The Inflationary Impact of Tariffs: A Critical Analysis - Aubrey Waddle

Tariffs, while often touted as tools for promoting domestic production and protecting local industries, are inherently inflationary. Understanding this requires a look at how tariffs function in a capitalist economy and their effects on both corporate behavior and consumer prices. This essay delves into the mechanics of tariffs, their implications, and why they fail to achieve meaningful long-term economic benefits without additional structural changes.

How Tariffs Increase Costs

When a tariff is imposed, it is paid by the importer—typically a company that brings goods or components into a country. For example, many automotive parts used by manufacturers like General Motors (GM) are imported from Mexico. If a 25% tariff is levied on these imports, as some administrations propose, it becomes an additional cost for the importer.

Theoretically, companies could absorb this cost by reducing their profit margins. However, in practice, companies are reluctant to do so. Corporate structures are designed to maximize shareholder returns, and profit margins are rarely sacrificed unless absolutely necessary. "Tariffs also discourage capital accumulation by increasing the cost of capital production. This raises the return on capital relative to labor, benefiting wealthy households" (*Federal Reserve Bank of Dallas*). Instead, companies offset increased costs through a combination of layoffs, wage cuts, reductions in employee hours, and price increases. "Tariffs raise the prices of tradable goods and services, and poor households spend relatively more on these than the rich" (*Federal Reserve Bank of Dallas*). These measures ensure that profit margins remain wide, as required by fiduciary responsibilities to shareholders.

The Inflationary Cycle

The introduction of tariffs triggers a predictable cycle. Initially, companies may attempt to cut costs by reducing their workforce or eliminating "waste," often defined as lower-level jobs or benefits. Concurrently, deregulation—if encouraged by the administration—may allow companies to cut corners on safety or quality standards to save money.

However, these measures are usually insufficient to fully offset the costs of tariffs. The final step is to increase the price of goods and services, passing the cost onto consumers. This directly contributes to inflation, as consumers pay more for the same products. In this way, tariffs do not merely fail to reduce costs; they actively drive prices upward.

Domestic Production: Another Inflationary Outcome

Proponents of tariffs often argue that they incentivize companies to move production back to the United States, creating jobs and reducing reliance on imports. While this may happen if tariffs are set high enough, it does not lower prices. Manufacturing in the U.S. is more expensive due to higher wages, stricter regulations, and other factors. Companies that shift production domestically will still seek to maintain profit margins, leading to higher prices for consumers. "The welfare implications of tariffs show significant heterogeneity; while they can promote domestic jobs, these come at the cost of long-term aggregate efficiency and price stability" (*Federal Reserve Bank of Dallas* 19).

There is no mechanism by which tariffs directly lower prices. Once prices rise due to increased costs, they rarely decline, as companies become accustomed to charging higher rates. This is particularly evident in industries like automotive manufacturing, where prices have consistently risen over time.

The Case for Tariffs and the Need for Structural Reforms

Despite their inflationary nature, tariffs can be justified in specific scenarios. For instance, if a country seeks to prevent domestic companies from exploiting low-wage labor in the global south, tariffs can discourage outsourcing. However, for tariffs to be effective without exacerbating economic inequality, additional measures are necessary.

One such measure is the implementation of price controls. By regulating the prices companies can charge, governments can prevent corporations from passing the costs of tariffs onto consumers. Additionally, policies that mandate profit-margin reductions, rather than workforce cuts or quality compromises, could help mitigate the negative impacts of tariffs. Without these controls, the primary beneficiaries of tariffs remain the corporations, while consumers and workers bear the brunt of the economic burden.

A Critique of Current Policies

The current and incoming administrations often propose tariffs as a solution to complex economic issues without addressing their broader implications. Tariffs, in isolation, are unlikely to achieve their intended goals. Instead, they risk exacerbating inflation, undermining consumer purchasing power, and destabilizing the labor market.

This critique highlights the inadequacy of such policies when implemented within existing economic structures. For tariffs to succeed in promoting domestic production and ethical labor practices, they must be part of a comprehensive strategy that includes price controls, labor protections, and corporate accountability measures. Without these, tariffs will continue to function as a regressive tax on consumers, disproportionately affecting the lower and middle classes.

Conclusion

Tariffs, while well-intentioned in some cases, are fundamentally inflationary and insufficient as standalone economic tools. They increase costs for businesses, which in turn pass these costs onto consumers, perpetuating a cycle of rising prices. To make tariffs effective, governments must pair them with structural reforms that protect workers and consumers from corporate cost-cutting measures. Without such reforms, tariffs are little more than a political gesture, failing to address the root causes of economic inequality and global exploitation.

What Led to This Right-Wing Understanding (or Misunderstanding) of Tariffs

The contemporary right-wing understanding of tariffs stems from a fundamental misunderstanding of global trade dynamics, often propagated by figures like Donald Trump and supported by ideologically similar orbiters. This perspective misinterprets trade deficits as a zero-sum game, where deficits signify "losing" and surpluses signify "winning." I aim to unravel the misconceptions about tariffs and trade, exploring their roots in reactionary economics, their parallels with fascistic ideals, and alternative, more equitable approaches to global trade.

The Misunderstanding of Trade Deficits

Central to the right-wing narrative is the belief that America's trade deficit—especially with major partners like China, Mexico, and Canada—indicates a loss for the country. This misconception views the U.S. as being taken advantage of by its trading partners, perpetuating a victim narrative. However, the reality is starkly different. The trade deficit is not evidence of exploitation but rather a reflection of the United States' role as a global hegemon.

America's trade deficit exists in a context where the U.S. wields unmatched military and economic power, maintaining over 800 military bases worldwide. Far from being the losing party, the U.S. leverages its global dominance to exploit the labor and resources of other nations, ensuring its economic supremacy. This system benefits from importing cheaper goods while maintaining a domestic focus on high-value industries, services, and military power.

The "Death Star" Analogy

To simplify, the U.S. operates much like the Death Star from *Star Wars*. It does not manufacture everything it needs; instead, it relies on the labor and resources of other countries. Just as the Empire maintained control through its Tractor Beam, the U.S. ensures global compliance through military and economic influence. The trade deficit, then, is not a sign of weakness but a symptom of America's dominant global position.

This nuanced understanding is often lost on right-wing commentators and policymakers, who advocate for tariffs as a solution. They believe bringing manufacturing back to the U.S. will strengthen the economy, ignoring the inefficiencies, higher costs, and inflationary pressures such a shift would create. This vision echoes fascistic economic ideologies, such as those of Nazi Germany, which idealized economic self-sufficiency as a symbol of national strength.

Flawed Policy Goals

The right-wing narrative on tariffs reveals a fundamental misunderstanding of the global economic system. It assumes that tariffs will address trade imbalances and restore economic strength without acknowledging the complexity of global supply chains and the role of multinational corporations in perpetuating these dynamics.

Even liberal economists, like those in the Keynesian tradition, often misunderstand the true implications of trade deficits, framing them as benign outputs of global trade cooperation. While this view is closer to reality, it still overlooks the exploitative structures underpinning global trade. Leftist thinkers, like Noam Chomsky and Michael Parenti, provide a more accurate critique: the trade deficit is not a flaw but a feature of a system designed to exploit labor in the global South for the benefit of multinational corporations.

Alternative Approaches to Global Trade

A more ethical and equitable approach to trade would prioritize global collaboration over economic dominance. For instance, China's Belt and Road Initiative demonstrates how infrastructure investments in emerging markets can foster mutual growth without the predatory practices associated with Western institutions like the IMF and World Bank.

If the U.S. adopted a similar approach, emphasizing fair trade practices and equitable development, it could foster global stability and reduce tensions with trading partners. However, this would require a radical departure from the current capitalist structure, which prioritizes shareholder value and profit margins over human development.

The Challenges of Implementing Change

Unfortunately, the U.S. political and economic systems are ill-equipped to adopt such transformative policies. The current capitalist structure offers no incentives for prioritizing equitable development over corporate profits. Lobbying groups and political campaigns are funded by entities that benefit from the status quo, making systemic change an uphill battle.

The liberal free-market ideology and the right-wing protectionist stance both ultimately serve the interests of capital owners, and more often than not harm the working class. While they differ in rhetoric, their policies prioritize the interests of shareholders and corporate profits. By contrast, a truly equitable system would prioritize global human development, even at the expense of profit margins.

Conclusion

The right-wing misunderstanding of tariffs and trade deficits reflects a broader failure to grasp the exploitative dynamics of global capitalism. While liberal and conservative approaches offer little more than superficial solutions, a more radical vision—one that prioritizes global collaboration and equity—offers a path forward. However, achieving this vision will require dismantling entrenched capitalist structures and reimagining trade as a tool for mutual development rather than profit maximization.

Work Cited:

Federal Reserve Bank of Dallas. *On the Distributional Effects of International Tariffs*. Globalization Institute Working Paper No. 413, January 2022. https://doi.org/10.24149/gwp413.