital to dollar-denominated assets, and this causes a rise in the value of the dollar, which, in turn, harms U.S. net exports.

Strategies to manage the value of the dollar

Keeping the value of the dollar at a level that more closely balances imports and exports, hence, requires a range of macroeconomic strategies. The most controversial would see the U.S. engage in more active currency management to ensure that foreign influences—either intentional government policy decisions or destabilizing private capital flows—are not allowed to push the demand and supply of dollar-denominated assets out of balance. Currently, Congress requires the U.S. Treasury to monitor currency management by foreign countries and make biannual reports naming countries that undertake active currency management for competitive gain. In practice, Treasury has more often than not demurred on naming clear instances of currency management. (Treasury 2024).

The U.S. government has much stronger options than mere surveillance and naming to countervail trade-distorting currency practices of other countries. If, for example, a foreign government began buying dollar-denominated assets, the U.S. could simply begin buying assets denominated in the currency of the foreign government, thereby neutralizing the effect of the foreign governments' intervention in the U.S. capital account.[6] Another possible option is for U.S. policymakers to institute a "market access charge" such as the one proposed in the 2019 bill, Competitive Dollar for Jobs and Prosperity Act (2019) that would levy a small tax on the foreign purchase of U.S. dollar assets for countries maintaining sustained trade surpluses with the United States (Hansen 2017).

Running fiscal and monetary policies that are consistent with lower levels of interest rates would also relieve upward pressure on the dollar's value and help close trade deficits. On the fiscal side, this simply means that when the economy is at full employment, deficits should not be increased or should even be reduced. The *how* of this deficit reduction at full employment is every bit as important as the *how much* in terms of its effect on the welfare of U.S. residents, but it is the *how much* that determines the degree to which deficit reduction can help pull down the trade deficit.[7] On the monetary side, the Federal Reserve should set interest rates at the lowest level consistent with stable inflation and avoid periods when unnecessarily high interest rates put upward pressure on the value of the dollar.

The advantages of a stronger dollar

Among policymakers, the reflexive privileging of a "strong dollar" policy has contributed to chronic trade deficits in the United States. However, any change in the value of the dollar creates both winners and losers. A strong dollar, for example, makes imports cheap to U.S. consumers and foreign travel more affordable for U.S. residents. It also makes it easier for U.S. businesses both domestically and abroad to attract foreign capital for investment projects. It allows retailers like Walmart and Amazon to source goods more cheaply for resale. These are not trivial benefits.

The advantages of a weaker dollar

But a lower value of the dollar would bring its own significant benefits. Most importantly, U.S. exports would be on a much more level playing field in global markets. Export-oriented production in the United States would expand. Domestic businesses competing with imports would gain competitive breathing room and expand their production. The manufacturing sector in the United States would expand. The reduction in trade deficits would lead to less future income leaking out of the U.S. to foreign investors.

Globalized supply chains are fragile. Industrial policy and trade protection can support their resilience

In recent decades, multinational corporations have prioritized maximizing short-term profits, even at the expense of investing in the resilience of their supply chains. For example, a company that focuses on maximizing current profits might source all inputs from the single lowest-cost producer. They might also minimize the size of their inventories of key inputs to production since inventories, by definition, are inputs not being sold in the current period and generating profits.

This short-term focus both ignores risks to the company's own operations from supply chain disruption and creates a negative spillover cost for other businesses and consumers that rely on their products. In the jargon of economists, underinvestment in supply chain resilience creates a negative externality, a cost of business that is absorbed by others besides the actor undertaking it.

Underinvestment in supply chain resilience is a valid target of industrial policy interventions, sometimes including trade protection. For example, businesses focused on resilience should spread production of key inputs among different producers to hedge against the risk of disruption at a key link in their production chain, even if this modestly boosted the current cost of producing these inputs.[8] This could also include "reshoring" of key inputs if policymakers were worried about threats to resilience stemming from international conflicts that would stop the ability to source imports. One way to ensure this greater regional diversity (including a larger role for U.S. production) of key inputs could include trade policy measures like tariffs.

This logic lies behind the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act passed in the Biden administration. It offers subsidies for chipmakers to set up manufacturing facilities within the U.S., largely in hopes of avoiding the extreme shortage of chips that drove the first wave of inflation in the post-pandemic recovery. There are also undeniable geostrategic issues driving the CHIPS Act (for good or for ill), but even these geostrategic concerns largely center on the basic question of how to make the U.S. economy more resilient to economic shocks.

Further, a resilience-minded business could maintain buffer stocks of key inputs (such as semiconductor chips or fuel oil), so they can keep production flowing in the event of supply delays or disruptions. Failure to do so can create large costs for the firm and the broader economy, as evidenced by the inflation stemming from pandemic- and war-related supply shocks between 2020 and 2024. One obvious long-running example of this is the Strategic Petroleum Reserve, which the federal government can run down or build up to help smooth out fluctuations in energy costs.

Because individual companies are unable to ensure systemic supply-chain robustness, the rational incentive for them is not to incur costs trying to do this. This market failure defines a key role for policymakers in creating incentives for investments to make supply chains more resilient. Besides creating incentives for more private investment, there are also explicitly *public* roles for policymakers in bolstering resilience. One key example is having federal agencies monitor supply chains for areas of weakness. Providing subsidies or other public supports for investments in resiliency is a worthy priority for policymakers concerned with the challenges of globalization.

The U.S. should buffer its workers against abusive foreign labor practices and incentivize trading partners to strengthen labor standards

The U.S. should reward countries that respect labor rights with preferential access for their imports and incentivize other countries to enforce higher labor standards. Laws and regulations protect workers and businesses against having to compete with producers willing to exploit vulnerable workers within the domestic economy. Given that, there is good reason to be concerned when this kind of unfair competition is embodied in imported goods as well.[9]

Much of the wage differential between U.S. workers and workers in lower-income countries like Mexico and China is driven by productivity differentials. The U.S. economy is the most productive in the world, while productivity (defined as average output generated in an hour of work) is much lower in our lower-income trading partners. But some of the wage differential between the U.S. and other countries reflects not just productivity differentials, but the state of labor standards and enforcement.

Econometric analysis by Rodrik (1999), for example, shows that the level of democratic institutions has large and significant impacts on national wages. Rodrik finds that moving from a level of democratic quality that characterized Mexico in 1999 to a level characterizing the United States in that year could see wages in Mexico increased by up to 40% even with no change in productivity. Palley (2005) further finds that this effect runs entirely through greater degrees of democracy leading to higher levels of labor standards, measured by the number of International Labour Organization (ILO) “core labor standards” ratified in a given country. In short, even after accounting for productivity differences, labor can be made significantly cheaper through nondemocratic, exploitative labor regimes.

Widespread violation of labor rights and democratic norms is problematic for fairness and for the competitive position of U.S. workers. In countries like China, substantial investments in production technologies and human capital development (health and education) are narrowing the productivity gap with the United States, which should, in theory, lead to less wage pressure. But if the degree of labor exploitation intensifies, this can undo some of the useful lessening of wage pressure that should have accompanied Chinese productivity growth.[10] Even when low-income countries might wish to boost labor standards, the destructive race-to-the-bottom logic of global competition among open economies can lead them to hold back for fear of losing export competitiveness and foreign investment attractiveness.

There are many potential benefits for both U.S. workers and for workers throughout the world to engage in economic competition along many margins. But the scope of useful competition should be focused on who can make their exports more efficiently, not who can more effectively serve up their own nation’s workers for exploitation—whether by local or multinational firms. When trade competes on low labor standards, few of the potential benefits from trade flow to workers.

Two different groups have resisted efforts to incorporate enforceable labor standards within the structure of existing international trade rules. On one side, there are developing country interests concerned about losing the comparative advantage of exploitation who see labor standards as a kind of neoprotectionism. In theory and reality, strong labor protections favor, rather than hinder, growth in late-developing economies (Storm and Capaldo 2018). On the other side are advanced economy corporate interests profiting from this exploitation by substituting workers in their own countries for oppressed workers offshore.

The linkage between trade policy and labor standards has a long intellectual history, yet very few workable proposals have been made during that time. For most of this debate, the primary focus was on whether enforceable labor standards should be part of the main treaties governing the global economy, whether it be trade agreements between countries or multilateral agreements like the World Trade Organization (WTO). But these efforts largely aimed to put the onus for enforcing labor standards on national governments that may not have the capacity, resources, or interest in upholding worker rights instead of on the companies profiting from the exploitation. Further, the efforts were hampered by the need to achieve unanimity among parties to an agreement.

A different model was instituted with the so-called Rapid Response Mechanism (RRM) in the U.S.-Mexico-Canada Agreement (USMCA) that entered into force in 2020. In addition to implementing new and improved labor laws in Mexico, USMCA's RRM allows enforcement of labor standards at the *factory level* by an independent panel investigation (rather than a government inspector for whom incentives may be conflicted) when freedom of association and collective bargaining labor rights are violated. While the RRM represents a substantial policy innovation, it is not a match for the challenge of lifting labor standards at a systemic level. To date, only slightly more than two dozen cases have been alleged (ILAB 2025). Meanwhile, wages in Mexican manufacturing today are *below* their level in 2002 in inflation-adjusted terms and now stand at just 10% of U.S. manufacturing wages, or a mere $2.76 per hour.[11]

A ranking system for countries based on respect for labor rights

There is, however, no real reason why the U.S. must wait until new trade agreements are signed to begin the process of incentivizing better labor standards in trading partners and buffering U.S. workers from destructive competition. Rodrik (2019), for example, urged the U.S. to institute unilateral domestic safeguards.

The broad brush of our proposal is simple. The United States (perhaps led by the International Labor Affairs Bureau (ILAB) in the Department of Labor) should work with other international bodies and experts to develop a five-tiered ranking of countries around the world based on their respect for labor rights.[12] Tier one would be countries that have legislated and successfully enforce the highest degree of labor protections around the world. Tier five would be countries whose labor regime is so odious that the U.S. should simply refuse to accept their imports until it is improved. In between, tier two countries should face a 5% tariff on all exports to the U.S., tier three countries a 10% tariff, and tier four countries a 15% tariff.

Are we positive these are the exact right number of tiers and tariff levels? Of course not, but that's something that could be researched and assessed by the institutional staff assigned to this task. Further, this proposal is not meant to be calibrated to precisely solve the entire problem of differing labor standard regimes around the world. Instead, it is meant to show that the U.S. government takes seriously how labor is treated around the world and how that spills over onto workers in the United States. It is also meant to provide a competitive buffer against unfair competition that is a bit more than purely symbolic. The highest tariff level here (15%) would cut roughly in half the wage penalty imposed by being in the bottom tiers of democracy or labor standards enforcements identified by Rodrik (1999) and Palley (2005).

One difference between this broad proposal and some others that try to address the "social dumping" of exploitative labor practices is that it is country-based, not product-based. Often proposals aimed at integrating labor standards and trade policy require a finding that abusive labor practices provide a competitive advantage in a particular export good. We think a country-based approach makes more sense for two reasons.

First, it requires much less granular information to sort countries into tiers based on their general approach to labor rights than it does to investigate the cost structure of every possible export to the United States and how it might be impacted by labor practices at particular plants. Second, poor countrywide labor practices have powerful externalities that will pull down wages paid in exporting plants, even if the plants themselves have decent labor standards. Export plant owners only have to pay wages above those in the surrounding labor market to attract the workforce they need. If the surrounding labor market has wages suppressed by substandard national labor policy practices, then the exporting plant can have decent labor practices within its walls yet benefit strongly from the substandard national labor environment. Given these considerations, a commitment to provide better market access to entire nations based on their labor practices is a more workable policy.

The highest tariff level in this broad proposal would not be trivial, and it certainly might apply to large and important trading partners like China unless they make some welcome changes to their labor rights regime. In this sense it might sit uneasily with our skepticism about the use of tariffs in the previous section on trade deficits. We argue that it doesn't. This labor standards-based tariff would be in effect regardless of the state of trade balance between countries. It does not aim to reduce trade deficits (and it cannot). Further, unlike the second Trump administration's tariffs, it has a clear goal and specifies a clear road map for how trading partners could change their behavior to have it removed.

Harmonizing climate policies will help reduce greenhouse gas emissions and strengthen U.S. industry

Without harmonized climate regulations, individual countries risk the migration of greenhouse gas-intensive production to low-standard locales and the replacement of domestic production with carbon-intensive imports. This dynamic means that national climate policies and emissions regulations might simply push production to lower-standard locales rather than reducing global emissions overall. If, for example, the U.S. instituted a carbon tax and China did not, instead of reducing carbon emissions globally, some of the effect of this U.S.-based tax could be to push production that emitted carbon offshore to China. This "carbon leakage" would undermine the environmental goals of the carbon tax, and it would see U.S. producers of these emitting industries having to find new economic activity to engage in for no particularly useful reason.[13]

All of this is highly theoretical so far. The U.S. does not have robust regulations against carbon emissions (in part because of rollbacks to key greenhouse gas regulations during the first Trump administration), and no such regulations seem to be on the horizon. But if the day comes when some countries want to move ahead with stricter emissions controls, these countries should have the freedom to use trade tools like tariffs based on the carbon content of goods to ensure that production is not just moved offshore.

But until there are internationally harmonized climate policies, the progressive approach to globalization for the United States would be to leverage trade policies to herd the global economy toward reduced greenhouse gas pollution and other economic practices that threaten planetary boundaries critical for sustained life on Earth (Richardson et al. 2023). As with labor standards, U.S. trade policy could be designed to reward countries pursuing climate change-mitigating policies that incentivize foreign producers to reduce polluting emissions and clean up their manufacturing industries. The latter could be accomplished by forcing the internalization of costs of greenhouse gas emissions embodied in imports. By preventing "leakage" of emissions to foreign pollution havens, U.S. climate policy would also ensure that domestic, emissions-intensive industries would not be put at a cost disadvantage while shouldering the burden of adjusting to low-carbon production on their own.

The European Union is already putting such a policy regime in place with the Carbon Border Adjustment Mechanism (CBAM). This mechanism, in essence, levies a tariff on goods equivalent to the cost of greenhouse gas emitted during production in the country of origin. Beginning in 2026, EU importers will be required to purchase CBAM certificates covering the embodied emissions they import, consistent with EU pricing for equivalent emissions. Foreign producers that pay for emissions costs domestically will receive credits against fees due under the CBAM. Initially, the EU's CBAM will apply to imports of iron, steel, and aluminum products; cement; fertilizer; hydrogen and electricity goods; with the mechanism expanding to cover imports from additional emissions-intensive industries, such as chemicals and polymers, down the road.

A policy to level the playing field in terms of emissions pollution is critical both to addressing the imminent climate crisis and to ensuring fair competition for U.S. industries. These industries are among the world's cleanest producers but are up against other countries whose rapidly expanding production capacities are among the world's dirtiest (Hersh and Scott 2021). During the Biden administration, the United States and European Union made strides toward a cooperative regime to limit unfair global competition from polluting imports with the Global Arrangement on Sustainable Steel and Aluminum. The agreement would provide a platform for onboarding like-minded countries intent on greening the most pressing industrial emissions (Mullholland and Meyer 2024; Malhotra and Tucker 2023). Legislators have already introduced a number of proposals for U.S. versions of a CBAM (JEC 2024).

This approach to limiting global greenhouse gas emissions and the competitive advantage for polluting countries also may conform to World Trade Organization (WTO) rules. The WTO carves out explicit rights for national regulation of "process and production methods," recognizing that traded goods can be distinguished by *how* they are made, although WTO case law has yet to define clear boundaries for how such distinctions can be regulated (Benson et al. 2023; Porterfield 2023).

New international agreements should focus much more on taxes than on trade

Most of the benefits of freer trade can be secured by countries unilaterally and do not require international agreements. If a country decides that it is in their economic interest to allow imports to enter without tariffs, they do not need to strike an agreement with a trading partner to allow this. These unilateral tariff reductions are usually the largest source of estimated gains from trade by far.

Taxing capital income (profits from corporations and returns to wealth), however, is different. Here, effective policy *requires* some degree of international coordination. Without this, some countries will seek to become tax havens and carve out benefits for themselves at the expense of other countries' ability to tax the richest entities in society. [14]

The levers of international reform that would end tax havens and profit-shifting by rich corporations are well known and require political will to enact. One obvious lever would be for countries to agree upon and adopt a global minimum tax on corporate profits, regardless of where profits are booked. Proposals to adopt such a global minimum tax could, by themselves, raise roughly $500 billion over the next decade (Clausing 2021). The Biden administration made some promising first steps in cobbling together an international coalition to adopt and enforce such a tax—but future policymakers need to build on this progress, not tear it down.

Other reforms would build on Senator Sheldon Whitehouse and Congressman Lloyd Doggett's No Tax Breaks for Outsourcing Act (2025), which would, among other things, fully tax the foreign income of U.S. multinational corporations, eliminate the tax-free return on foreign tangible assets, and eliminate a subsidy for excess profits from exporting that exists in current law. The overarching principle is that taxes owed should depend on the level of income, not the type of income (or one's accountant's creativity in claiming what type of income is being earned).

The current method of taxing capital incomes, and especially the corporate income tax, provides an incentive for corporations to shift both accounting profits and tangible production abroad.[15] The current tax method essentially subsidizes firms to generate income outside of the United States. This is a perverse and inefficient setup, one aiming to serve the interests of rich corporations rather than the broad U.S. economy. It can be stopped with some straightforward policy changes.

Conclusion

Donald Trump's approach to trade policy is bad for the United States and the rest of the world. But this does not imply that the pre-Trump global trade regime was working well. As usual, Dani Rodrik (2019) has put it best, arguing about Trump's first term: "In a way, *one of the worst consequences of Trump* [emphasis added] is that he is reinforcing the views of the architects of the existing system as to why there shouldn't be a change."

The flawed approach inherited by Trump's first administration perpetually sought to extend a set of international agreements and norms that privileged corporate interests over workers. From a progressive perspective, the bad part of this system was that it privileged *corporate interests*. From Trump's perspective, however, the bad part was that it was a set of *international agreements.*

The Biden administration made some useful breaks with past practice on globalization. While the administration did not go far enough on many margins, it set off in a useful direction. The administration prioritized the effect of trade on workers, not just consumers, and didn't prioritize corporate-led trade agreements. Key industrial policy targets aiming to solve market failures were put ahead of ideological fealty to free trade. In short, the Biden administration was not simply a return to the pre-Trump globalization regime that was so bad for American workers—instead they had tentatively begun charting a new path.

The second Trump administration has completely spurned this new path and doubled down on xenophobia and dominance displays as the center of trade policy. If this policy approach continues, it will lead to a poorer United States and a poorer global economy. It will not lead to a renaissance of good jobs in manufacturing.

At some point, a serious approach to the challenges of globalization will need to be reestablished. We hope this paper can help spark and inform that more serious debate.

Notes

1. See Bivens 2017 for an overview of the effect of globalization on American wages and how policy has amplified the harms of globalization. U.S. Bureau of Labor Statistics (BLS), "Table A-4. Employment Status of the Civilian Population 25 Years and over by Educational Attainment: Monthly, Seasonally Adjusted" retrieved from FRED, Federal Reserve Bank of St. Louis, February 12, 2025. David H. Autor, David Dorn, and Gordon H. Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review* 103, no. 6 (2013): 2121–2168.

2. The theory here (supported by evidence) is called the Stolper-Samuelson theorem. Its broad outlines are explained in Bivens 2017. The summary is that it predicts that trade with labor-abundant countries will lower wages in the United States and raise returns to other factors of production (like human capital).

3. See Mishel and Bivens 2021 for a decomposition of all the policy changes that led to wage suppression and wage inequality.

4. For a broad overview of trade deficits and their economic effects, see Blecker 2009.

5. See Steil and Della Rocca 2021 for an assessment of the economic effect of tariffs introduced in the first Trump administration. Another obvious issue in regard to tariff effects on the balance of trade is the retaliation that may occur.

6. See Gagnon 2020 for a discussion of countervailing currency intervention and its role in keeping trade deficits manageable for the U.S.

7. See Bivens 2019 on how different routes to deficit reduction imply very different outcomes for the welfare of most Americans. In a nutshell, deficit reduction achieved through higher levels of revenue raised progressively (mostly from rich households and corporations) can see deficit reduction go hand in hand with improved welfare for most, but deficit reduction achieved through cuts to income support, social insurance and public investment programs will harm welfare for the majority.

8. See Acemoglu 2021 for a broad discussion of how private investment decisions can lead to supply chain fragility.

9. See Rodrik 2019 for a good overview of these types of fairness concerns when domestic regulation and the rules of the global economy seem to conflict.

10. From 2010 to 2025, Chinese output per hour of work increased from 11% to 24% of the U.S. productivity level (ILO 2025a, 2025b). A recent ILO report (2025a) confirms China's expanding use of mass detention and forced labor in export industries. Friedman 2014 shows how labor regulation in China has evolved to increase repression as wages and development have increased—a model that is being exported to other developing economy countries with increasing Chinese foreign direct investment.

11. EPI analysis of ILO (2025b) and BLS (2025a, 2025b) data.

12. There are numerous bodies around the world that collect detailed information on the state of labor rights in countries around the world. Freedom House periodically publishes a report on the global state of workers' rights, the International Labour Organization and the International Trade

Union Confederation annually track countries' progress in protecting key labor freedoms, and the WageIndicator Foundation and the Centre for Labour Research collaborate to produce a tiered ranking of countries' labor protections called the Labour Rights Index. In short, much of the raw material to provide a ranking of the type called for in this report already exists.

13. See Sato and Burke 2021 for an explanation of "carbon leakage."

14. See Zucman 2015 for an overview of the problem of tax havens.

15. For evidence on this, see Kimberly Clausing, "Profit Shifting and Offshoring, Then and Now," and Rebecca Kysar, "Profit Shifting and Offshoring in the New International Regime," presentations for "Will the Trump Tax Cuts Accelerate Offshoring by U.S. Multinational Corporations?," a conference hosted by the Economic Policy Institute, May 7, 2018.

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