

# The neoliberal thinking that underpins Trump's tariffs ...

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I have [already noted this morning](#) that we need to be rid of neoliberalism if we are to have politics that cares about the well-being of people in this world.

Donald Trump's tariff policy is an example of how things can go horribly wrong when somebody builds their worldview upon the assumptions implicit within neoliberal economics, which are intimately related to neoliberal politics.

There is an assumption, often repeated in neoliberal economic papers published in leading peer-reviewed journals, that policy changes created as a consequence of the imposition of neoliberal ideas have an instantaneous effect.

So, it would be assumed that if Donald Trump created a tariff that increased the cost of car imports into the USA, meaning that the cost of European, Mexican, Japanese and Korean cars rise in that country, then US car manufacturing can increase its capacity instantaneously to meet the new demand that there will be for their products as a consequence of their prices now being relatively lower.

This assumption is very obviously completely absurd. It takes years to increase the capacity for car manufacturing in the USA, but neoliberal economists assume that this is not the case.

In fact, at one time, I think it was Paul Krugman who suggested that there were two main schools of thought in US economic thinking. The freshwater variety was based in Chicago, where Friedman and others were located, with the name deriving from the fact that it is near Lake Michigan. The seawater variety referred to the Ivy League universities on the East Coast, adjacent to the Atlantic Ocean. The freshwater variety of economic thinking presumed that changes in the economy arising as a consequence of policy changes were instantaneous. The seawater variety realised that there was always a time lag and that, as a consequence, government intervention in the economy was necessary to manage the processes of change that inevitably occurred as circumstances altered.

Both schools of thought were mainstream. Let's be clear about that. The difference was that the seawater variety was described as neo-Keynesian, because at least they thought that there was still a remaining role for government, and that role arose precisely because of time lags between decision-making and resulting actions.

Those who designed Donald Trump's tariff policy are clearly from the freshwater school of economic thinking. They think that if there are fewer Nissans, Kias, VWs or Minis in the USA, then, instantaneously, there will be more US-built Fords.

I have news for these people. That is not how the world works. You might get into a major economic journal making such a stupid mistake, but in reality, it will take years for Ford, General Motors, and others to up their production to meet demand for US manufactured vehicles, if they ever do given that there is going to be a massive slump in demand for vehicles in the USA because of the recession that is coming its way.

Let me draw the obvious conclusion. Neoliberal thinking is deeply dangerous. People who are able to persuade themselves of the merits of neoliberal thought processes do, as a result, detach themselves from the realities that exist in the world. There is no kind way of saying this, but there is a description for that detachment from reality, which is that it is madness. That is what we are witnessing.

We will pay a massive price for this madness.

Today's video could not be more appropriate.

We really do need to be rid of neoliberal economics.