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COMMENTARY

Tariffs tank jobs

By Rik W. Hafer

One of President Trump's campaign pledges in 2016 was to correct "unfair" trade relations with other countries, especially China. He vowed to restore trade equality and in doing so restore jobs to America. How has that worked out?

In 2017 the current administration launched an examination of current trade policies, especially those with China. The results of that analysis led to imposing tariffs in stages on several countries. Focusing on China, stage one began in July 2018 with tariffs on $34 billion of their imports; stage two kicked in a month later with tariffs on another $16 billion of Chinese goods; and in May 2019 stage three added tariffs on another $200 billion of Chinese goods. And more tariffs are promised, not only on China but other countries as well.

By imposing tariffs, the president met a campaign promise. The tariffs have protected some domestic industries from foreign competition. But their overall effect has been to reduce the nation's economic output and decrease jobs. They also have not reduced our trade deficit, which now stands at record highs.

What is a tariff? A tariff is a tax imposed by a government on the imports from another country. The objective is to make foreign goods more expensive for you to buy. In theory, this redirects your demand away from foreign-produced goods to those

produced in the U.S. Put a tariff on, say, French wine and you will switch to less expensive American wine. Jobs in the American wine industry are saved! While it sounds simple enough, tariffs actually create a host of problems.

Most tariffs are not on final goods, like wine. An investigation conducted at the Federal Reserve found that over 50 percent of recent tariffs fell on intermediate goods, goods used as inputs to the production of another product. This disrupts supply-chain relationships that firms have with suppliers. Because a tariff thus raises a firm's cost of production, this leads to varied outcomes, none of which are good. Higher tariff-related costs can reduce a firm's profits, can lead to reduced output and laying off workers, or can result in higher prices for customers. Or all three.

Because of such supply-chain disruptions, the Federal Reserve researchers found that promised manufacturing job growth from the Trump tariffs never materialized. From early 2018 through late 2019, after the tariffs were enacted and before the pandemic hit, manufacturing jobs in those industries that directly benefited from the tariffs increased by 0.3 percent. The 1.1 percent job loss in all other industries, however, more than wiped out these narrow gains. This helps explain why manufacturing job growth peaked in early 2020, even before the onset of the pandemic.

Chad Brown, a trade expert at Peterson International Economics, is quoted in the Wall Street Journal as saying, "The economic impact is going to take years to play out." What might those longer-term effects be? The conservative Tax Foundation estimates that the enduring economic effects of the tariffs imposed thus far by the administration could reduce the nation's output by $58 billion. It also reports that the tariffs will slow the growth in wages and will reduce the number of full-time equivalent jobs in the future by about 180,000.

If this isn't bad enough news, analysts at the Tax Foundation find that if you include tariffs that the administration threatens to impose and the retaliatory tariffs that other nations plan to enact in reaction to ours, the economic damage is even worse. The total effect of the administration's tariff policy could cost the U.S. economy over $100 billion in lost GDP and over 394,000 fewer jobs.

Tariffs appeal to politicians because they allow them to look tough, standing up to

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foreign countries perceived as taking American jobs. While the administration's tariffs may have provided temporary comfort to a few targeted industries, the fact is that the rest of us will pay dearly for years to come.

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