My View: Trade tariffs would hurt Americans

Created on Tuesday, 28 February 2017 | Written by Robert McCullough |

1 Comment

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President Trump recently recommended punitive trade measures for two of the nation's largest trading partners, Mexico and China. Time will tell whether he is serious, or whether these are simply bellicose tweets.

To give Trump the benefit of the doubt, it is reasonable to assume he means what he says. Unfortunately, he is advocating measures with negative impacts on U.S. consumers and businesses.

A tariff is a tax on an import. As the world's largest economy, our policy has traditionally attempted to reduce tariffs across the world. The United States has more to gain from additional exports than it has to lose from additional imports. This is doubly true for Oregon, which has one of the largest export sectors in the country.

For commodities where demand is inelastic — that is, unlikely to fluctuate due to a change in price — the tariff is a tax on U.S. citizens. This is a likely outcome of placing a tax on avocados, since the United States is unlikely to find another supply source.

A more important question is what the impact of raising the price of components manufactured in Mexico will be on the U.S. car industry. One of the key features of the North American Free Trade Agreement (NAFTA) is encouraging integration of low labor cost components into the U.S. car industry.

For currently integrated automobile production, demand is very inelastic. Current and upcoming models are designed with specific integrated components in mind. Simply put, millions of Ford, GM and Chrysler cars will not be buying their components on eBay. An ill-judged withdrawal from NAFTA will be more of a tax on U.S. consumers and companies than on Mexico.

It gets worse, however. The U.S. has added $90 billion of investments in Mexico as a result of NAFTA. Trump's tariff will put pressure on U.S. industries in Mexico — a nation where nationalization is always a response to bullying by its more powerful northern neighbor. Even worse, the U.S.'s burgeoning exports of natural gas to Mexico will likely face a reciprocal tariff.

At the heart of Trump's revanchism is a factual misunderstanding. He assumes all international trade balances on a bilateral basis. This is an entirely facile view.

As a business owner, I sell my services in a variety of U.S. states and Canadian provinces. I buy services from local businesses. Starbucks has a positive trade balance with my firm since they are not one of our clients. The state of Illinois has a negative trade balance, since I do not live in Illinois, but I do have clients there. Most international trade does not balance bilaterally since our technology, services and commodities often are purchased by nations that have little to sell to the United States. Trump's proposal to tax Mexico's imports into the United States has as little sense as my threat to stop buying coffee at Starbucks since they do not use my firm's services.

There is little new about Trump's argument. It is the same vacuous idea that Adam Smith's "Wealth of Nations" rejected 240 years ago. Free trade was good policy then, and it continues to be good policy today. In this case, adding taxes on U.S. citizens and companies is more likely to be recessionary than anything else.

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