Tariffs in Perspective

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The world is agitated over the U.S. tariffs with politicians and commentators being exceptionally polar on this topic. Tariffs are taxes levied on imports. They are attractive but misguided, at best, and destructive, at worst, when used in a trade war. The ghostly Smoot-Hawley Act of 1930 was a foolishly passed U.S. tariff whopper aggravating, rather than avoiding, the decade of the Great Depression.

The principle driving opposition to tariffs is that freer trade produces greater growth despite the desire for less free trade to protect certain businesses. When we see a fixed pie of wealth or products we tend to focus on redistribution when we should be growing that economic pie. The attractiveness goes by names like import substitution, protection of infant businesses, and mercantilism (requiring powerful navies). They all fail.

In over-simple talk, if the U.S. had to refuse buying avocados from a nation because they bought nothing from us, we would still want to buy those wonderful avocados because we are rich and can afford avocados giving only dollars in return. So what if we are losers? What would they do with the dollars? They would be stuck with them if they bought nothing from us. They would have to buy U.S. Treasuries to earn a little interest on a safe asset. That is almost as good as paying for avocados with a check the seller never cashes. I like that.

That is way too simple. The U.S. has a history of being concerned about a harmful imbalance of payments (trade deficit). France's President de Gaulle kept asking for gold bars instead of U.S treasury bills. That was aggravated by currency exchange rates which could be another dimension here.

Using fire to fight fire, or tariffs to fight tariffs, is not wildly in error provided it puts out the tariff fire. Tariffs are bad but imagining that tariffs are the only bad trade practice is delusional. There are several other impediments to trade that are just as harmful and much more difficult to remove.

It is tempting to start with Europe's Value Added Tax which is added to what we sell there, but we add sales taxes in each state. A U.S. car would face a 20% VAT in France ($11k on a $55k car) but a BMW (subject to the VAT unless sold in the U.S.) would face an 8.25% sales tax in Navada, 7.25% in CA or IL, and 7% in IN ($3,850 as IN has the 4th highest sales tax in the U.S.). Or 0% sales tax in DE, AK, MT, NH, and OR. We see sales taxes as normal, but they affect the price like a tariff. In CA you will pay tax on the 'sale' of your trade in. That is wild.

The opposite of a tariff is a government subsidy granted to various industries for political reasons. An colossal case of protectionism through subsidies is the European Union which, for romantic and political reasons, has protected its farmers. The Common Agricultural Policy subsidizes EU farmers. The result is that Eastern European and African farmers cannot compete, aggravating poverty in those regions. But the EU talks in terms of sustainability, stable supplies, and rural support. America has had a similar immense subsidy for cotton and Japan has one for rice. Both have a long-term high impact on the poor of the world.

Regulations similarly restrain trade when one nation imposes regulations on other countries. Even CA likes to impose rules on dishwashers and gas mileage often with national impact. These days shower heads may get relief from 30 years of federal regulation. Those may be small, but regulations related to social or climate goals are especially harmful and unrelated to actual economic factors that guide production and trade.

Janet Yellen, recent U.S. Treasury Secretary, wants a global corporation tax. She, joining many in the UN, says it is fair because it affects all countries. Fine. Are tariffs that affect all countries fair as well? If we think of a 10% tariff as an import sales tax or as a carbon tax on imports, would we be happier about tariffs?

Tariffs are visible enough for us to single them out for their deep faults. They are also changeable enough to be removed quickly in these decades of imperial presidential powers. We should focus on free trade and a smooth pathway for investment in widespread economic capacity as our guiding principles. Investment and trade promote human thriving, reduce poverty They also move us away from pretending that we can control the global affairs of people and nations through government policy decisions imagined to be wonderful.

We could also hope for relief from the soul-destroying side effects of consumerism and materialism.