Analysis of the Current Issue of Tariff Implementation

Ultius, Inc.

Writing Samples

01 Aug, 2018



Analysis of the Current Issue of Tariff Implementation

 Tariffs have been in the news as of late due to President Trump's economic policy of implementing them. The present essay will consider the subject of tariffs in a comprehensive way. The essay will be divided into four main parts. The first part will consider the concept of tariffs, and the second part will discuss the principles underlying the implementation of tariffs. Then, the third part will analyze the practical economic implications of tariffs. Finally, the fourth part will reflect on whether tariffs are in fact a good idea as a matter of economic policy. The main conclusion that will be reached here is that although tariffs seem superficially appealing in terms of protecting the American economy, they tend to have unintended consequences that often just make existing economic problems worse. Implementing them will thus be found to not be a good idea.

**1. The Concept of Tariffs**

In principle, tariffs are a simple concept. As Bryan (2018) has indicated: "A tariff, in plain terms, is a tax on goods coming into a country," and "the idea of a tariff is to push up the price of foreign goods to make the US-made option more attractive" (para. 4). The main idea here is that if a good is imported into America, then that good will have a surcharge attached to it, thereby making it more expensive than it would have otherwise been. That surcharge is what is known as a tariff. Of course, if a tariff makes a product more expensive, then this would discourage people from buying that product, since people are incentivized to buy less costly things and disincentivized from buying more costly things. The purpose of the tariff is thus fundamentally to make the foreign product less desirable in the eyes of the potential consumer. This is done so that the potential consumer may then consider an alternative product made in America instead, since that product would not have a tariff attached to it.

**2. Principles Underlying Tariffs**

The main principle underlying the implementation of tariffs can be identified as what is called protectionism. According to Investopedia (2018), "Protectionism refers to government action and policies that restrict or restrain international trade, often with the intent of protecting businesses and jobs from foreign competition" (para. 1). The idea here is that the government of the nation-state is responsible for protecting the economy of that nation-state from global economic dynamics. For example, it may be the case that cars made in America cannot compete on a free market with cars that are made in Japan. Under protectionism, the solution to this situation would be to not just let the market do whatever it wants, but rather for the American government to take proactive policy efforts to protect the American automotive industry from the dynamics of the global marketplace. Putting a tariff on cars imported from Japan could achieve this goal, since the tariff would make the Japanese car more expensive than it was before, which would then encourage potential consumers in America to opt for an American car instead. The idea is that the tariff would thus protect the American automotive industry when it might have lost customers to the Japanese automotive industry.

 Tariffs are thus fundamentally premised on the laws of supply and demand. These principles were elaborated by Adam Smith (2009) and they have been discussed endlessly since then. The laws of supply and demand suggest that the greater the price of a product, the lower the demand for that product will become, since the higher price will mean that there will be more people who do not believe that it is worth paying for the product. The purpose of a tariff is to increase the price of foreign products. So, since the price goes up, the demand should go down, as per the laws of supply and demand. The whole point of tariffs is to make demand for foreign products go down relative to the demand for domestic products, and raising the prices of foreign goods would in fact be one way to do this. Another way to do it would be to ban the importation of foreign goods, which would reduce the supply and thus also increase the price. In principle, a tariff is a way to put one's thumb on the scales of the laws of supply and demand and to manipulate those laws in order to achieve desired economic policy outcomes. In the example above, the desired outcome would be to get American consumers to buy American cars and not Japanese cars.

 Indeed, this is exactly what is happening right now in the world. As Crowe (2018) has reported, President Trump does in fact want to implement a tariff of 25 percent on foreign cars. So, imagine an American car that is worth $20,000 and a Japanese car of equal quality that is worth $18,000. In a free market, the American consumer may be more likely to go for the Japanese car, since, all else being equal, he would be getting the same functional product for $2,000 less. A 25 percent tariff, however, would raise the price of the Japanese car to $22,500. This means that whereas the Japanese car would have previously been $2,000 cheaper than the American car, it would now be $2,500 *more expensive* than the American car. So, when the American consumer now makes his decision, he would be more likely to go for the American car instead, for the same reason that he would have previously been more likely to go for the Japanese car. The laws of economics suggest that when a consumer has a choice between two products that are functionally equal, he would be more likely to go for the one that is less expensive, since that would be a pure win with no trade-off.

 Tariffs are thus antithetical to principles of the capitalist free market. Free trade has been defined by Ron Paul (2018) as "the voluntary exchange of goods and services across borders" (para. 3). This means that the global market is supposed to set the natural prices of goods and services on the basis of the mechanisms of the market's laws of supply and demand. By this logic, if a Japanese car is more affordable than an American car, then this is because the Japanese automotive industry is more efficient in production, and that industry thus has *every right* to offer cars on the global market for a more affordable price. Free market ideology would suggest that it is unacceptable for the government of any nation-state to get involved in these dynamics and interfere with the laws of the market, not least because the market is generally correct in its assessment of the value of goods and services on the market. From this perspective, tariffs, by corrupting the laws of the market, would ultimately get in the way of the generation of wealth.

 Protectionism, however, does not have this sort of faith in the pure free market. Protectionism focuses on the jobs, industries, and well-being of a given nation-state, and it involves making economic policy decisions on the basis of what would be best for that nation-state. From this perspective, it *would not matter* if pure free markets generate wealth for the globe in the abstract and in the long run. The important point would be whether the laws of the free market are hurting a given nation-state in tangible ways right now. If everyone in the world prefers Japanese cars to American cars, then this would mean that the American automotive industry would be at risk of going out of business. From the perspective of free market ideology, this would be an acceptable outcome, because if the American automotive industry is just out-competed, then the implication would be that it *deserves* to go out of business. From the perspective of protectionism, however, this conclusion would be unacceptable. This is because the importance of the American automotive industry would be accepted as a *premise,* with the only meaningful question consisting of how to save and/or protect that industry. The free market ruthlessness of just letting the whole industry crash would be antithetical to the fundamental values of protectionism.

 It is interesting to note that although protectionism is a fundamental aspect of Trump's platform, it is also sometimes supported by the political Left, since they are also skeptical of the virtues of unbridled capitalism. For example, the situation of the Carrier deal, where Trump persuaded a company to not get rid of its American workers, was an example of the protectionist ethos. The leftist Bernie Sanders (2016), however, attacked Trump's move, not because he disagreed with its ethos, but rather on the grounds that it *did not go far enough.* The political Left does in fact believe that economic dynamics should be subordinated to political values, which is in full agreement with the values of protectionism. The Left may or may not agree with tariffs as a valid method for achieving valid objectives, but in principle, they are not against the notion of interfering in free market dynamics. In fact, the people who disagree with tariffs on principle tend to be old-school (pre-Trump) conservatives who do in fact have faith in the independent workings of the free market.

 To summarize, then, tariffs are in essence a technique for interfering with the dynamics of the free market by artificially inflating the price of goods that were manufactured in foreign countries. The intended result is that domestic industries that would have been decimated in the global marketplace will now be able to thrive as a result of being "protected" from the latter. The underlying principle, which is that economic dynamics should be subordinated to political objectives and national well-being, is not necessarily an unsound one. But it is now worth turning attention to the question of how tariffs actually work in practice. Whether one agrees with the principle of tariffs or not is an ideological question that will depend on one's views regarding the merits or lack thereof of the globalized capitalist free market. However, it is also possible to ask the empirical question of whether tariffs do in fact achieve the objectives that they are intended to achieve.

**3. Economic Implications**

Tariffs are well-known to have unintended consequences. For one thing, when one nation-state imposes tariffs, other nation-states tend to impose retaliatory tariffs. For example, if America imposes tariffs on Japanese cars, then Japan may likewise impose tariffs on American cars, such that just as Americans would tend to buy American cars because of tariffs, Japanese people would tend to buy Japanese cars. This can become a serious problem if most of the market for the products of a given nation-state are actually abroad. For example, tariffs that are intended to protect the American automotive industry may provoke retaliatory tariffs that actually prevent other important American industries from taking full advantage of export markets, since the retaliating nation-states would now be actively trying to persuade their people to *not* buy American products.

 This can be seen in the real-world case of Harley-Davidson. As Rappeport (2018) has indicated: "The Wisconsin company said on Monday it would shift some production of its bikes overseas to avoid still retaliatory tariffs imposed by the European Union in response to Mr. Trump's trade measures" (para. 3). Harley-Davidson was compelled to do this because a large part of the market for its motorcycles are in fact in Europe, and the retaliatory tariffs imposed by the European Union against America would have made it impossible for Harley-Davidson to continue doing good business in Europe. So, in order to avoid the tariffs, the company decided to move some of its production facilities to Europe. Since tariffs only apply to goods that are imported into a nation, there would be no tariffs on the motorcycles if Harley-Davidson just manufactured the goods in Europe in the first place as opposed to importing them into Europe. The company believed that this was the only way it could sell products in the European market at a feasible price.

 This is an excellent example of how tariffs can have unintended consequences. The purpose of Trump's tariffs was to protect American companies; but as a result of the retaliatory tariffs from Europe, an American company decided to partly leave America itself. This was not what the tariffs were supposed to achieve, to put the matter as mildly as possible. Tariffs could theoretically work if there is only one nation-state imposing them. But this is almost never the case, since if one nation-state imposes tariffs, then the target nation-states of those tariffs almost always feel that it is a point of pride to respond in kind. To prevent other nation-states from exporting their products to America thus almost certainly means hurting America's export markets in those nation-states. This means that even if the industries that compete with imported products may have a competitive benefit as a result of tariffs, the industries that rely on export markets will be hurt by the implementation of tariffs.

 To take another example, Trump's tariffs on aluminum have unintended consequences for (of all things) the beer industry, since a very large amount of beer comes packaged in aluminum cans. As Dunham has indicated: "About 36% of the aluminum in beer cans is imported, and about 64% is sourced domestically. Regardless of where it comes from, the tariff will increase the price of all aluminum used in beer can manufacturing" (para. 3). This is because the 36% of aluminum has thus far been imported because that has been found to be economically optimal. If that is no longer an option, then either beer can manufacturers would have to source more expensive domestic aluminum, or the aluminum from abroad would become more expensive as a result of the tariff. Either way, the overall price of aluminum will increase.

 It is important to consider here that in principle, a tariff *always* increases the price of the targeted good by abolishing the less expensive option. For example, earlier in this essay, there was the example of the $18,000 pre-tariff Japanese car, the $20,000 American car, and the $22,500 post-tariff Japanese car. A point that should be made now is that with the implementation of the tariff, the $18,000 car would simply *no longer be an option* for American consumers. That is, whereas before they could have had a car for $18,000, now the most affordable option on the table would be $20,000. The American consumer would be incentivized to buy the American car, but it is still a fact that the absolute expenditure required from the consumer would be $2,000 greater than it would have been if he had been permitted to buy the pre-tariff Japanese car. This is the same effect that tariffs have on any product that has been targeted by them.

 This is another unintended consequence of tariffs, insofar as the purpose of a tariff is first and foremost to protect domestic industries. However, in order for tariffs to work, they would necessarily have to make targeted goods more expensive for potential consumers. (If the Japanese car had already been more expensive than the American car, then there would have been no need for a tariff in the first place.) This means that consumers either have to pay more, or they would decide to simply do without the good in question: the consumer would either have to pay $2,000 more for a car, or he could instead just decide to not buy a car at all. When this is combined with the fact that tariffs often provoke retaliation and thus harm American export markets, it becomes clear that tariffs could have the overall net effect of depressing both the domestic and the global economies. A tariff is in principle an arbitrary restriction on the laws of the market, and insofar as the market generates well, this means that tariffs could end up depressing the market.

**4. Are Tariffs a Good Idea?**

The above analysis reveals that tariffs are bad for consumers insofar as they increase the price of goods, and that they are also bad for American manufacturers insofar as those manufacturers rely on export markets. A tariff on steel or aluminum would essentially mean that manufacturers who use steel or aluminum would need to pay more for the raw materials they need; and this means that they would either have to choose to not make those products, or they would need to pass the extra costs on to the customers. Beer that comes in cans, for example, could become several percentage points more expensive than it was before, due to the additional price that brewers would need to pay for the cans, which itself would be the result of the fact that the tariff forced can manufacturers to pay more for aluminum (Dunham, 2018). Insofar as such consequences are undesirable in any industry, the conclusion must be drawn that the implementation of tariffs is not a good idea.

 The problem that emerges here is that the economy is a sensitive system with many interconnected moving parts, such that changing one aspect of the economic dynamics is sure to have ripple effects on many other aspects, including aspects that may not be readily predictable at first. For example, a tariff policy that was supposed to protect American manufacturers such as Harley-Davidson could end up causing such manufacturers to move out of America; and a tariff that had no intention of hurting consumers could nevertheless make the price of common products more expensive, especially when the tariff aims at materials such as steel and aluminum that are used in a wide range of industries. The "protect" the American economy thus amounts to making products generally more expensive for American consumers. It is like when a company charges a premium for product that are advertised as made in America, except that in this case, the government itself forces people to pay the premium by raising the prices of any foreign alternatives. Understood in these terms, most Americans would probably be against tariffs, insofar as most Americans would not appreciate being forced to pay more for a product that could be had at a more affordable price.

 Tariffs seem appealing because it intuitively makes sense that the government should take efforts to protect its people and the economy of its nation-state, and that the free market should not be given free rein if that means hurting actual American people. That much is arguably a sound principle. The present essay has shown, however, that tariffs have a range of unintended negative consequences, and that they do not necessarily achieve the stated objective of improving the well-being of the American people. Rather, tariffs often depress manufacturers, and they also make targeted goods generally more expensive for the American people. Neither of these outcomes are desirable. Therefore, while the pure free market may have several problems of its own, it is not clear that the implementation of tariffs is a sound empirical policy solution to those problems. There is merit to the idea that the American government should protect the American people, but it is perhaps necessary to seek policy options that could actually achieve that objective. In general, tariffs cannot.

**Conclusion**

In summary, the present essay has discussed tariffs in light of President Trump's current advocacy of the economic policy of protectionism. A key conclusion that has emerged here is that while there is some ethical soundness to the ideals of protectionism and its technique of tariff implementation, it is clear that at the empirical level, tariffs produce unintended consequences that often result in more harm than good to the American people and American manufacturers. Implementing tariffs is thus not a good idea, and it is necessary to find more effective methods for achieving desired economic outcomes.

References

Bryan, B. (2018, July 6). Trump just hit China with massive tariffs, kicking off a trade war. *Business Insider.* Retrieved from https://www.businessinsider.com/trump-tariffs-what-is- a-tariff-meaning-for-prices-consumer-2018-3

Crowe, J. (2018, July 25). Trump pushes for 25 percent tariff on foreign cars. *National Review.* Retrieved from https://www.nationalreview.com/news/trump-tariffs-plan-foreign-cars- 25-percent/

Dunham, J. (2018). Tariffs on aluminum are a tax on beer. Beer Institute. Retrieved from http://www.beerinstitute.org/tariffs-aluminum-tax-beer/

Investopedia. (2018). Protectionism. Author. Retrieved from https://www.investopedia.com/terms/p/protectionism.asp

Paul. R. (2018, March 13). Tariffs are not the answer. Mises Institute. Retrieved from https://mises.org/power-market/tariffs-are-not-answer

Rappeport, A. (2018, June 25). Harley-Davidson, blaming E.U. tariffs, will move some production out of U.S. *New York Times.* Retrieved from https://www.nytimes.com/2018/06/25/business/harley-davidson-us-eu-tariffs.html

Sanders, B. (2016, December 1). Carrier jut showed corporations how to beat Donald Trump. *Washington Post.* Retrieved from https://www.

 washingtonpost.com/posteverything/wp/2016/12/01/bernie-sanders-carrier-just-showed- corporations-how-to-beat-donald-trump/?utm\_term=.0b69142f3fd7

Smith, A. (2009). *The wealth of nations.* Blacksburg, VA: Thrifty Books.

Citation information

You are free to use this sample work for reference and research purposes. However, you **must cite it** and provide attribution to the author. The citation is provided below in APA format.

Ultius, Inc. (2012). *Analysis of the Current Issue of Tariff Implementation.* Free Writing Samples | Ultius. 01 Aug. 2018. Web.

If you need help with writing an APA paper, please visit <http://www.ultius.com>. Thanks for playing fairly.

[www.ultius.com](file:///C%3A%5CUsers%5CEric%5CDesktop%5Cwww.ultius.com)