



## That Ship That Blocked the Suez Did What Tariffs Do Every Day

Patrick Carroll

Friday, April 2, 2021

The *Ever Given* may have been pretty stuck, but many other trade barriers remain far more entrenched.

“You don’t know what you’ve got till it’s gone,” as the saying goes. It was true of toilet paper and hand sanitizer last year, and this past week it was true of the Suez Canal.

Indeed, global shipping experienced a major disruption after a massive cargo ship called the *Ever Given* ran aground in the canal, blocking traffic in both directions. The ship was blown off course by high winds on March 23, and it got so stuck that it took six days before it could be refloated and cleared.

The Suez, of course, is a major bottleneck for world trade, connecting the Mediterranean Sea with the Indian Ocean. Typically, the canal is used by 50 ships per day, carrying roughly \$400 million worth of goods per hour. Overall, roughly 12 percent of global trade uses the canal, so it’s easy to see why this blockage was such a big deal.

Naturally, the disruption shocked the global supply chain, causing shortages and delays for many consumer goods. Oil prices also fluctuated as a result of the blockage, impacting gas prices around the world.

### Barriers Come in Many Forms

The supply chain shock is a stark reminder of just how interconnected the global economy is. Indeed, from gas to clothes to phones, almost everything we use comes from different parts of the world. The vast complexity of the global economy was perhaps best described by Leonard Read in his famous essay *I, Pencil*. In it, Read challenges us to imagine all the materials that go into making a simple pencil, and all the places they come from: cedar from Oregon, graphite from Sri Lanka, eraser material from Indonesia, etc. When you think about it, global trade really is a miraculous phenomenon, and it has been a primary factor in modern prosperity.

With that said, the tremendous benefit that trade brings means that barriers to trade can cause significant problems. The *Ever Given* blockage is a perfect example of this, and the ensuing disruption in global markets ought to show us just how damaging these barriers can be.

But trade barriers don’t usually take the form of a massive ship. Much more often, they take the form of government-imposed trade restrictions, like tariffs, sanctions, and embargoes.

In the US, for example, tariffs on sugar have been put in place to protect domestic sugar producers. As the Cato Institute reports, “a limited amount of raw and refined sugar...is allowed to be imported duty free through preference programs, or at the rate of 0.625 cents per pound.

Any sugar imported beyond the quota amount, meanwhile, is subject to a tariff of 15.36 cents per pound for raw cane sugar and 16.21 cents per pound for refined sugar. To put this in context, the world price of refined sugar in 2017 generally fluctuated between 17 cents and 25 cents per pound.”

So, depending on the price, the tax rate associated with importing extra sugar could be anywhere from 65% to 95%.

And that’s just scratching the surface. There’s also a tariff on Chinese-manufactured paper clips (yes, paper clips) of 127% in order to protect American paper clip manufacturers. Canned tuna from Ecuador will also cost you a 35% tariff, sneakers from foreign countries have a 20% tariff, tobacco imports are taxed...you get the picture. A whole array of industries have these import restrictions, and they all serve to protect domestic producers, but only at the expense of domestic consumers, who must pay higher prices as a result.

Unfortunately, since these special interest groups tend to be rather adamant about maintaining their quasi-monopolies, the tariffs that protect them tend to be very entrenched, much like the *Ever Given* was. But unlike the cargo ship, these trade barriers are largely invisible, so we don’t often see their detrimental effects.

This dichotomy, really, is what makes this story so fascinating. Here we had a stark visual representation of a barrier to trade in the form of a cargo ship. Pictures of its massive wall-like hull were broadcast to the world, and we all naturally regarded it as an impediment to the process that brings us wealth. And yet, while crews worked tirelessly to clear the vessel, the tariffs which, over time, have undoubtedly obstructed trade to a far greater degree were scarcely considered. Their impact was simply not visual enough to warrant the attention of the world.

And the greatest irony is that the governments of the world came out and underscored the need to clear the physical barrier, seemingly oblivious to the fact that they routinely double down on their own legislative barriers to trade that get in the way far more than the *Ever Given* ever could.

### **The Impact of Trade Barriers**

Henry Hazlitt uses the analogy of a wall to discuss trade barriers in his timeless book *Economics in One Lesson*. “For the erection of tariff walls has the same effect as the erection of real walls,” Hazlitt writes. Here, of course, our analogy is with a ship, but the point is much the same. Hazlitt continues:

“It is significant that the protectionists habitually use the language of warfare. They talk of ‘repelling an invasion’ of foreign products. And the means they suggest in the fiscal field are like those of the battlefield. The tariff barriers that are put up to repel this invasion are like the tank traps, trenches, and barbed-wire entanglements created to repel or slow down attempted invasion by a foreign army. And just as the foreign army is compelled to employ more expensive means to surmount those obstacles—bigger tanks, mine detectors, engineer corps to cut wires, ford streams, and build bridges—so more expensive and efficient transportation means must be developed to surmount tariff obstacles.”

The thing about barriers is that they are hard to get around. That’s what makes them barriers. With the *Ever Given* stuck in the Suez, for example, ships had to go around the southern tip of Africa, making their journeys much longer and more expensive.

But if our goal is to facilitate swift movement, erecting barriers is rather counterproductive. As Hazlitt writes, “on the one hand, we try to reduce the cost of transportation between England and America, or Canada and the United States, by developing faster and more efficient ships, better roads and bridges, better locomotives and motor trucks. On the other hand, we offset this investment in efficient transportation by a tariff that makes it commercially even more difficult to transport goods than it was before. We make it \$1 cheaper to ship the sweaters, and then increase the tariff by \$2 to prevent the sweaters from being shipped. By reducing the freight that can be profitably carried, we reduce the value of the investment in transport efficiency.”

The point is, barriers to trade always end up harming consumers, whether they are physical or legislative. But hopefully, now that we’ve seen how disruptive a physical barrier can be, we can turn our attention to removing the other barriers that are holding up the global economy.

If only there was a way to make them as conspicuous as a cargo ship.