November 14, 2024 / There’s a new tariff in town

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SCORING <Tremendous Sideburns Beat>

NOEL KING (host): President-elect Trump was president-elected because he promised Americans he’d fix our economy. One plank of his platform: TARIFFS.

*<CLIP> PRESIDENT-ELECT DONALD TRUMP: The word tariff, properly used, is a beautiful word.*

NOEL: A tariff is a tax on imported goods. So tariffs on China mean that things coming from China will cost more. Usually, they cost YOU more. Is more expensive … GOOD? Donald Trump is making a genuinely interesting bet that you might decide it is.

GREG IP (*The Wall Street Journal* chief economics commentator): I'll give you a perfectly good example, the minimum wage. And when the minimum wage goes up, most of us will end up paying more for things like, you know, our hamburger or dry cleaning. And yet most of us vote for a higher minimum wage because we think it's fair. And I think that you have to sort of look at tariffs the same way, is that the people who are saying – looking at Trump's plan and saying, ‘His plan means higher costs for me,’ are also saying, ‘But there's also a question for fairness here. Is it fair that I get cheaper prices on everything but communities that depended on the production of the products that are now made in China are withering away and dying?’

NOEL: Coming up on *Today, Explained*.

[THEME]

*<CLIP> TEx SENIOR PRODUCER HALEEMA SHAH: You’re listening to Today, Explained.*

NOEL: I’m Noel King. Earlier this week, the president-elect told allies that he wants Robert Lighthizer to be his U.S. Trade Representative, the person who sets trade policy. Mr. Lighthizer was in this role from 2017-2021 and, like Trump, he loves a tariff. To ask what this might mean for ‘Merica we called Greg Ip, the Chief Economics Commentator at The Wall Street Journal who says Donald Trump is, at very least, consistent.

GREG: Well, he has been arguing more or less for his entire life, but especially in his last term as president and this term, that other countries take advantage of the United States. They sell us cheap products, but they don't buy anything from us. And as a result, the United States has a large trade deficit with most countries. And he would argue it's why we've lost a lot of good manufacturing jobs.

*<CLIP> CNBC, TRUMP: I put a 50% tax on China Steel coming in and every person in the steel industry, when they see me, they started crying. They would hug me. They would kiss me. ‘Sir, you saved our industry.’*

GREG: He says the solution is to raise tariffs on those imports, which would reduce trade deficits, force those countries to treat the United States more fairly, and bring back some of those good manufacturing jobs that have been lost over the last 10 to 20 years. Now, there's a wide debate among economists about just how effective this would be. But in terms of the messaging, there's no question that especially to blue collar or former blue collar workers in a lot of those battleground states, that kind of message resonated.

SCORING <#DoYourJobDoSomeResearch>

NOEL: So it sounds like what you're saying is that Donald Trump has a kind of unified theory on trade. Trade is a reality of economic life these days. What is Trump's theory on it and how does it differ from his predecessors?

GREG: In the United States since the 1940s at least, there's been a bipartisan consensus that more trade is good.

*<CLIP> PRESIDENT JOHN F. KENNEDY: We cannot protect our economy by stagnating behind tariff walls, but that the best protection possible is a mutual lowering of tariff barriers among friendly nations, so that all may benefit from the free flow of goods.*

*<CLIP> PRESIDENT LYNDON B. JOHNSON: We must expand world trade. Having recognized in the Act of 1962 that we must buy as well as sell, we now expect our trading partners to recognize that we must sell as well as buy.*

*<CLIP> PRESIDENT RONALD REAGAN: Instead of closing markets at home, we've opened markets to U.S. products abroad, thus helping to create more American jobs.*

GREG: So you've seen, generally, tariffs in the United States decline. And tariffs in our trading partners decline. And you've seen the United States embrace more free trade agreements such as with Mexico, such as with Korea, such as with Canada, such as the creation of the World Trade Organization. And this came from a bipartisan view that this made our workers more productive because they had bigger markets to sell into. It benefited our consumers because they got cheaper goods and a greater variety of goods. And it was also good for the US geopolitically because it helped us increase our economic bonds to countries in our… that thought the same way we did, politically. For example, it increased the strength of our alliances with Europe and with Japan and Korea.

*<CLIP> REAGAN: Our peaceful trading partners are not our enemies. They are our allies. We should beware of the demagogues who are ready to declare a trade war against our friends. Weakening our economy, our national security, and the entire free world, all while cynically waving the American flag.*

SCORING OUT

GREG: Trump comes along and he argues: This entire regime has been much more to the advantage of other countries than it has been to the United States. Countries like Japan and then Germany and now China have taken advantage of the United States’ fixation on free trade to increase their trade surplus with the US, sell us lots of manufactured goods and not buy very much from the United States.

*<CLIP> TRUMP: I want German car companies to become American car companies. I want them to build their plants here. I want to beat China in electronics production, and we'll be able to do that easily… <fade>*

GREG: So his entire mission, you know, from his first term and now into this one, is to reverse that relationship. And, he hopes, force those countries to buy more from the U.S. and Americans, to buy more from each other instead from imports. That's the theory, anyway.

NOEL: Donald Trump had a chance to do all of this from 2016 to 2020 when he was in office. What did he do?

GREG: So Donald Trump's first term in office, a lot of people thought, ‘Oh, this guy's coming in. He's a protectionist. He's going to destroy the world trading system.’ In the end, he did not.

NOEL: Hmm.

GREG: He did raise tariffs, for example, in a series of rounds of tariff increases. He imposed tariffs on a wide range of products from China. And this was pursuant to a long-running case that complained that China was just systematically unfair to the United States, stealing our technology and putting up barriers to U.S. exports to China. Then he imposed a variety of more bespoke tariffs on particular products.

*<CLIP> CBS NEWS: The new taxes will hit a wide range of Chinese imports, raising prices on items such as air conditioners, TVs, boats, furniture and toys.*

*<CLIP> MSNBC: The tariffs on washing machines will affect popular South Korean brands, LG and Samsung. The tariff on solar panels will be 30% in the first year.*

*<CLIP> BLOOMBERG: The White House announced that they were going to expand steel and aluminum tariffs, and what’s striking… <fade>*

GREG: But when all was said and done, what was interesting was that the total increase in tariffs for the United States was actually rather minor. And one of the reasons for that was because, first of all, there were many exemptions. And second of all, because often Trump decided that rather than stick with the high tariffs, he would strike a new deal with some of these countries. So, for example, with Canada and Mexico, he said, ‘I really don't like the North American Free Trade Agreement that my predecessors negotiated. We’ll replace this with a better agreement.’ And they did. And they called it the US Mexico-Canada Agreement. And because of that, the tariffs that Trump imposed on some imports from Canada and Mexico went away. As a result, at the end of Trump's term, you ended up with a trading system that looked a lot like it did before Trump, except with a few more bespoke tariffs here and there, and perhaps a little less deference to international rules such as those that are enforced by the World Trade Organization.

NOEL: So at the end of that first term, did… had Donald Trump gotten what he wanted? Had his plan worked?

GREG: If the test of Donald Trump's trade policy was a smaller trade deficit, then no, he didn't really achieve what he wanted.

SCORING <Skitch the Hyperloop>

GREG: The trade deficit when he left office was larger in dollar terms than when he entered office. Did some manufacturing jobs come back? Possibly. In this industry, that industry. But there also appear to have been some costs. There were industries that had to pay more for their inputs because of tariffs and they lost sales and possibly jobs.

*<CLIP> CNN: People we've spoken to here in the community are concerned and shocked by this news. They thought that these steel tariffs were going to bring back production and bring back jobs, but instead US Steel announcing that they are going to temporarily be laying off about 200 workers…<fade>*

GREG: And then, of course, some of our trading partners retaliated.

*<CLIP> CBS NEWS: China says it will now slap tariffs on $60 billion of U.S. goods. A foreign ministry spokesman said, “Mutual respect is the only right way out of this trade dispute. But the U.S. shows no sincerity or goodwill.”*

GREG: You did see some interesting changes in patterns of trade. So, for example, our trade deficit with China did begin to shrink. At the same time, though, you saw our trade deficit with Mexico and Vietnam grow. And what that told us is that some businesses responded to Trump's tariffs, not necessarily by bringing production back to the United States, but by moving it to another country – out of China, into Vietnam, into Mexico – that were not quite as affected by the tariffs.

SCORING OUT

NOEL: So Donald Trump had a chance. He did what he was going to do. And now he gets a second term. And he said he's going to do things differently. What are Donald Trump's plans for a second term?

GREG: The throughput of his campaign rhetoric was as follows: he wants to, number one, come down even harder on China. Instead of just putting tariffs on about half of China's imports. He's talked about a tariff of… a tariff on all Chinese imports of as much as 60%.

NOEL: Hm.

GREG: And in addition, instead of sparing traditional U.S. allies, he wants to impose an across-the-board tariff on everybody of to, say, 10 to 20%. So if you thought that you would escape Trump's tariffs by moving production out of China, maybe you won't, because the country you move it to will also face U.S. tariffs. And finally, maybe there weren't that many jobs created in the United States in his first term because the tariffs weren't broad enough. Maybe you'll see some jobs created that you didn't before because he's hitting a much broader range of products with tariffs. But there's a very big caveat to this, Noel, which is that we don't really know if Trump will end up doing exactly what he's talked about. We know that Trump likes tariffs, but we also know that Trump likes to make deals.

NOEL: Hmm.

*<CLIP> TRUMP: It gives you power in dealing with other countries, because China would come in and say, ‘no, no more tax, no more tax!’ They were absolutely fine for me to deal with because they were so petrified of me putting on additional tariffs…*

SCORING <All these pieces drifting into place>

GREG: So, as in his first term, we might see that the threat of tariffs is primarily a leverage instrument – you know, a negotiating chip – in which he goes to countries that he thinks treats the United States unfairly and says, ‘Here are some things we want you to do differently. And if you do as we ask, then we won't hit you with the tariffs that I've talked about.’

SCORING BUMP

NOEL: Greg Ip is *The Wall Street Journal* Chief Economics Commentator. Alright, so that’s the view from the USA. Coming up we zip abroad where tarrif-ied businesses and nations are reacting in tar-ror.

SCORING OUT

[BREAK]

[BUMPER]

NOEL: It’s *Today, Explained*. As Greg Ip of*The Wall Street Journal* was telling us before, the point of a tariff might be to make a country or a company change its behavior. Stop making your shoes in China, make them in the U.S. That will be great for America, Donald Trump is betting, but what will it mean for the rest of the world?

Last week, just a few days after the election, the shoe giant Steve Madden gave us a peek.

*<CLIP> FOX AND FRIENDS, MALE HOST: Steve Madden boots are made for walking, and that’s just what they’re doing – right out of China.*

*<CLIP> NBC NOW: Two-thirds of the shoes it sells in the US are imported, 70% of those from China. The company’s CEO, now telling investors: that will change.*

NOEL: It’s as if, Greg Ip, Donald Trump is already winning!

GREG: Here's the catch, though. They're not bringing that shoe production back to the United States, because the United States is a very expensive place to make shoes.

NOEL: Huh.

GREG: Instead, they're moving it to other countries in Southeast Asia and Latin America. So tariffs don't simply reduce imports or increase exports. They change patterns of trade.

SCORING <Neutral Mordecai>

GREG: So Steve Madden and every company like them is basically in their heads trying to juggle a whole bunch of competing possibilities. ‘Number one, the shoes that we make in China will be much more expensive in the US market because of these tariffs. So we either swallow that tariff ourselves – Oh we can't do that. That's too bad for profit. We pass that on to customers – Oh, we're going to lose some sales because the shoes are more expensive. Or we find another place to make our shoes.’ And it looks like that for now, they're going with option c, they're going to try and find another place to make those shoes.

MINI SCORING BUMP

GREG: Now, obviously, the reason they chose China in the first place was because they thought China was a cheaper, more efficient place to make them than some other place. So in moving from China to, say, Cambodia or Mexico, they'll be sacrificing something. They'll be sacrificing the efficiency of the Chinese internal supply chain, perhaps the productivity of Chinese labor, the ease of getting stuff into container ships in China and bringing them to the United States. So once they make this production change, it is probably still the case that the shoes that come to the United States will not be as cheap as they were when they were coming from China.

MINI SCORING BUMP

GREG: Now, here in the United States, if you're a shoe buyer, you're going to go into the store. And that shoe that used to cost $80, maybe it costs a few dollars more as a result. And you're going to have to make a decision. Are you going to go ahead and pay those extra few dollars or are you going to not buy shoes at all? Or are you going to buy shoes from a different manufacturer? And what we've seen from studies, for example, is that you see an adjustment across all these facets. You see a little bit of an increase in the domestic price, a little bit of an increase in purchases from other other sources and a little bit of a shifting of purchases from the supplier that was hit with the tariffs to the supplier that’s not.

SCORING OUT

GREG: I would anticipate that every US company is going through a similar calculation. But by the way, Noel, the Trump people are also going through a similar calculation. They know perfectly well that if they impose tariffs on everything, people's toys are going to be more expensive, people's avocados are going to be more expensive. Your iPhone is going to be more expensive and people aren't going to like that. And if it causes an inflation problem, that could also push up interest rates. And people aren't going to like that, either. And that's one of the reasons why I emphasize that just because Trump talked about tariffs in a certain way, it's not a guarantee that that's what we'll actually get. There'll be a lot of thinking and negotiating and study about how those tariffs are implemented. And is there a way that they can exempt certain products or certain countries so that there isn't as much of an impact on the US consumer?

NOEL: All right. So we understand why China would be frantic. Where else in the world is looking at Donald Trump's threats of tariffs and really freaking out?

GREG: The first country that needs to worry is China for all the reasons that we've been discussing, the second country that needs to really worry is Germany. Maybe Europe more broadly, but especially Germany. Because even though Germany is an ally and we don't think of them as a, you know, an unfair trader, the way we think of China. Like China, Germany has historically depended heavily on exports for its economic model, and that includes exports to the United States and exports to China. And right now, Germany is looking at a threat to both of those markets. They're finding that their sales to China are suffering because Chinese companies are competing with German companies and producing the same products, often for a much lower price and almost as good quality. So the German companies are worrying about losing sales in China and frankly, losing sales within Europe to Chinese competition. Now they look across the ocean and their are other big market, the United States. They're worried about what happens there. Holy cow. If Donald Trump imposes really steep tariffs on our automobiles, on our chemicals, on our motorcycles, all these other products, that's another loss of economic growth for us. And this all occurs at a time when the European economy, its own domestic economy, its consumers are incredibly weak. You know, Germany is virtually in recession right now. So I think it's not exaggeration to say that they are, as we say in economics, freaking out.

NOEL: Donald Trump has also been very antagonistic toward our neighbor, Mexico. Now, I read – I was looking into this earlier this week, and I read that Mexico's economy minister said, ‘Oh, we might just do the same thing. We might just retaliate and put tariffs on U.S. imports.’ What would that mean, and why don't more countries just threaten to do that: ‘If you're going to do this to us, we'll do it to you’?

GREG: Well, I expect that countries that are hit with tariffs or threatened with tariffs will, in fact, threaten to retaliate.

NOEL: Ah!

GREG: And I expect that some will, in fact, go through with that retaliation. And I think that is something of a flaw in the Trump argument.

NOEL: Mm.

GREG: If you go back to his first term, when they hit our allies with tariffs on steel and aluminum imports, a lot of people in the Trump administration said, ‘They won’t retaliate. The US market is too important to them.’ Well, that was only partly true. Japan and South Korea, for example, did not retaliate, but Canada did.

*<CLIP> CANADIAN PRIME MINISTER JUSTIN TRUDEAU: Let me be clear: these tariffs are totally unacceptable. <fade>*

GREG: Mexico did and the European Union did.

*<CLIP> EU COMMISSIONER FOR TRADE CECILIA MALMSTROM: It will hurt the European Union. It will put thousands of European jobs in jeopardy. And it has to be met by a firm and proportionate response.*

GREG: And that had very severe negative consequences. It had – hurt American farmers. It hurt, you know, exporters of whiskey to the European market, for one example.

*<CLIP> HERMAN MIHALICH: We have to plan two, three, four, five years out for sales – because, you know, we’re putting that whiskey into barrels today. Making decisions today that could overcommit the amount of cash into your inventory could be devastating.*

*<CLIP> ERIC GREGORY, NPR: So that's where the conflicted feelings are. We don't understand why, you know, we're kind of collateral damage… <fade here>*

GREG: So I think that it is definitely the case that you will see our trading partners say, ‘We will not take this lying down, okay?’ There’s a… Remember, they have domestic audiences, too. Just as Trump feels he has to stand up for American workers, the Mexican government feels like it needs to stand up for Mexican workers. European governments want to stand up for European workers, and the Canadian government wants to stand up for Canadian workers. And it's not really politically tenable for them to sort of just sit there and take it and not do anything in response.

NOEL: As we draw to a close. Greg, let me ask you this: We are told, based on what he has said, that President-elect Trump wants to remake, you know, a century-old agreed-upon global trade order, which is exciting in a way – if there are no like really severe repercussions, which, of course, there very well might be. How, how close can Donald Trump come to really and truly changing the way the world does trade?

GREG: Let's step back for a second. Why do countries trade? Trade is an amazing feature of modern economies. It allows every country to produce more and to consume more at lower cost and with wider variety than they could before. Countries should trade with each other for the same reason that people should essentially buy and sell from each other. It expands the market. It just makes all economic possibilities greater. And that was the driving principle of the reduction in trade barriers that the world enjoyed, including the United States, from the 1940s up until about 10 or 15 years ago. Donald Trump came along and he said, this deal isn't working well for the United States. And importantly, a lot of what Donald Trump said was true, because there were countries out there, China, number one among them, that were not playing by the rules that everybody else played by and that had real costs. It had costs to American workers and to American firms. And so in thinking about what the trading system looks like a few years from now, I can think of a couple of possibilities.

SCORING <GORE>

GREG: It's possible that Trump presses ahead with exactly what he said, raises tariffs on everybody, and then all those countries retaliate. They export less to us. We export less to them. Trade shrinks and everybody is worse off.

SCORING BUMP

GREG: There's another possibility here, which is that a lot of folks in the United States and in other countries say, ‘You know, he's right. The trading system was fundamentally good, but it went off the rails at some point. We need to get together. We need to remake that thing.’ So I think another possibility is that we end up a few years from now with a trading system, but a different trading system: More tariffs here. More tariffs there. Not as low as they were ten years ago, but not as high as they were, like, in the 30s. That's for sure. And perhaps a more realistic view of how China, above all – but some other countries, [too] – have not been playing by the rules.

SCORING BUMP

GREG: So I guess those are a couple of possibilities, Noel, that I would lay out for you that we might see a few years from now. But, you know, I think as we learn from the first term, one thing with Donald Trump – you can be sure of this – is that you should expect the unexpected.

SCORING BUMP

NOEL: Greg Ip. Chief Economics Commentator at *The Wall Street Journal*. Today’s show was produced by Amanda Lewellyn and Haleema Shah. It was edited by Amina Al-Sadi. Fact-checked by Laura Bullard. Mixed by Andrea Kristinsdottir and Rob Byers. I’m Noel King. It’s *Today, Explained*.

[10 SECONDS OF SILENCE]