Connecticut Debate Association

November 9, 2024

TH, as the US, should favor increased tariffs.

Tariff

From Wikipedia, the free encyclopedia

A tariff is a tax imposed by the government of a country or by a supranational union on imports or exports of goods. Besides being a source of revenue for the government, import duties can also be a form of regulation of foreign trade and policy that taxes foreign products to encourage or safeguard domestic industry. Protective tariffs are among the most widely used instruments of protectionism, along with import quotas and export quotas and other non-tariff barriers to trade.

Tariffs can be fixed (a constant sum per unit of imported goods or a percentage of the price) or variable (the amount varies according to the price). Tariffs on imports are designed to raise the price of imported goods and services to discourage consumption. The intention is for citizens to buy local products instead, thereby stimulating their country's economy. Tariffs therefore provide an incentive to develop production and replace imports with domestic products. Tariffs are meant to reduce pressure from foreign competition and reduce the trade deficit. They have historically been justified as a means to protect infant industries and to allow import substitution industrialisation (industrializing a nation by replacing imported goods with domestic production). Tariffs may also be used to rectify artificially low prices for certain imported goods, due to 'dumping', export subsidies or currency manipulation.

There is near unanimous consensus among economists that tariffs are self-defeating and have a negative effect on economic growth and economic welfare, while free trade and the reduction of trade barriers has a positive effect on economic growth.[1][2][3][4][5] Although trade liberalisation can sometimes result in large and unequally distributed losses and gains, and can, in the short run, cause significant economic dislocation of workers in import-competing sectors,[6] free trade has advantages of lowering costs of goods and services for both producers and consumers.[7] The economic burden of tariffs falls on the importer, the exporter, and the consumer.[8] Often intended to protect specific industries, tariffs can end up backfiring and harming the industries they were intended to protect through rising input costs and retaliatory tariffs.[9][10]

History of tariffs in the United States

From Wikipedia, the free encyclopedia

Tariffs have historically served a key role in the trade policy of the United States. Their purpose was to generate revenue for the federal government and to allow for import substitution industrialization (industrialization of a nation by replacing imports with domestic production) by acting as a protective barrier around infant industries.[1] They also aimed to reduce the trade deficit and the pressure of foreign competition. Tariffs were one of the pillars of the American System that allowed the rapid development and industrialization of the United States.[2]

The United States pursued a protectionist policy from the beginning of the 19th century until the middle of the 20th century. Between 1861 and 1933, they had one of the highest average tariff rates on manufactured imports in the world. After 1942, the U.S. began to promote worldwide free trade. After the 2016 presidential election, the US increased trade protectionism.[2]

According to Dartmouth economist Douglas Irwin, tariffs have served three primary purposes: "to raise revenue for the government, to restrict imports and protect domestic producers from foreign competition, and to reach reciprocity agreements that reduce trade barriers."[3] From 1790 to 1860, average tariffs increased from 20 percent to 60 percent before declining again to 20 percent.[3] From 1861 to 1933, which Irwin characterizes as the "restriction period", the average tariffs increased to 50 percent and remained at that level for several decades. From 1934 onwards, which Irwin characterizes as the "reciprocity period", the average tariff declined substantially until it leveled off at 5 percent.[3]

Tariff revenues

Tariffs were the greatest (approaching 95% at times) source of federal revenue until the federal income tax began after 1913. For well over a century the federal government was largely financed by tariffs averaging about 20% on foreign imports. At the end of the American Civil War in 1865 about 63% of Federal income was generated by the excise taxes, which exceeded the 25.4% generated by tariffs. In 1915 during World War I, tariffs generated 30.1% of revenues. Since 1935, tariff income has continued to be a declining percentage of Federal tax income.

Tariffs Are More Than Just Taxes. They Are a Tool of Geopolitics.

The Wall Street Journal, by Greg Ip, May 30, 2024

Duties on Chinese imports may hurt low-income consumers, but something bigger is at stake: U.S. economic security

When then-President Donald Trump began his trade wars in 2018, critics issued a three-word indictment: Tariffs are taxes. With President Biden maintaining many of those tariffs and Trump promising more if re-elected, the criticism has grown.

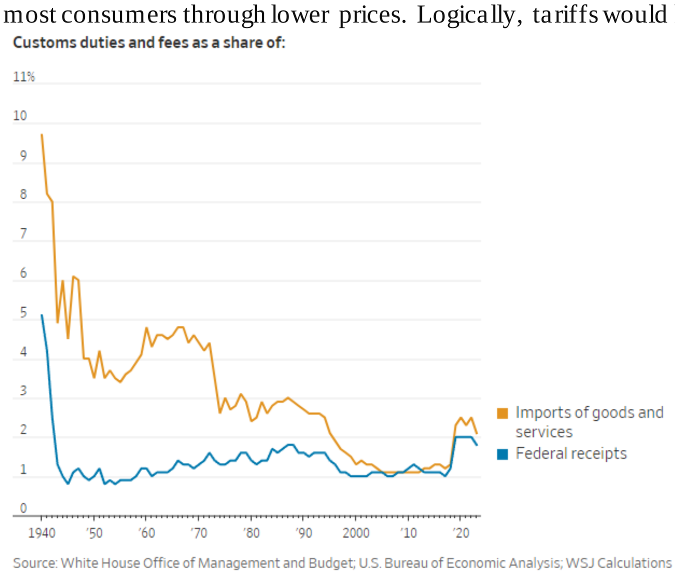
Two new studies show tariffs are regressive, meaning they fall more heavily on lower-income families who tend to spend more of their income on cheap imported goods.
Still, while who pays tariffs is hotly debated, it may not be what matters most. Duties on China aren't meant to raise money but to reduce U.S. dependence on a potential adversary. In that sense, they aren't like other taxes, or even like tariffs of previous eras.
In his definitive work "Clashing Over Commerce: A History of U.S. Trade Policy," Dartmouth College economist Douglas Irwin shows that tariff policy has gone through three distinct phases since the 1700s.

Revenue, restriction, reciprocity…

From independence until the Civil War, Irwin writes, the purpose of tariffs was mainly revenue: They accounted for 90% of federal receipts. From the Civil War until the Great Depression, the purpose was restriction: protecting northern manufacturers, then represented by the newly dominant Republican party, from imports.
A third era began with the passage of the Reciprocal Trade Agreements Act in 1934 empowering the president to negotiate lower duties if other countries did the same. Reciprocity remained the dominant paradigm after World War II as presidents of both parties sought to knock down other countries' trade barriers through a mixture of carrots (trade deals) and sticks (targeted duties and quotas).
Trump's initial tariffs on solar panels, washing machines, steel and aluminum mixed restriction and reciprocity, protecting some industries while pressuring Canada, Mexico, Japan and South Korea to revise their trade relations with the U.S.

…now realignment

The tariffs he imposed on China and to which President Biden just added are a different animal altogether. They are partly about restriction and reciprocity—protecting nascent industries and prodding China to change its ways. But the more fundamental goal is realignment: diversifying U.S. trade away from China. Its dominance in numerous manufactured goods and processed minerals, officials fear, gives China too much influence over the U.S. and its allies' economies and, ultimately, security. That fear has grown with the threat of a new "China shock" of cheap manufactured exports.
The office of Katherine Tai, Biden's trade ambassador, made this clear in explaining last week why many importers, after requesting extensions to their exclusions from the tariffs, were denied. Many "simply asserted that (alternative) products were unavailable because China remained the lowest cost source," it said. Extending their exclusions would simply delay the shift to "alternative sourcing and continue their dependence on Chinese suppliers and products, which undermines the goal of" changing China's behavior.
Who pays tariffs depends on myriad factors. While several studies found U.S. importers did pay more because of tariffs, those costs weren't necessarily passed on to consumers. Still, some researchers found the surge of imports from China following its entry into the World Trade Organization in 2001, while displacing millions of American workers, benefited most consumers through lower prices. Logically, tariffs would hurt those same consumers.



Poor people pay tariffs
Economists Amit Khandelwal of Yale University and Pablo Fajgelbaum of the University of California, Los Angeles illustrate this neatly by studying the increase in the "de minimis" exemption, below which small packages may enter the U.S. duty-free, to $800 from $200 in 2016. The authors found that 74% of direct shipments received in the poorest ZIP Code were de minimis, compared with 52% for the richest. De minimis is controversial: Many importers use it to circumvent the tariffs on China. E-commerce giants Shein and Temu use it to ship from China to the U.S.
Some in Congress, and Trump advisers, want it scrapped. That would hurt the poor, the authors say: People in lower-income ZIP Codes would lose $45 a year, compared with $35 for middle-income ZIP Codes and $81 for the richest.
At present, tariffs represent 2% of the value of imports. That would skyrocket to almost 17%, the highest since the passage of the Smoot-Hawley Tariff in 1930, if Trump is re-elected and carries out his threat to raise tariffs to 60% or more on China and 10% on the rest of the world, according to Sarah Bianchi and Matthew Aks of Evercore ISI, a brokerage.
That would really bite, especially on lower-income households. Kimberly Clausing and Mary Lovely of the Peterson Institute for International Economics estimate this would shrink the purchasing power of the 20% poorest households by 4.2%, but the top 1% by just 0.9%. This doesn't capture all of the costs, which include less-efficient producers gaining sales at consumers' expense and disruptions from reorganizing supply chains.

Tariffs as 'Pigouvian' taxes

Whether those downsides kill the case for tariffs depends on what they accomplish. Tariffs on China can be thought of as a "Pigouvian" tax. Named for the British economist, Arthur Pigou, such a tax offsets some collateral social harm—much as a carbon tax helps to reduce global warming. Consumers bear a direct cost from tariffs on China, but the U.S. as a whole gets a less-vulnerable, more-diversified supply base. Ending the de minimis exception eliminates a loophole used to avoid those tariffs.

Nonetheless, the distributional consequences are real. One response might be to rebate some of the revenue from tariffs to those hit hardest, as Canada does with its carbon tax. But as Clausing and Lovely note, Republicans' plan to extend their 2017 tax cut, large parts of which expire in 2025, would do the opposite, delivering disproportionately big benefits to the top 1% and little to the bottom 20%.

Tariffs are more than taxes. They are also an instrument of geopolitical competition. Nonetheless, like all taxes, they impose costs that need to be weighed against their benefits. It isn't clear what benefit could justify hitting the entire world with a 10% tariff, especially if the world retaliates.

IMF Knocks Biden's China Tariffs as Risk to US, World Growth

Bloomberg, By Eric Martin, May 16, 2024

Unimpeded commerce has been vital to US performance, IMF says

Fund has sounded alarm on fragmentation for more than a year

The International Monetary Fund criticized the Biden administration's decision to aggressively raise tariffs on some Chinese goods, underscoring its warning that tensions between the world's top two economies risk hurting global trade and growth.

"Our view is that the US would be better served by maintaining open trade policies that have been vital to its economic performance," IMF spokeswoman Julie Kozack said Thursday in Washington when asked about the move earlier this week.

IMF Managing Director Kristalina Georgvieva last month said "all eyes are on the US" as the fund has grown increasingly vocal in criticizing its biggest and most influential shareholder for the global impact of its policies. That includes Washington's surging debt levels, trade restrictions and industrial policies aimed at China, and even the impact of the Federal Reserve's tight monetary policy, which has weakened currencies globally against the dollar.

President Joe Biden on Tuesday unveiled sweeping tariff hikes on a range of Chinese imports, including electric vehicles, in an election-year bid to bolster domestic manufacturing in critical industries.

The president's top economic advisor, Lael Brainard, on Thursday defended the new tariffs as necessary to protect recent manufacturing and job gains in the US from "unfairly under-priced exports from China."

IMF research shows that fragmentation in the global economy can have a variety of outcomes, including potential losses for global gross domestic product of as much as 7% in a "severe fragmentation," equivalent to the combined output of the German and Japanese economies. The cost would be higher if there's a breakdown in trade and availability of technology, Kozack said.

"We also encourage the US and China to work together toward a solution that addresses the underlying concerns that have exacerbated trade tensions," she said. "And, more broadly, we urge all countries to work within the multilateral framework to resolve their differences."

The High Cost of the Trump-Biden Tariffs

The Wall Street Journal, By Phil Gramm and Donald J. Boudreaux, Jan. 17, 2024

The evidence shows they benefited a politically connected few, while U.S. consumers and producers paid the bill.

'National conservative" protectionists portray themselves as the adults in the room. They allege that free traders' focus on consumption imperils America's economy by undermining our ability to produce. President Trump's trade representative, Robert Lighthizer, declares that "production is the end," not consumption or efficiency. Analyst Oren Cass insists that "people's ability to produce matters more than how much they can consume." To promote production, they propose more protectionist measures.

But protectionism shrinks rather than expands production. It does so most directly by obstructing U.S.-based producers' access to inputs. As Dartmouth's Douglas Irwin has shown, more than half of American imports are raw materials or intermediate goods used as inputs in production. Restricting these imports raises producers' costs and thus hamstrings American production and competitiveness. Every job "created" or "saved" by tariffs, which force American consumers and users of protected inputs to pay higher prices, keeps noncompetitive firms operating.

Protectionism's assault on production shows up in the data. Consider Mr. Trump's tariffs, which he called "historically successful" and which Mr. Lighthizer continues to claim created manufacturing jobs. Although Mr. Trump's tax cuts and regulatory relief stimulated production, his tariffs worked in the opposite direction. Real per capita growth in gross domestic product accelerated from 0.93% in 2016 to 1.6% in 2017 and then to 2.4% in 2018, a 13-year high. But in 2019—the first full year of Mr. Trump's tariffs—annual real per capita GDP growth fell to 1.83%.

The record looks no better if we focus exclusively on manufacturing. Annual worker productivity growth in manufacturing hit its peak in 2011 and then began a slow annual decline. From 2011 to 2017, manufacturing worker productivity fell at an average annual rate of 0.65%. It then grew in 2018 with the implementation of the Tax Cuts and Jobs Act. But in 2019, when the Trump tariffs were fully in effect, the productivity of manufacturing workers plummeted by 2.2%—a larger decline than in any prior year dating to 2011.

A similar story is told by manufacturing output. Over the first three quarters of 2018 it rose by 2.5%, spurred by tax cuts and deregulation. As tariffs commenced, it quickly began to fall. By the last quarter of 2019 manufacturing output was 4.7% lower than it was in the third quarter of 2018. On the eve of the pandemic, 32,000 fewer Americans were employed in manufacturing than at the same point in the prior year. These realities are difficult to square with protectionists' assertions that tariffs encourage production and create or save manufacturing jobs.

The failure of Mr. Trump's tariffs to increase manufacturing employment is no surprise given that many American workers are employed in firms that import key inputs. His steel and aluminum tariffs, for instance, created a few metals-producers' jobs—1,000 in steel and 1,300 in aluminum. But for each American worker employed to produce steel or aluminum, 36 were employed in the production of goods that use steel or aluminum as inputs. When tariffs raised the prices of steel and aluminum, many of these workers were given pink slips. Using Federal Reserve data, Kadee Russ of the University of California, Davis and Lydia Cox of Harvard estimated that these tariffs destroyed about 75,000 manufacturing jobs.

Mr. Lighthizer counters that this comparison "ignores the fact that the biggest users of steel—transportation equipment manufacturing and construction—saw 1.4 million new jobs." This is a red herring. These new jobs resulted not from tariffs but from the largest infrastructure bill in American history. Not only did the steel tariffs, implemented by Mr. Trump and retained by President Biden, not cause the surge of infrastructure spending, they raised construction costs and reduced the amount of infrastructure that will be built.

The high cost of protectionism has been long documented. Surveying research on protections for various U.S. industries from 1950 through 1990, the Cato Institute's Scott Lincicome found that the average annual cost to American consumers per job saved during those four decades was $620,000 (in 2017 dollars). Moving forward a few decades, Peterson Institute economists Gary Clyde Hufbauer and Sean Lowry estimate the price tag for each job saved by President Obama's tire tariffs at $926,500.

More recently, researchers at the Fed and University of Chicago found that Mr. Trump's tariffs on washing machines created a measly 1,800 jobs at an annual cost of $815,000 each. As Mr. Hufbauer and his colleague Euijin Jung found, the annual cost to consumers for each job saved by the Trump steel tariffs exceeded $900,000. Creating jobs at these prices inevitably diminishes the nation's overall production. Jobs that don't pay their own way waste resources that would otherwise be used to increase production, investment and growth.

Given all this evidence, why does protectionism persist? The answer is politics. Although protectionism's overall costs are high, they are spread thinly over millions of consumers, making them difficult to detect. While the benefits of protectionism are small, they are concentrated. This buys political support.

Consider the 92-year-old U.S. sugar program, which severely restricts imports. U.S. consumers pay twice the world market price for sugar. The Government Accountability Office recently estimated that this program annually bestows between $1.4 billion and $2.7 billion in benefits to the roughly 4,100 U.S. sugar growers—between $341,500 and $658,500 for the average grower. The GAO also estimates that the annual cost of the program to consumers ranges from $2.5 billion to $3.5 billion. Yet because we all consume sugar, the average American annually pays only between $7.35 and $10.30 more in higher prices. Sugar growers are well aware of the benefits they get from protectionism and show it during election years with endorsements and contributions, but consumers remain largely unaware of the theft.

This dynamic works similarly in other protected industries. The beneficiaries are relatively few and vocal; the victims are numerous and muted. When a spokesman for the current U.S. trade representative suggests that Mr. Biden's protectionism will end trade policies that benefit "the powerful at the expense of the rest" he has it backward. Protectionism, by its nature, is a gift to the powerful paid for by the rest of us.

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The real reasons for the west's protectionism

Financial Times, by Gideon Rachman, SEPTEMBER 18 2023

The US and EU believe that it is not just their economies but their social and political stability that are at stake

"Trade freely with China and time is on our side." That was the confident view of George W Bush, the former US president, in the run-up to China joining the World Trade Organization in 2001. A generation later, many in the west have come to the conclusion that time was, in fact, on China's side.

Bush was making a political judgment. He believed that a China that integrated deeply with the global economy would become more open and more democratic. But under Xi Jinping China has become more closed and authoritarian. It is also more overtly hostile to the US. Meanwhile, China's rapid economic growth has funded a massive military build-up.

Some US policymakers now look back to the decision to admit China to the WTO as a mistake. They believe that the huge boost this gave to Chinese exports also contributed significantly to the deindustrialisation of America. Rising inequality in the US then helped to fuel the rise of Donald Trump.

That raises an awkward question. What if globalisation, far from promoting democracy in China, undermined democracy in the US? It would be an amusing historical irony — if we were not living with the consequences.

Fears about the health of US democracy underpin the embrace of industrial policy by the Biden White House. Biden has retained the tariffs on China imposed by Trump and added lavish subsidies designed to reindustrialise America and give the US the lead in the technologies of the future. The White House sees these policies as crucial to the stabilisation of American society and its democratic system.

Many in Europe were dismayed by America's turn towards protectionism and industrial policy. But last week's announcement of an EU investigation into subsidies for China's electric car industry suggests that Europe is starting down a similar path. The US tariff on Chinese cars is 27.5 per cent, compared with a current EU tariff of 10 per cent. But if the EU determines that China is unfairly subsidising its car exports, that could rise sharply.

China's response to the EU investigations was to accuse Europe of "naked protectionism". But some influential Americans were more sympathetic. Jennifer Harris, who helped to design US industrial policy in the Biden White House, tweeted: "Welcome Europe. Glad you're here now."

If Europe does indeed follow America in becoming more protectionist, it will do so for similar reasons — a fear that Chinese competition is undermining Europe's industrial base and with it social and political stability.

The motor industry is the most important manufacturing sector in Europe, particularly in Germany, the core of the EU economy. It is also one of the few areas where Europe has real world-leading companies. Three of the four largest car companies in the world by revenue — Volkswagen, Stellantis and the Mercedes-Benz group — are based in the EU.

But Europe's edge in the global motor industry is fast eroding. This year China is set to become the world's largest exporter of cars. The Chinese are particularly strong in electric vehicles, the cars of the future. This advantage will be hard to sha ke because China dominates the production of batteries and supply of rare earth minerals crucial to EVs.

The traditional free market response is to say that Europeans should be grateful if China provides cheap, reliable EVs to European consumers. The fact that these cars will be fundamental to Europe's green transition provides an added incentive to welcome Chinese EVs. But the social and political reality is more complicated. The automotive sector provides more than 6 per cent of jobs in the EU, according to the European Commission. This is often well-paid work that looms large in the self-image of countries such as Germany. Seeing those jobs migrate to China would be politically and socially explosive.

Support for the far-right Alternative for Germany is already surging in Germany, with many polls showing it as the second most popular party. Just imagine how it would be doing if the domestic car industry began to crumble as Chinese BYDs replaced German BMWs on the autobahns.

However, while protectionism sounds like an obvious and tempting solution for the EU, reality is much more complicated. Europe still needs Chinese inputs — in the form of batteries and minerals — to manufacture EVs for domestic sale. China is also the world's largest vehicle market and the biggest export market for Mercedes and VW. The latter makes at least half its profits there. If Europe slaps high tariffs on Chinese EVs, Beijing would almost certainly retaliate. On the other hand, EU companies are already losing market share in China and this decline seems set to accelerate.

These complexities could mean that Europe will not ultimately follow the American route and will have to quietly back down from its protectionist threats. On the other hand, the political and social pressure to save the European car industry is only likely to grow. The rise of populist and nationalist parties across Europe will intensify that pressure.

It is possible that the EU may end up pushing some sort of messy compromise such as "voluntary" export restraints o n Chinese EVs. But whatever the eventual outcome, it is clear that industrial policy and protectionism are once again respectable — on both sides of the Atlantic.

Tariffs Are for Losers

The Wall Street Journal, By Andy Kessler, Dec. 10, 2023

There is a bipartisan zeal for policies that misallocate capital and raise prices.

Who said this? "To really rebuild the industrial heartland of America, you need a committed national policy of tariffs, of protecting American industries." It was J.D. Vance during his successful 2022 campaign for U.S. Senate. This thinking is dangerous and pervasive—bipartisan battiness. In reality, tariffs impose costs on all Americans to subsidize a few jobs.

Missouri Sen. Josh Hawley, also a Republican, has proposed the Raising Tariffs on Imports from China Act. All he's missing is a colleague named Smoot to reprise the Smoot-Hawley Tariff Act and cause a market crash and depression. Mr. Hawley said in June that "in the last 20 years in the state of Missouri, we have lost 60,000 jobs to the People's Republic of China—that number nationwide is almost four million." No mention of the better jobs that were created. There were 130 million nonfarm payroll jobs in 2003 vs. 156 million today.

You're going to hear a lot about tariffs this election cycle. President Trump's tariff triplets—Steven Mnuchin, Peter Navarro and Robert Lighthizer—whispered populist gobbledygook in his ear that he was Tariff Man. Now Mr. Trump has proposed 10% tariffs on all imports. That sounds strong but it's actually a weakling move, especially with U.S. industrial capacity already near an all-time high.

In October, the Journal ran an article by Oren Cass of American Compass titled, "Why Trump Is Right About Tariffs." It's filled with dime-store economic thinking, claiming that tariffs are for raising government revenue and that our service economy is about "cutting hair" and "serving fast food." Mr. Cass completely ignores that phones, medical equipment and other imports are often designed in the U.S. Sure, they are assembled overseas, but their value, usually software, is created here. Should we put tariffs on search engines and social networks? Of course not. China blocks ours to force its citizens to use inferior products. Tariffs denote weakness, not strength.

With tariffs, you get false price signals and less innovation. They misallocate capital and human resources by having entrepreneurs chase fake opportunities. Domestic manufacturers love tariffs, which allow them to raise prices, but the rest of us have to overpay for goods while manufacturers become lazy. The largest and lowest-cost electric-vehicle manufacturer in the world, China's BYD, is effectively kept out of the U.S. by Trump and Biden tariffs, and we now have a glut of unprofitable and expensive domestic EVs.

If all the chips in an iPhone were made in the U.S., I calculate we would be paying close to $2,000 for one and unit sales would decline 50%. Would you upgrade at that price?

Margins matter. Capital flows to its highest returns. Trade-deficit figures don't tell you how profitable manufacturing is. Foxconn, which assembles phones for Apple, had an operating profit margin of 2.63% in 2022. Apple's was 30.2%. Should we go back to making low-margin clothes and toys or focus on perfecting gene therapy, generative artificial intelligence, next-generation logistics and advanced missile systems? We shouldn't encourage labor to deteriorate human capital in dead-end industries because that wastes energy, creates pollution and increases regulation. Tariffs steal the opportunity cost of doing something better.

The double whammy of tariffs and inflation damages our engine of growth. First, tariffs are inflationary. Second, raising prices destroys growth and jobs by killing elasticity, which is how lower costs drive higher sales—think PCs and cellphones.

The government is awful at picking winners and losers. President Carter wasted billions on synfuels. Fracking proved to be the answer. Remember the Obama car? In 2014 he gave Chrysler to Fiat hoping all Americans would drive the matchbox Fiat 500. I was hoping not to mention Solyndra, so I won't. But the Chips+ Act giving billions to Intel for fabs in Columbus, Ohio, is a waste. We could have prepaid for chips from a domestic source instead. About the only government trade policy that makes sense is denying our enemies advanced technology, and that's really a defense policy.

Compounding the tariff troubles, White House national security adviser Jake Sullivan has falsely declared a "Washington consensus" for an "industrial strategy." (Don't dare call it by the disgraced term "industrial policy," though that's what it is.) Politicians shovel money into EVs and green energy and "reshoring" supply lines. We all pay more.

It's baloney. Mr. Sullivan is again picking winners and losers. Let's take a quick snapshot of past industrial policy: Steel? Failed. EVs? Gluts. Price controls on medicine? Shortages. Renewable energy? It's pricing lower-income folks out of driving to work and heating their homes.

We have the world's strongest economy. Tariffs are a sign of weakness. Let markets, not vote-buying politicians, decide which industries will bloom from the ground up. Tariffs and industrial policy are for losers.

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Why Trump Is Right About Tariffs

The Wall Street Journal, By Oren Cass, Oct. 27, 2023

Taxing imported goods is unpopular with economists, but it could help the U.S. lower the trade deficit, strengthen its industrial base and safeguard national security.

Economists have reacted poorly to Donald Trump's recent proposal for a 10% tariff on all imports. Adam Posen, president of the Peterson Institute for International Economics, called it "lunacy" and "horrifying." According to Michael Strain, director of economic policy studies at the American Enterprise Institute, it would be "a disaster for the U.S. economy."

But why? After all, tax revenue is necessary to provide public services, and tariffs have long proved an effective way to collect it. In 1789, the first law in the first Congress—advocated by Alexander Hamilton, introduced by James Madison and signed by George Washington on the Fourth of July—established a tariff not unlike Trump's. For much of the nation's history, while growing from colonial backwater to continent-spanning industrial colossus, the U.S. imposed some of the world's highest tariffs, which were the primary means of funding the federal government.

Tariffs are distinctive as a source of revenue because they tilt the market away from imports and toward domestic production. Whether that's desirable or disastrous hinges on a series of questions that go to the heart of economic thinking: Does making things matter? Do a nation and its economy require a strong industrial base? Is a persistent trade deficit a problem?

Common sense, historical precedent and a great deal of economic logic and research suggest that the answer to these questions is yes. Domestic production has value to a nation, so a tariff that gives it preferential treatment can be sensible and even, to use the economist's favored term, efficient. Large, persistent trade deficits are bad for America, which means a tax on imports can help.

One reason that making things matters is that the economy's growth and dynamism depend on it. As Harvard University's Ricardo Hausmann and the Massachusetts Institute of Technology's Cesar Hidalgo have shown in their research on "economic complexity," a nation's ability to produce a wide range of sophisticated goods shape its future economic performance. "Countries grow based on the knowledge of making things," says Hausmann. "It's not years of schooling. It's what are the products that you know how to make."

Andy Grove, Intel's legendary CEO in its era of global dominance, offered a related observation about manufacturing's role in innovation. "Our pursuit of our individual businesses, which often involves transferring manufacturing and a great deal of engineering out of the country, has hindered our ability to bring innovations to scale at home," he warned. "Without scaling, we don't just lose jobs—we lose our hold on new technologies. Losing the ability to scale will ultimately damage our capacity to innovate." Grove's solution was "an extra tax on the product of offshored labor." That is, a tariff.

Making things also matters because the industrial economy provides an invaluable foundation for thriving local economies nationwide. While the U.S. economy now consists predominantly of services, a community cannot thrive on cutting hair, serving fast food and delivering packages alone. Undergirding the service sector there must be an industrial sector where people can create tradeable products, sent to the outside world for the many things the community needs and does not make itself. Industrial activity also tends to have a much higher "multiplier effect," rippling outward into greater local employment and investment.

And making things matters to national security. As Adam Smith acknowledged, it is "advantageous to lay some burden upon foreign, for the encouragement of domestic industry…when a particular industry is necessary for the defence of the country." In the 1700s, the principle seemed narrow, applying for instance to sailcloth and gunpowder.

But in a modern industrial economy, fielding a technologically sophisticated military and protecting the home front in times of crisis requires not only building and repairing billion-dollar warships but also the fabrication of advanced semiconductors, processing of rare earth elements and synthesis of pharmaceutical precursors. Each of these relies on its own complex supply chains, skilled workforce and long-term capital investments.

If global trade were working as promised, these concerns might be moot. Explaining the premise of international trade, Smith observed, "if a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry." With goods exchanged for goods, imports guarantee exports and thus expand production and consumption opportunities for both countries. By definition, domestic industry remains as robust as ever, perhaps more so, and certainly becomes more productive.

But the situation today is very different. In 2023, the U.S. will run a trillion-dollar trade deficit, representing $1 trillion worth of foreign goods consumed here, bought not with "some part of the produce of our own industry" but instead by selling U.S. assets such as Treasury bonds, corporate debt and equity, and real estate. In effect, America consumes on credit while giving away ownership of the U.S. economy and future claims on its output.

The imbalance is doubly damaging. First, the industrial base stagnates, as imports reduce demand for output without exports creating an offsetting increase. Whereas real manufacturing output doubled from 1980 to 2000, it rose only 7% from 2000 to 2020. As a result, after holding steady for 50 years, manufacturing employment collapsed by one-third, eliminating more than four million jobs. Automation is not the story here. To the contrary, manufacturing productivity has declined over the past decade—a shocking trend incompatible with a well-functioning capitalist system—leaving the sector far less competitive.

America's cumulative trade debt of $15 trillion and counting will hamstring future generations as surely as the federal government's fiscal debt. As Warren Buffett put it in 2003, "Our country has been behaving like an extraordinarily rich family that possesses an immense farm…We have, day by day, been both selling pieces of the farm and increasing the mortgage on what we still own." His solution was a system of "import certificates" to discourage imports and promote exports—or, in his words, "a tariff called by another name."

The persistent and ballooning U.S. trade deficit stands as a stark empirical refutation of the economic orthodoxy on free trade. Friedrich Hayek cited "how some necessary balance…between exports and imports, or the like, will be brought about without deliberate control" as a prime example of "the self-regulating forces of the market." Paul Krugman listed the insight that "trade deficits are self-correcting" among "the essential things to teach students." The school of thought that dismisses the case for tariffs is also a school that dismisses the possibility of the world in which we live.

In the world as it is, the U.S. cannot afford to be indifferent between purchases of goods produced abroad and ones produced by American workers in the American industrial ecosystem. In other nations, policy makers recognize that making things matters and aggressively tilt their own markets to attract investment and production, including with tariffs. Not by coincidence, and not because of some naturally occurring "comparative advantage," vital industrial functions like the production of semiconductors, rare-earth minerals and pharmaceuticals, all pioneered in the U.S., are now dominated by overseas operations.

Undoing this failure will take a range of policy measures—and time—but a straightforward place to start is a tariff that gives domestic producers an advantage and thus encourages new investment in domestic production. This would replace the vicious cycle of industrial decline in recent decades with a virtuous cycle in which new capacity and infrastructure, an expanding workforce, returning supply chains and rising innovation create the incentives and opportunities for more of the same.

Skeptics rightly warn that other countries may retaliate with tariffs of their own. Certainly, a world with higher tariffs and lower but more balanced trade is by no means ideal. Reversing the damage wrought by globalization will create winners and losers, just as globalization did.

But the U.S., with its enormous trade deficit and reeling industrial base, has much more to gain than to lose in the process.

Not until other nations conclude that the era of exploiting American passivity has ended can prospects improve for an international system in which all sides work to expand mutually beneficial trade.

The theories that claim to refute this strategy only beg the question. They begin from the assumption that persistent trade deficits and industrial decline are costless and conclude, unsurprisingly, that a tariff does no good. This perpetuates the "presumptuous error" for which John Maynard Keynes condemned economists nearly a century ago, of regarding "the balance of trade…as a puerile obsession, [when it] for centuries has been a prime object of practical statecraft."

U.S. policy makers—and citizens—should insist on a wider discussion about the full costs of unbalanced trade. If making things does matter, American trade policy should reflect it.

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Inflation Isn't the Only Reason Biden Should Lift China Tariffs

Bloomberg, By Yeling Tan, June 17, 2022

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Rather than pushing Chinese leaders to liberalize, the Sino-US trade war is intensifying domestic pressure on them to reject free trade in favor of self-reliance.

Facing intense pressure to bring down inflation any way they can, members of US President Joe Biden's administration are reviewing whether to drop some of the billions in tariffs on China imposed by their predecessors. They should — not just because of the cost to Americans of leaving them in place, but because of the impact on ordinary Chinese.

The international system of free trade relies on a crucial principle: reciprocity. This logic shapes economic interactions between nations and it works both ways. While cooperation can spur cooperation, retaliation can just as easily prompt tit-for-tat trade wars. Tensions with China emerged in part because US businesses felt they were not getting equal access to Chinese markets. The destructive spiral intensified as China responded to each round of US tariffs with its own taxes on imports from the United States.

Reciprocity does not just affect the behavior of companies and governments. It also influences how ordinary citizens think about trade.

Over the course of 2019 and 2021, I ran a series of surveys in China with David Steinberg, a political scientist at the School of Advanced International Studies at Johns Hopkins University, to assess how the trade war with the US had affected Chinese attitudes. As we detail in a new study, the US tariffs have substantially increased public support for protectionism in China — a country whose modern success has been built in large measure on its trading prowess.

When informed about the tariffs imposed by then-President Donald Trump's administration, respondents indicated they wanted China to adopt a more protectionist trade policy, too. We ran another survey in mid-2019, shortly after the US escalated the trade war by raising tariffs from 10% to 25% on $200 billion of Chinese imports. We found a sharp drop in baseline support for free trade, from about 6.5 points on a zero-to-ten scale to around 4.3. A third survey fielded in 2021 during the Biden administration found, yet again, that US tariffs had heightened protectionist sentiment in China.

The consistency of these findings across two years suggest that US trade policy has produced a durable increase in support for protectionism in China, regardless of which party holds the White House. Digging deeper, we found that this turn towards protectionism is only partially driven by the desire to retaliate against the US specifically. In fact, the tariffs appear to have increased support for protectionism as a general principle.

There are several reasons why this might be so. Tariffs may seem a legitimate means of self-defense. When the world's largest trading nation repeatedly engages in protectionism, it no longer seems inappropriate for other countries to behave in a similar fashion. Additionally, the economic uncertainty created by the trade war might have led Chinese citizens to downgrade the benefits of free trade.

Why should free traders in the US care? Judging by its statements, not to mention its membership in the Regional Comprehensive Economic Partnership and bid to join the successor to the Trans-Pacific Partnership, the Chinese government still recognizes the value of a more open world trading system.

Yet Chinese leaders ignore public sentiment at their own risk. Past practice suggests the Chinese Communist Party is attuned to public opinion and takes street-level attitudes into account in its decision making, including on issues of foreign policy. A more protectionist Chinese public makes it harder for the government to justify liberal trade policies, which could in turn accelerate the world's slide toward divisive trading blocs.

To sum up then: US tariffs have raised prices for American consumers and businesses without altering Chinese industrial policies. Efforts to resolve differences by getting China to purchase more US goods have also failed. And, rather than pushing China to liberalize, US tariffs have increased domestic pressure on the Chinese government to reject free trade in favor of self-reliance.

Lifting the tariffs entirely would have the biggest impact on inflation and also lower protectionist sentiments in China. But that may be impossible politically for Biden. Alternatively, his administration could set out a gradual timeline for tariff reductions, lifting the restrictions reciprocally if China also eliminates its retaliatory tariffs. This path would achieve the same ends but over a longer period of time. Reconfiguring the tariffs — lifting some while raising others — might help

stem prices of some goods. It's unlikely to increase support for free trade in China, however.
Finally, the Biden administration could reinvest in strengthening the World Trade Organization. Our research found that compared to unilateral tariffs, measures that challenged Chinese policies through WTO rules were less likely to trigger a protectionist response from Chinese citizens.
For decades, the US underwrote the smooth functioning of the international trading system. US leadership has been absent for too long. The longer Trump-era tariffs stay in place, the more overseas support for free trade crumbles. For more reasons than one, it's time to end them.

America should think twice before replacing sanctions with tariffs

Financial Times, Henry Farrell, SEPTEMBER 19 2024

The writer is a professor at Johns Hopkins University and co-author of 'Underground Empire: How America Weaponized the World Economy' with Abraham Newman, who also contributed
Donald Trump complains that they are undermining the supremacy of the dollar
Donald Trump likes to say that he alone can protect America from being "ripped off" by greedy allies. So why does he want to replace the one cornerstone of national security that foreigners subsidise, with a system that would make American consumers pay the costs?
In recent weeks, Trump has talked about moving away from US financial sanctions against Russia and China, which he claims are undermining the dollar and making China's currency more attractive. Instead Trump wants to turn tariffs into America's go-to tool for coercion. The threat of 100 per cent tariffs might force reluctant governments to stick with the dollar, or coerce skinflint Nato members into spending more on their military.
America does have an unhealthy relationship with financial sanctions. But it got hooked on them because it doesn't have to pay most of their costs. It makes foreigners pay instead. Trump wants to give this up, replacing US sanctions power with a costly knock-off of Chinese economic coercion.
It is unlikely that the former president is interested in the long-term risks of sanctions overuse. He probably wants to relieve pressure on Russia and cryptocurrency (which is increasingly clashing with the US security state). But even if he's insincere, he's not completely wrong.
Dollar power allows the US to press foreign banks and financial actors into service, forcing them to cut off adversaries' access to the global financial system. That is why America's financial sanctions are so powerful. But as officials like former Treasury secretary Jacob Lew have argued, the more that the US exploits the dollar, the more that other countries will look for ways around it.
Still, the dollar, if used carefully, allows America to conduct coercion on the cheap. China isn't nearly so lucky. It has to pay to punish others. The Chinese government doesn't control global finance, and has instead weaponised access to China's markets to inflict economic pain on other countries.
Cutting off market access hurts China as well as its targets, undermining its trade and weakening its prosperity. Chinese businesses and consumers lose their access to foreign goods, or have to pay more for them. For example, when China wanted to punish Australia, it manipulated regulations to stop imports of Australian coal. That didn't work very well. Limiting market access reportedly cost China $2bn a week while encouraging Australia to find lucrative markets elsewhere.
That is the approach that Trump wants to copy, using huge tariffs to cut off market access, instead of regulations. To borrow the language of his opponent, Kamala Harris, Trump wants to replace America's economic key security weapon with a vastly inefficient "sales tax" on American consumers and businesses. Instead of taking advantage of China's vulnerabilities, he wants to emulate them.
This would happen at enormous scale: Trump promises "bigger tariffs than you've ever seen in this country before". And as JD Vance suggests, it is likely to be used to punish allies as well as, or perhaps even instead of, adversaries.
Of course, the more that the US uses tariffs to punish allies, the more they will look for markets elsewhere. The German economy is already deeply entangled with China's. It will become more so if Trump wins and gets his way. The careful efforts of the Biden administration to build long-term co-operative arrangements with allies over semiconductor export and manufacture will be ripped into shreds.
It's true that the US has become addicted to financial sanctions. But punitive tariffs are a much harder drug, with harsher immediate side-effects and a worse long-term prognosis.

China's hypocrisy on trade

Financial Times, Rana Foroohar APRIL 1 2024

Complaining about US protectionism to the WTO while protecting your own economy is rich indeed
The definition of insanity is doing the same thing over and over again and expecting different results. It's a pattern that seems relevant to last week's headlines, including Chinese leader Xi Jinping's meeting in Beijing with more than a dozen American chief executives, in an attempt to quell their worries about doing business in the country.
This meeting took place when the US and UK had just imposed sanctions on hackers, whom they accuse of a long, China-sponsored effort to insert malware into the US electrical grid and defence systems. And when China has just announced

new guidelines to block AMD and Intel chips in its government PCs and servers. It also comes as global worries about Chinese electric vehicle dumping are sky high. And as Beijing has gone to the World Trade Organization to challenge the Biden administration's signature Inflation Reduction Act.

On this last point, all I can think is: seriously? Is there anyone blind to the hypocrisy of China challenging tax credits that support US clean energy producers for breaking WTO rules, when its entire economic model benefits from a double standard in which everyone seems to accept its own wildly discriminatory policies? China's economy is, after all, built on plans that lay out decades-long subsidies and protectionist ringfencing for the most strategic industries, including but not limited to clean energy, telecommunications and artificial intelligence.

This massive problem hides in plain sight. The word "protectionism" tends to only come up when the US or Europe attempt to impose tariffs or subsidies to protect their own industries. This is true even when it's for good strategic reasons such as the need to deal with climate change or create a just transition to the green economy for workers.

And yet, when it comes from China, protectionism is understood to be the status quo. The rest of the world seems to simply accept that this is the starting point of China's state capitalism; we sigh and wring our hands, all while hoping against hope that something in this picture will change.

Well, here's a newsflash — without a new approach, nothing will. The entire nature of China's political economy goes against the free trade assumptions of the WTO, not to mention the Washington Consensus, which held that emerging nations would simply fall seamlessly in line with free market rules written by western powers. We know that this has not happened. In fact, one of the best instances of progress of late has been policymakers (mostly in the US, but some in Europe, too) beginning to take their blinkers off and look at the world as it really is.

You can see this in the statement issued by US trade representative Katherine Tai last week, following Beijing's request for WTO consultations. She pointed out the need for the US to tackle climate change while also strengthening supply chains, an issue amplified by last week's disastrous bridge collapse at the Baltimore port. But she also noted that the People's Republic of China "continues to use unfair, non-market policies and practices to undermine fair competition and pursue the dominance of the PRC's manufacturers both in the PRC and in global markets." You can sum up the takeaway here in three words: pot, kettle, black.

Europeans, like so many American chief executives, have long been wilfully blind to the fact that the global trade model and the institutions that support it are not built to deal with today's reality. But we may be at a turning point.

As Tai told me last week, "Europe's existential concerns about the effects of Chinese EV dumping have reached a fever pitch." Meanwhile, developing countries, including many in Africa, "are asking for more policy space, because China gets it." Translation: if China can break the rules, why can't we?

This, along with China's new manufacturing stimulus plan, which is about to flood the world with even more cheap stuff, will only continue to expose the cracks in the current trade system. The true picture — that the WTO's rules are often a straitjacket for everyone but China — is becoming ever clearer.

How do we get to a better place? Not at the WTO as it currently exists; it's become a hub of technocratic wrangling and political posturing for domestic audiences. Personally, I like the idea of starting from scratch, and bringing together a core group of large deficit and surplus nations — the US, UK, Canada, Australia, China, Germany, South Korea and Taiwan among them — to acknowledge that we need new, purpose-built institutions in which to adjudicate disputes.

The rules of any new system must allow for a variety of political economies. There must be an understanding that countries have a right — indeed a need — to protect their own economic and political stability at home, even as they engage in global trade. These things should not be exclusive; that's the biggest lesson from China's own development story.

This will not be a simple process. But every day brings more evidence that the old system is broken. We've reached the limits of a model in which cheap capital searched for cheap labour regardless of the costs. That has brought us pharmaceutical shortages and WTO cage fights with no end, along with popular distrust in governments and business leaders who refuse to admit the obvious — we need to do something different.

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