



Those Reagan tariffs Trump loves to talk about

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NEW YORK (CNMoney) - When it comes to trade, Donald Trump's hero is Ronald Reagan.

To protect U.S. workers, Trump has threatened to impose tariffs on goods coming from China and Mexico and make them play by the rules. Trump likes to compare his proposals to the tariffs Reagan imposed on Japan in the 1980s.

Trump is a "free trader like Ronald Reagan...he'll defend America against any cheaters," says Peter Navarro, an economic adviser to Trump, and a professor at the University of California, Irvine.

But the results of Reagan's tariffs were a mixed bag. In some ways, they were successful. Before they were imposed, Japan was "dumping" or selling certain products below market prices to gain market share. After the tariffs, Japan started to play by the rules.

But trade experts argue the tariffs also cost U.S. jobs, increased prices and forced manufacturers to pay more.

"The answer is not to erect higher barriers -- in the long run, it's not going to work, it makes us worse off," says Clifford Winston, a senior fellow at the Brookings Institution. Trump's tariffs are "certainly not the answer to any employment losses."

The car quota that cost Americans

Winston has studied the impact of one of Reagan's first trade tactics against Japan -- a quota imposed in 1981 on the number of Japanese cars that could come into the U.S. every year. It was meant to give American car companies like Ford, GM and Chrysler some breathing room from foreign competitors like Toyota and Nissan.

It came at a time when the U.S. economy was in recession in the early 1980s, unemployment was rising towards 10% and inflation was high. U.S. companies were looking for any help they could get.

One result of the new trade restrictions against Japan was that American car companies hiked up car prices, pulling in record profits at the time, Winston found. They didn't have to fear losing customers to Japanese car companies.

U.S. car makers also lowered production in 1984 to help boost car prices. Less production meant fewer workers: America lost over 60,000 auto jobs between 1982 and 1984 due to the trade restrictions, according to Brookings.

Consumers got hit hard. The average car price rose by about \$1,000 at the time.

"Generally, [tariffs are] viewed as not terribly successful in terms of helping domestic industries," says Doug Irwin, a Dartmouth professor who worked on trade issues in the Reagan administration. The car quota "cost consumers a lot in the short run."

Reagan's tariff on Japanese motorcycles

In 1983, Reagan also slapped a 45% tariff on Japanese motorcycles in an effort to save one American company: Harley-Davidson.

Reagan sought to protect Harley, whose sales were slumping, partly because of competition from Japanese motorcycle makers like Kawasaki and Yamaha.

But some say Reagan's tariff was useless. First, Harley mostly made heavyweight motorcycle engines, and Kawasaki and Yamaha were already making those in the U.S. So, the tariff didn't apply to them.

The tariff was also specifically targeted at medium-size motorcycles with engines that were 700 cubic centimeters or more. So Japanese companies responded by tweaking their engine sizes down to 699 cubic centimeters.

"The benefit Harley received from the special import duties, I would estimate as approximately zero. It didn't help them," says Irwin. "The Japanese evaded the tariff."

Harley overcame its issues and became profitable in 1986 for the first time in five years. To generate good publicity, Harley asked the Reagan administration in 1987 to lift the tariff, which it did.

Harley did make a major comeback by the late 1980s but not because of its U.S. sales. Harley roared back because it sold more in, of all places, Japan. Harley's sales in Japan soared 56% in 1987 compared to the prior year.

Reagan makes Japan play by the rules

Reagan got even tougher on Japan in 1987, when he threw a 100% tariff on Japanese computers, televisions and power tools.

At the time, Japan was violating a trade agreement on semiconductors that Reagan signed in 1986 by selling them below market prices and refusing to allow American semiconductor producers to sell in Japan.

Americans ended up paying a lot for that tariff. The average cost of memory chips more than doubled to \$5.50 in early 1988 compared to \$2.50 in 1986, according to a report by the Cato Institute.

"It's impossible to help all Americans through protectionism...this is the big fallacy behind free trade" Sheldon Richman, a former editor at Cato who wrote the report, said in an interview. "By helping one group you're hurting another group."

Reagan did stop the hemorrhaging of U.S. semiconductor jobs. The industry's employment rose from 589,000 to 620,000 soon after the tariffs were imposed. But the number of jobs never returned to what they were before the tariff was imposed.

However, Japan allowed U.S. companies to sell in Japan, which was a victory and that tariff is viewed mostly as a success.

How similar are Trump and Reagan on trade

Some experts say the trade tactics of Reagan aren't the same as what Trump is proposing. But Navarro, the Trump adviser, argues that they are.

Navarro says Trump's tariffs would be just like Reagan's. That is, they would be "defensive" tariffs, responding to China's cheating ways. The tariffs would not be "protectionist," meaning they wouldn't solely be driven to shield U.S. industries from foreign companies.

Others say it's not exactly clear what Trump plans to do with tariffs. However, Reagan's actions were very specific and targeted. And while Trump wants to tear up NAFTA, a trade deal between Canada, Mexico and the U.S., Reagan championed it.

"He's talked about pulling out of NAFTA -- Reagan had the idea for NAFTA," says Irwin, the former Reagan staffer.

Irwin adds that Reagan would've likely been as wary of China as Trump. But the similarities end there, in his view.

"Trump doesn't seem to have a vision for what we're working for," says Irwin. Reagan "definitely had that vision for the future."