



EXTENDING LIBERTY TO THE NEXT GENERATION

THE PATRIOT POST®

PRO DEO ET LIBERTATE ~ 1776

The Real Tariff Gambit

Lewis Morris

March 7, 2018

President Donald Trump's plan to increase steel and aluminum tariffs has resulted in an unusual coalition of opponents. First there are the free traders in the GOP, led by House Speaker Paul Ryan and Senate Majority Mitch McConnell, then there's the globalist-minded International Monetary Fund, a smattering of big business trade groups, and, of course, leftist Democrats, who are against Trump's plan simply because it is Trump's plan. His top economic adviser, Gary Cohn, also resigned over it.

Trump doesn't mind or believe the opposition. "You know, when we're behind on every single country, trade wars aren't so bad," he argued. "You understand what I mean by that? When we're down by \$30 billion, \$40 billion, \$60 billion, \$100 billion, the trade war hurts them. It doesn't hurt us, so we'll see what happens."

It should not come as much of a surprise that Trump would raise tariffs. One of his major issues on the campaign trail in 2016 was the bad deal the U.S. was getting on trade agreements like NAFTA and the Trans-Pacific Partnership. His protectionist rhetoric won over voters in Michigan, Ohio, Pennsylvania and Wisconsin and helped secure him the White House.

Trump has already made good on his word by pulling America out of the TPP, and now he has NAFTA in his sights. NAFTA is currently being renegotiated, and Trump has made no secret that he is perfectly willing to walk away from the agreement altogether if disparities in manufacturing and technology that negatively impact American workers are not addressed. While everyone around Trump is getting a case of the vapors about him starting a worldwide trade war, it is Canada and Mexico who may be the real targets of the impending steel and aluminum tariffs.

As our Nate Jackson said last week, "Trump often uses policies and rhetoric as negotiating ploys. Much as he's verbally assaulted NAFTA, Trump may be merely setting a bargaining position, to be undone when he feels America's position is stronger."

Lo and behold, citing the trade deficits that the U.S. has with Canada and Mexico, Trump indicated via Twitter this week that he would be willing to make exceptions on the new tariffs

with the NAFTA partners, but only if a new trade agreement is signed that is satisfactory to U.S. economic interests.

The GOP leadership gave voice to the biggest concern about where Trump's actions will lead. "We are extremely worried about the consequences of a trade war and are urging the White House to not advance with this plan," Paul Ryan's spokeswoman AshLee Strong said. "The new tax reform law has boosted the economy and we certainly don't want to jeopardize those gains."

The case has also been made that if the tariffs are meant to punish China, then they will miss the mark. "Hitting China and Canada with the same tariff doesn't penalize China relative to anyone else," says Dan Ikenson of the Cato Institute. "That doesn't, and shouldn't, sit well with exporters from countries that have done nothing wrong." This includes allies such as Japan, South Korea and the European Union, who have already voiced their plans for retaliation.

EU officials have politically targeted Harley Davidson, based in Ryan's home state of Wisconsin, bourbon made in McConnell's home state of Kentucky, and orange juice from Florida, the perennial swing state.

Raising tariffs is certainly tricky business in our multi-layered global economy. It is almost impossible to avoid collateral damage in other sectors of the economy, as these retaliatory threats prove. But it is worth remembering that the U.S. is already subjected to unfair tariffs from Europe, where American agricultural products are virtually frozen out of the market, and Asia, where manufactured goods and technology have a hard time finding buyers because of high tariffs.

If other nations can use tariffs to protect their economies and workers, then surely America has a right to do the same. Charles Payne of Fox Business News points out that the EU is offended by America's new tariffs on steel and aluminum, but levies 10% tariffs on all U.S. car imports.

Pat Buchanan likewise challenged the assumption that trade protectionism is a surefire recipe for disaster. He writes, "Under protectionist policies from 1865 to 1900, U.S. debt was cut by two-thirds. Customs duties provided 58 percent of revenue. Commodity prices fell 58 percent. Real wages, despite a doubling of the population, rose 53 percent. Growth in GDP averaged over 4 percent a year. Industrial production rose almost 5 percent a year."

The new NAFTA deal is supposed to be reached by the end of March, so we may know in a few weeks if Trump's plan works or not. In the meantime, the broader argument about the wisdom of higher tariffs will continue to play out. And, who knows? If Trump has his way, it may lead to some more trade deals with other countries.