

# The Trump Trade Policy of 2018

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## 1 Introduction

The principle of free trade and free markets that allow consumers and producers to trade freely are some of the basic principles enshrined in economics. These principles have been largely embraced by countries across the world for the last few decades. However, in recent times of economic uncertainty over the looming climate crisis or various geo-political crises, we see governments around the world responding with a return to Protectionism. One of the most common forms of Protectionism is a simple import tariff. A tariff is defined as “a tax imposed on foreign-made goods, paid by the importing business to its home country’s government” (Chatzky and Siripurapu, 2021). Import Tariffs are generally of two types: ad valorem and non-ad valorem tariffs. The most common type of tariff is an ad valorem tariff where the duty is calculated as a percentage of the price of the goods being imported. Governments also employ a variety of ad valorem tariffs such as specific tariffs where the duty is specific per unit of goods being imported, compound tariffs which are a mix of specific and ad valorem tariffs, or tariff rate quotas wherein the tariff where the tariff rate depends on the quantity of goods being imported (World Bank, 2010). Governments employ these tariffs for various reasons such as to protect domestic producers, increase government revenue, or protect strategic national interests. Throughout this paper, I will focus on the trade policies enacted by President Trump during the year 2018. These policies were characterized by a turn away from free trade and globalization, principles that the United States had promoted

throughout the globe over the last half a century, and towards a new era of protectionism. This paper is organized as follows, in Section 2, I evaluate the policy from an efficiency standpoint. In Section 3, I examine the policy through the lens of two notable philosopher namely John Rawls and Robert Nozick. In Section 4, I bring together these two pieces and conclude.

## 2 Efficiency

In 2018, the Trump administration levied ad-valorem import tariffs on around 12,000 different products (Fajgelbaum et al., 2019). These included specific tariffs of about 30% on solar panels and 20 – 50% on washing machines. It also included a tariff of 10 and 25 percent on aluminum and steel imports respectively. On top of these goods, a tariff of 24 percent was placed on imports of Chinese goods worth about \$50 billion (Amiti et al., 2019). These tariffs symbolized a new page in the U.S. trade policies and will discuss some of their effects.

One of the major political motivations of Protectionism is to protect domestic producer interests and promote domestic economic activity. This is synonymous with the ‘America First’ rhetoric under which Donald Trump was elected President. Import tariffs incentivize domestic production and reduce the amount of imports of a country. This process is known as import substitution where the ratio of imports over the total availability of a given good or group of goods reduces over time (Bruton, 1989). Henry Burton describes the aim of import substitution as creating an economy that is “more independent, more resilient, more diversified”. The belief is that import tariff protects domestic producers from short-term volatility while letting the economy focus on long-term economic growth. It should be noted that Burton termed this as “a means to an end, not an end itself” (Bruton, 1989). In other words, adopting an import tariff policy in the short run may reap greater economic benefits in the long run. Research from Aaron Flaaen and Justin Pierce at the Federal Reserve studies these effects of the Trump Tariffs. They found that there was a small boost in manufacturing

employment due to these tariffs (Flaaen and Pierce, 2019). This is supported by information from other sources which shows a few thousand jobs being created in the steel industry and washing machine companies, both of which were subject to high tariffs under these new policies (Gertz, 2020). However, the research from Flaaen and Pierce also shows that most of these gains were offset by rising input prices due to the tariffs on goods that are used as intermediate goods (such as aluminum and steel which are used in many industries) and retaliatory tariffs from other countries (Flaaen and Pierce, 2019). We see that these tariffs fail to create a net positive effect for domestic producers.

The group that is most directly affected by any trade policy is the consumers which are the general populace of a country. Conventional economic wisdom dictates that we see a loss in overall economic welfare in a country when tariffs are introduced assuming we start from a position of free trade (Amiti et al., 2019). However, it should be noted that in the special case where a government auctions a license to import goods tariff-free. We may see an overall increase in welfare in the economy from increased government revenue. This depends on the rent-seeking ability of the government (Amiti et al., 2019). In the special case where governments auction the license, the revenue raised via the auction may outweigh the welfare losses to consumers. However, in our study of the Trump Tariffs, this was not the case, we are mainly concerned with the effects of ad-valorem tariffs. In short, an import tariff causes consumers to face higher prices which leads to a reduction in welfare which is greater than the new government revenue created. Research from Amiti et al. (2019) estimated deadweight losses equaling about \$ 8.2 billion in 2018 alone due to these tariff hikes. They also point out that these numbers are calculated assuming that the government uses the increased revenue to generate social welfare benefits equal to the increased revenue, which is not always the case. Hence, the true losses in welfare could be higher (Amiti et al., 2019). The same research finds that these tariffs also cause domestic producers who are not subject to said tariffs to raise their prices. It should be noted that these markups in prices were found after insulating from the fact that domestic producers also face higher costs of

production as tariffs affect prices of intermediate goods used in the production process.

An important efficiency cost that policymakers must consider before adopting a protectionist trade policy such as import tariffs is the international response to said policy. The most common response we see is retaliatory tariffs by other countries. These retaliatory tariffs hurt domestic producers greatly as they increase the cost of their exported goods and reduce demand for their goods in foreign markets. This in turn causes many spiraling effects on the domestic economy. In the case of the Trump Tariffs, we saw countries such as China, Mexico, Russia, Turkey and the EU placing tariffs on the import of American-made goods into their countries (Amiti et al., 2019). In total, other countries placed tariffs on over 8,000 goods that the US exports valuing around \$120 billion and making up more than 8 % of total U.S. exports (Fajgelbaum et al., 2019). These effects were included in the welfare calculations for total dead-weight losses and producer prices that I talked about before. However, we should also be concerned about the long-term effects of increased rigidity in international trade which would affect the welfare of consumers in not only the U.S. but throughout the world.

One of the basic tenets of free markets and economics is the concept that competition drives innovation and efficiency. The rationale is that if a firm fails to keep up with the latest innovations in the market or produces in an inefficient manner, they are left behind (go out of business). However, this is all premeditated on the concept of free markets and perfect competition. When the government introduces tariffs, it gives domestic producers an advantage over foreign producers. This may lead to firms not keeping up with their international counterparts. This claim is reinforced by research by Maduko (2023) on the Hungarian economy from 1996 to 2003. Maduko finds that reducing import tariffs on a set of similar goods leads to an increase in the productivity of domestic firms producing the same good. This increased productivity is essential for economic growth and leads to increased efficiency and welfare. While there has not been any conclusive research on this phenomenon in the context of the 2018 Trump Tariffs. It is hard not to draw parallels

and ponder the long-term effects on productivity and innovation. It would be plausible that in the long-run domestic producers in the U.S. protected by a tariff regime may grow complacent leading to lower productivity and efficiency. This would have negative effects on the domestic economy, firms need to face market competition from firms not just within the same country but around the world to ensure productive efficiency and innovation.

## 3 Justice

### 3.1 John Rawls

Before we begin to discuss Rawls' theory of Justice, it might be useful to understand the way Rawls came to his conclusions. Rawls formulates his theory of justice from an 'original position' which can be described as a state where people are unaware of their class, wealth, position in society, natural assets such as intelligence or physical attributes or even their conceptions of good. Rawls calls this a 'veil of ignorance' (Rawls, 1999). Rawls argues that decisions made behind this veil would be fair as people would not be guided by their natural fortune or social circumstance to form the principles on which our society is organized (Rawls, 1999). Under these conditions, Rawls states that we would arrive at two principles of justice:

“ First: each person is to have an equal right to the most extensive scheme of equal basic liberties compatible with a similar scheme of liberties for others.

Second: social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be everyone's advantage, and (b) attached to positions and offices open to all.” (Rawls, 1999)

Rawls goes on to create an important concept which is the 'Difference Principle' in his second principle of justice. The difference principle states that social/economic inequalities in society should be organized in such a way that they are to the “greatest expected benefit of the least advantaged”. Rawls' argues that rational people behind the veil would be

risk averse. In other words, being oblivious to their social status or endowment of social goods, they would like to minimize their worst possible outcome. Guided by this school of thought, they would organize the institutions and inequalities in society in such a manner that they benefit the least well-off group. Through this process, we arrive at Rawls' Difference Principle. To study whether a policy is just under this principle, we need to find out if its distributive effects help the least well-off group. I will set this as the litmus test for the policy I am examining.

However, let us first examine the Trump Trade policy under Rawls' first principle. The first principle talks about granting the largest scheme of basic liberties to individuals. Some philosophers might argue that import tariffs encroach on a person's economic liberties as they limit their ability to partake in free and voluntary trade. However, Rawls spares us this discussion by explicitly stating what he believes are the basic liberties being discussed in the first principle. Rawls talks about political liberties, freedom of thought, and freedom of body to name a few. However, most importantly for our discussion, he does not consider the freedom to contract as a basic liberty (Rawls, 1999). Therefore, we can say that while some philosophers might place some intrinsic value on the right to freely trade or contract, for Rawls this was something that social institutions could regulate under the second principle. If the policy results in greater benefits for the least well-off group in society, Rawls would assert that the policy is justified. Thus, we must look at the policy through a consequentialist lens. From our prior efficiency discussions, we had seen that Trump's trade policy resulted in a redistribution of surpluses/welfare. In the simplest form, we can say that the policy resulted in a transfer of surplus from consumers and international producers to certain domestic producers. There was also an increase in government revenue. However, as noted before, we saw that there was an overall dead-weight loss to the tune of 8 billion dollars in 2018 alone (Amiti et al., 2019). Rawls would not be swayed by the creation of inefficiencies alone (dead-weight loss) as he holds the concept of justice in higher regard. However, he would question whether the redistribution under our policy promotes the well-being of the least fortunate.

While we did see an increase in employment and welfare in a few domestic industries such as steel or washing machines, I would contend that these are not the least advantaged groups that Rawls describes. Additionally, we see decreases in welfare for consumers across the board, some of which make up the lower levels of wealth in society. Hence, I would conclude that this policy should not be considered just under the theory presented by John Rawls in his book ‘A Theory of Justice.’

### 3.2 Robert Nozick

Robert Nozick’s theory of justice revolves around the concept of just holdings, he provides as with three key principles to establish whether a holding is just. These are:

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- (i) A person who acquires a holding in accordance with the principle of justice in acquisition is entitled to that holding.
- (ii) A who acquires a holding in accordance with the principle of justice in transfer, from someone else entitled to the holding, is entitled to the holding.
- (iii) No one is entitled to a holding except by (repeated) applications of 1 and 2” (Nozick, 1974)

In short, Nozick would argue that a distribution of holdings is just if everyone is entitled to their holdings through the test of the above key principles. The principle of justice is defined as the voluntary transfer of resources between individuals. With this special importance placed on just transfers, Nozick places liberty at the center of his theory of justice. However, this should not be interpreted such that there is no place for government redistribution in Nozick’s perfect world. In fact, under Nozick’s theory, it is the role of the government to rectify distributions that have been achieved through the violation of the above-stated principles (Nozick, 1974). These could be unjust transfers such as those which

involve coercive action or unjust acquisitions such as theft. Nozick would argue that not only must the state rectify this injustice but also ensure that resources are restored to the rightful owners. Hence, I will formulate that for a policy to be held as just under Nozick's theory it must pass two criteria: (a) It must be rectifying some holdings that have been acquired in violation of the three key principles presented by Nozick, and (b) it must be redistributing resources or welfare to the rightful owners under Nozick's theory.

In examining, the Trump tariff policy, one might immediately jump to the conclusion that we are violating a person's ability to engage in voluntary transfers and is unjust under Nozick's theory of justice. However, we must not forget that a person can only engage in voluntary transfers of goods or resources that have been acquired in a just manner. Therefore, we must examine whether the production process of the goods being tariffed violates the key principles provided by Nozick. I would like to begin by looking at the tariffs placed on Chinese products under the trade policy. It would be reasonable to question the conditions of workers and the problem of forced labor in China. One could argue that the goods Chinese companies are exporting to the US have not been acquired in a just manner under Nozick's principles. This is a question that must be studied more deeply. Let us for argument's sake assume that the key principles were violated, and the trade policy is attempting to rectify them. This means that the policy passes part one of the tests I had outlined in the previous paragraph. However, more critically, the policy fails in the second part. No part of the Trump's trade policy included mechanisms for remunerating the workers in China whose rights we assumed had been violated. The aim of the policy, as discussed prior, was to protect domestic producers and political interests. The government revenue that was generated was spent on the domestic economy. In this sense, the policy cannot be interpreted as just in Nozick's model. We can also look at the other import tariffs on solar panels, washing machines, or steel and aluminum. In each case, there is a lack of evidence on how the key principles are violated, why the US government needs to rectify them, or how the import tariffs are rectifying them. What we are left with simply is a national government violating



the liberty to engage in voluntary exchanges in order to promote their political interests. This is incompatible with Nozick's theory where basic liberties are not second to political interests.

## 4 Conclusion

In this final part of the paper, I would like to bring together all the different components that I have discussed and provide a critical analysis of the Trump tariff policy in 2018. Initially, we looked at the trade policy through the lens of efficiency. Unfortunately, we saw that the policy failed to generate an increase in the aggregate welfare of the US economy. While there was some element of redistribution of surpluses toward domestic producers in certain industries such as steel and aluminum, or washing machines, scholars state that these increases were minimal when we factor in the side effects of the tariff policy such as retaliatory tariffs or increases in the cost of raw materials used in the production. In fact, we saw the generation of a large deadweight loss and domestic consumers facing higher prices. Around here we brought in John Rawls' theory of justice, Rawls would stomach these reductions in efficiency or consumers facing higher prices if the redistribution from the policy was targeted at helping the least well-off group in society. However, as we saw before, the only real winners were domestic producers in a select few industries. Hence, we fail to find a justice argument for this theory in Rawls' domain. Returning to the efficiency side, we were also concerned with how these tariffs affect the productivity of domestic producers and could lead to goods being produced inefficiently. This was backed by evidence from research on the Hungarian economy (Maduko, 2023). In all, we did not find any strong efficiency arguments for this policy. Finally, let us weigh in Robert Nozick's justice theory. Nozick was primarily concerned with guaranteeing basic liberties to people in society. In our discussion, the freedom to freely trade or voluntary exchange was of primary importance. Import tariffs clearly encroach on this liberty, however, this is permissible in the scenario

where the goods being exchanged have been acquired in an unjust manner. However, we fail to find enough evidence to back this argument. One can safely conclude that this policy would be considered unjust by most Nozickian scholars. Through this paper, I have tried to find a justification for the 2018 Trump tariff policy. However, I failed to find a coherent argument on the justice or efficiency level, some may find some political arguments but that is beyond the scope of our discussion. I would like to conclude that this policy had a net negative effect on the US. It failed to promote justice or efficiency and will be used as a case study for an overall detrimental government policy.

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