

Trump's plan to make America poor again

The election season is here. Reasonable voters won't agree with every position taken by any candidate. Instead, reasonable voters will cast their ballots for the candidates whose positions most closely match their own – at least on the issues that these voters care about the most. Donald Trump's position on tariffs should annoy people who care a lot about good economic policy. Trump wants to impose a universal 10 percent tariff. This means that all goods produced abroad and sold in the U.S. will have to pay a 10 percent tax.

There is a lot to dislike about Trump's proposal but I will just concentrate on two of its problems. First, the tariffs would increase prices. For example, consider what happened when Trump imposed a 25 percent tariff on steel during his presidency. The tariff caused foreign producers to raise their steel prices in order to be able to pay the tariff. As a result, the foreign steel producers could no longer afford to sell steel at low prices, so the domestic steel companies were able to increase their prices without the fear of losing sales to low-cost foreign steel producers. The higher steel prices encouraged domestic companies to produce more steel. To do this, they had to hire more workers. This is exactly what Donald Trump points to. He thinks his steel tariffs created jobs.

Unfortunately, Trump is only considering half of the story. The

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This extra cost made some of their projects too costly to undertake, so they cut back on their production. Consequently, they needed fewer workers. So what was the net effect? The January 2 edition of the Wall Street Journal answers this question. The newspaper reports that after Trump imposed steel tariffs, the steel industry gained 800 jobs and the steel-using industries lost 1,600 jobs. So the tariff was probably responsible for reducing the number of jobs, not increasing the number of jobs.

The second problem with Trump's tariff plan is that it will make the U.S. poorer. To understand why, consider how trade makes a country wealthier. For example, when there are no tariffs (and countries trade freely), the U.S. has two ways that it can get the shirts it wants. First, it can produce its own shirts. Second, it can produce a different good, say John Deere Tractors, and trade those tractors for shirts. If trade is economically efficient in this case, for a given amount of resources, the U.S. will be able

other half of the story is that the higher steel prices increased the cost of all the domestic firms that use steel. Automobile, heavy equipment, and construction firms had to pay more for their steel.

to produce tractors and trade for more shirts than it could have produced on its own. These extra shirts represent the extra wealth that free trade enables.

A tariff will prevent the U.S. from gaining this extra wealth. It will encourage the U.S. to make its own shirts. We will produce fewer tractors because we won't need them to trade away for shirts. But the resources that are freed up won't be enough to produce the quantity of shirts that we were getting from trade. To produce these shirts, the U.S. will have to devote more resources to shirt production. These resources will no longer be used by the U.S. to produce something other than shirts. Now with less inputs available for these other goods, the U.S. will be able to produce fewer of these other goods. This decrease in output will make us poorer.

Trump's tariff policy sounds great if you only consider the benefits: The domestic shirt industry becomes more profitable and it hires more workers. But his tariff policy is less appealing once you consider its costs. In order to evaluate any policy proposal, a person must look at both the costs and benefits. A person who focuses only on the benefits will find themselves in favor of policies now that end up hurting them in the future.

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