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Guest **Column**

The case against tariffs

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To the relief of business and the financial markets, President Trump delayed indefinitely the imposition of increased tariffs on $200 billion worth of imported goods from China. The real victims of such ill-advised trade policy are U.S. importers, consumers, and exporters. Tariffs increase the cost of intermediate products used by local and foreign manufacturers who sell their goods in the U.S. as well as those who export their final products to consumers or other businesses.

A recent study by economists from the Federal Reserve Bank of New York, Princeton, and Columbia University estimates that the Trump tariffs were costing consumers over a billion dollars in lost income at the end of 2018. A May 2019 study commissioned by another group of economists from Harvard University, the University of Chicago and the Federal Reserve Bank of Boston finds that a 20% increase in tariffs on a typical good imported from China would yield only a 1% decline in the ex-tariff price and increase the cost of the imported product by 19 percent.

While on a macroeconomic level the damage from the trade war has been minimal, on a micro-level the policy has had a disastrous effect on agricultural exports to China particularly soybeans, and dairy exports. Indeed, retaliatory tariffs imposed by China have had a particularly harsh impact on Wisconsin dairy farms. A recent New York Times article cites some grim statistics regarding the effects of the trade war on Wisconsin dairy farmers:

- Termination of nearly 1,200 of the state's dairy farms
- A shift from production of milk and other dairy products to beef and vegetables
- 49 Wisconsin farms filing for bankruptcy
- A precipitous decline in milk prices further eroded by retaliatory tariffs

A $12 billion aid plan designed to address the damage of the trade war with China has had virtually no effect on the plight facing dairy farmers. One estimate suggests that a 55-cow dairy farm would receive a $725 onetime payment, an amount nowhere close to compensating that farm for an annual income loss of close to $50,000. This significant loss in farm income that could have been reinvested implies lost investment in American businesses in the billions of dollars if the trade war continues.

While certain domestic industries such as steel have benefited from the tariffs, other manufacturing industries using steel have incurred significant price increases, lost business, and lost jobs. According to the Bureau of Labor Statistics, job gains in steel, fabricated metals and electronic industries have been offset by job losses in 14 major manufacturing categories.

Domestically, industries that use steel as raw material have experienced significant price increases many of which have been passed on to consumers. In retaliation for tariffs placed on U.S. steel and other products, China and other trading partners have imposed significant tariffs on U.S. exports of textiles, clothing, and chemicals.

A continuation of the trade war with China and failure of the U.S. Congress to ratify the new NAFTA may result in dire effects on the United States as well as the global economy. Uncertainty regarding trade policy will lead to reduced investment globally, a loss of confidence, higher prices borne by consumers, volatile capital markets, lower wages, and inefficient capital flow.

Finally, this administration's use of tariffs as a cudgel to influence immigration policy and other geopolitical interests threaten to dislodge 60 years economic progress toward the elimination of trade barriers, which have resulted in expanded job opportunities and improved living standards for millions of Americans as well for those in foreign and emerging markets.

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