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The Counterproductivity of Protectionist Tariffs

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Introduction

Protective tariffs have been a part of fiscal policy since the inception of the United States. They have been tried in many historical contexts and stages of technological development. While protective tariffs benefit the protected industries by shielding them from foreign competition, they have consistently damaged domestic economies as a whole, regardless of their implemented setting. Resources that would have been used for improving domestic economies are diverted towards industries less efficient than their foreign competitors. Proponents of protectionist tariffs, like Franklin D. Roosevelt, often claim domestic markets need shielding from unfair competition, but whenever they are implemented, instead of bolstering domestic industry, the U.S. economy is slowed.

The Creation of Protectionist Tariffs

Early United States history reflects the side effects of protectionist tariffs. As a fledgling country, the U.S. swung between two tariff policy extremes: either no revenue tariffs or too many protectionist tariffs. First, Congress lacked the power to institute revenue tariffs under the Articles of Confederation and thus lacked the finances to solve national problems or pay the debt incurred during the Revolutionary War.¹ The Constitution solved this problem; however, in 1816, Congress expanded its tariff-making power when it instituted protectionist tariffs to shield favored industries from foreign competition.² These protectionist tariffs increased domestic prices for Americans, and also sparked a conflict that would eventually mature into the Civil War. Even between unified states that had just defeated Great Britain, a world superpower, protectionist tariffs that benefit states at the others' expense still cause resentment, waste, and national conflict.

The Constitution and Free Trade

When used correctly, revenue tariffs are a useful tool, especially for fledgling countries. As long as rates are kept low, tariffs and taxes are a necessity for national government functions. Considering the Articles of Confederation's failures, the Founders could not ignore the need for a federal tax. Its inability to quell Shay's Rebellion because of a lack of funds embarrassed the government, revealing a glaring flaw in the governing federal system.³ James Madison and Alexander Hamilton proposed a 5% tax on all goods, but the proposal failed because Rhode Island refused to ratify it.⁴ Despite this failed proposal, the Founding Fathers knew changes needed to be made if the national government were to successfully fulfill the objectives listed in the Preamble.

To correct the Articles of Confederation's error, the Founders allowed the federal government to obtain funds from foreign trade. Article 1, Sec. 8 Clause 1 of the Constitution states, "The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States; but all duties,

¹Merrill Jensen, *The Articles of Confederation: An Interpretation of the Social-Constitutional History of the American Revolution, 1774-1781* (Madison: University of Wisconsin Press, 1959), 242, muse.jhu.edu/book/23377.

² Andrew W. Robertson, "Tariffs" In *Encyclopedia of U.S. Political History*, edited by Andrew W. Robertson, 755. Washington, DC: CQ Press, 2010. doi: 10.4135/9781608712380.n201.

³ *Britannica Academic*, s.v. "Shays's Rebellion," accessed March 28, 2020, <https://academic-eb-com.ezproxy.liberty.edu/levels/collegiate/article/Shayss-Rebellion/67200>.

⁴ Robertson, "Tariffs", 756.

imposts, and excises shall be uniform throughout the United States.”⁵ With this clause, Congress now had the resources to function properly and pay its debts. At this point in history, tariffs were not a new innovation; most countries, England included, used tariffs to fund the functions of the state. The adverse economic effects were negligible as long as the rates were modest, and the guarantee of uniformity ensured no state would be unduly penalized. In light of this, Congress enacted a 5% tariff on all foreign goods in 1812, which was large enough to provide federal revenue and small enough to avoid hampering U.S. industries.⁶

Protectionism Causes Rifts Within the North and South

Within four years from the Constitution’s ratification, Congress abandoned its modest tariff policy in favor of more extreme rates. From its inception, members of Congress proposed that the federal government pursue protectionist measures. In 1791, Alexander Hamilton released his “Report on Manufacturers” which advocated favoring industrial interests over the agricultural industry.⁷ Hamilton believed “the incitement and patronage of government” were necessary to overcome “the strong influence of habit and the spirit of imitation, the fear of want of success in untried enterprises.”⁸ He asserted manufacturing was just as important as farming to the country’s economy, but he did not believe Americans could bring such an industry to life. For a brief time, people like Adam Smith were able to suppress protectionism. Smith was known for laissez-faire policy, arguing “that Industry if left to itself, will naturally find its way to the most useful and profitable employment;” but his arguments did not hold back the protectionist movement for long.⁹

The 1816 Tariff

In 1816, Congress voted to increase duties from 5% to 20% on select goods, changing the U.S. revenue tariff into a protectionist tariff.¹⁰ The products selected to be under this tariff increased, and the magnitude of the increase indicated protectionist influence. The publicized rationale behind the increase was raising money for national defense purposes; however, when the legislation is examined closely, it becomes evident that Northern economies like the Massachusetts textile industry benefitted significantly from the tariff at the South’s expense.¹¹ The tariff increased the cost of manufactured goods, driving the South to buy more expensive goods from the Northern industrialized economy. The South was already the minority in Congress, and this bill consequently diverted wealth to the North out of the South. Tariffs that benefitted one state at the other’s expense violated the spirit behind the clause requiring all tariffs be uniform throughout the states, so, naturally, the South objected. For years, these objections were left unacknowledged.

⁵ United States Constitution, Art. 1 Sec. 8 Clause 1.

⁶ Robertson, “Tariffs,” 755.

⁷ Douglas A. Irwin, “The Aftermath of Hamilton’s ‘Report on Manufactures’,” *The Journal of Economic History* 64, no. 3 (2004): 803, www.jstor.org/stable/3874820.

⁸ Irwin, Hamilton’s “Report on Manufactures” 803.

⁹ *Ibid.*, 802.

¹⁰ William S. Belko, “‘In Violation of the General Principles of Political Economy’: Philip Pendleton Barbour and Virginia’s Assault on the Protective Tariff, 1816-1824.” *The Virginia Magazine of History and Biography* 123, no. 3 (2015): 237, <http://ezproxy.liberty.edu/login?url=https://search-proquest-com.ezproxy.liberty.edu/docview/1713931260?accountid=12085>.

¹¹ Belko, “In Violation of the General Principles”, 237.

The Tariff of Abominations

In 1828, Congress went a step further by passing the Tariff of Abominations, which imposed severe penalties on the Southern economy.¹² Imports of farming goods critical to the Southern industry, like leather, coal, and cotton, were disproportionately taxed.¹³ The tariff was so detrimental to the Southern economy that South Carolina released the *South Carolina Exposition and Protest*, which denounced the tariff.¹⁴ When their protests were again ignored, South Carolina formed a convention that nullified the laws and threatened secession. President Jackson wanted to pursue militant action first, but Congress chose to instead compromise with the South. Subsequently, Jackson lowered the tariff from 20% to 10%, resolving the crisis for the near future.¹⁵ However, the ill-will between the South and North generated by the tariff persisted. The South was a predominantly agrarian society and was thus more susceptible to tariffs than the North's economy. Though its lifespan was short, the Tariff of Abominations damaged the South's livelihood on two fronts: it lowered the demand for their exports abroad while simultaneously increasing the cost of imports. Even though the tariffs were eventually lowered, the Southern economy was set back significantly¹⁶.

The Smoot-Hawley Tariff and the Great Depression

When protectionist tariffs were utilized before and during the Great Depression, the economic effects reflected the impacts of the 14th Congress' 1816 Tariff. Contrary to the advice of many economists, President Hoover signed the Smoot-Hawley Tariff into law. In an attempt to save domestic producers and manufacturers, these high tariffs virtually closed foreign markets. Prices of domestic goods rose, and relations with allied countries like Canada were severely damaged. Much to the dismay of the protesting economists, the tariffs' effects were no surprise as protectionist tariffs' economic consequences are universal in every context.

The Smoot-Hawley Tariff of 1916

The Smoot-Hawley Tariff of 1916 is infamous for having turned an ordinary recession into a global depression.¹⁷ The tariff cut U.S. imports by 40%, and instigated a worldwide isolationist reaction as countries set up retaliatory tariffs on U.S. goods.¹⁸ The tariff's intended to strengthen domestic industries and put Americans first, but hopes have little say over reality. Protectionism

¹² Robert V Remini, "Martin Van Buren and the Tariff of Abominations," *The American Historical Review* 63, no. 4 (1958): 905, doi:10.2307/1848947.

¹³ "Chapter 55, 20 Congress, Session 1, An Act: In alteration of the several acts imposing duties on imports," U.S. Statutes at Large 4, no. Main Section (1828): 270.

¹⁴ John C. Calhoun, "John C. Calhoun, Union and Liberty: The Political Philosophy of John C. Calhoun, 1811" Online Library of Liberty, accessed April 20, 2020, <https://oll.libertyfund.org/titles/calhoun-union-and-liberty-the-political-philosophy-of-john-c-calhoun>.

¹⁵ Robertson, "Tariffs".

¹⁶ W. M. Curtiss, "Tariffs," *The Analysts Journal* 10, no. 1 (1954): 37, <http://www.jstor.org/stable/40797194>.

¹⁷ Douglas A. Irwin, "The Smoot-Hawley Tariff: A Quantitative Assessment." *The Review of Economics and Statistics* 80, no. 2 (1998), www.jstor.org/stable/2646642.

¹⁸ Douglas A. Irwin, "The Smoot-Hawley Tariff: A Quantitative Assessment." *The Review of Economics and Statistics* 80, no. 2 (1998), www.jstor.org/stable/2646642, 326.

hurts all industries in the long run. Cut off from foreign markets, American industries dependent on importing materials and exporting manufactured goods collapsed.

Why Legislators Support High Tariffs

Neoclassical Trade Theory

Neoclassical trade theory provides a framework for examining world trade and the effects of protectionist tariffs. The theory assumes “that states act to maximize their aggregate economic utility,” which naturally results in states pursuing free trade.¹⁹ As a general rule, states that allow more economic freedom are more prosperous than those with less freedom.²⁰ This applies to both developed countries and undeveloped countries. Even in rural African countries, when two nations are compared, the country with more economic freedom will be more prosperous than its counterpart.²¹ There may be a few exceptions, but most comparisons support the benefits of economic freedom.

Tariffs are one of many tools policymakers can use to either enhance or hamper foreign trade goals (political power, aggregate national income, economic growth, and social stability).²² When all are pursued in tandem, countries prosper, as evidenced by past instances. Unfortunately, the American political system’s nature encourages politicians to pursue social stability over the other three benefits of foreign trade. As a natural byproduct of international trade, countries will experience more creative destruction and competition than if they remained isolated, a painful side effect of comparative advantage. Legislators can either choose economic growth or stagnant status quo. When special interest groups call for tariffs, many politicians choose the latter.

The Candlemakers Petition

In his famous fable, *The Candlemakers Petition*, Frederick Bastiat captured the spirit of the protectionist tariff. As the candlemakers association, he wrote a fictitious letter to the Chamber of Deputies. Despite being published one hundred years ago, his satirical arguments in favor of protectionist tariffs are shockingly identical to the arguments promoted in high academia today. In the opening lines, the candlemakers congratulate the government:

“You are on the right track. You reject abstract theories and have little regard for abundance and low prices. You concern yourselves mainly with the fate of the producer. You wish to free him from foreign competition, that is, to reserve the domestic market for domestic industry. We are suffering from the ruinous competition of a foreign rival who apparently works under conditions so far superior to our own for the production of light that he is flooding the domestic market with it at an incredibly low price; for the moment he appears, our sales cease, all the consumers turn to him, and a branch of French industry whose

¹⁹ Jeffrey A. Frieden, and David A. Lake, *International Political Economy: Perspectives on Global Power and Wealth*, 4th ed. New York: Routledge, 2000, ProQuest Ebook Central, <http://ebookcentral.proquest.com/lib/liberty/detail.action?docID=167041>.

²⁰ Ian Vásquez and Tanja Porčnik, *The Human Freedom Index 2019: A Global Measurement Of Personal, Civil, And Economic Freedom* (Canada: Cato Institute, 2019) accessed March 28, 2020, <https://www.cato.org/sites/cato.org/files/human-freedom-index-files/cato-human-freedom-index-update-3.pdf>

²¹ Ibid.

²² Frieden, *Perspectives on Global Power and Wealth*, 21.

ramifications are innumerable is all at once reduced to complete stagnation. This rival, which is none other than the sun, is waging war on us so mercilessly that we suspect he is being stirred up against us by perfidious Albion (excellent diplomacy nowadays), particularly because he has for that haughty island a respect that he does not show for us. We ask you to be so good as to pass a law requiring the closing of all windows, dormers, skylights, inside and outside shutters, curtains, casements, bull's-eyes, deadlights, and blinds--in short, all openings, holes, chinks, and fissures through which the light of the sun is wont to enter houses, to the detriment of the fair industries with which, we are proud to say, we have endowed the country, a country that cannot, without betraying ingratitude, abandon us today to so unequal a combat.”²³

The fault in the candlemakers' request is unmistakable. To protect the candle industry, the artisans turn to the government to remove the sun from the equation. It does not matter that the sun offers its services for free. The only party considered is the domestic producer. The rest of the letter expounds on the French economy's massive benefits, should the law be passed. The increased burning of candles would stimulate demand for string and tallow. Sheep and goats will grow in demand. Agricultural wealth will increase tenfold. However, one would assume no individual would entertain such a policy as the sun is a free, natural resource. Even if the entire economy experiences increased demand, the people are worse off because instead of enjoying sunlight, they must create unnecessary candles. The flaws within the candlemakers request are easy to discern, but the fable's lessons are often overlooked in the realm of policy when special interest industries like coal or steel are present. No matter what the industry, the economic laws remain the same.

Free Sun and Free Value

Trade is good because it creates value out of nothing. When individuals freely exchange money for goods or services, the transaction occurs because both parties value the other good more than the resource they have. Consider a hypothetical scenario where party A has a coal bag, which he values at eight value units and party B has a microchip she values at seven value units. However, party B values the coal at ten value units, and party A values the microchip at 11 units. They trade, and suddenly what was once valued at 15, seven for the microchip and eight for the coal, is now valued at 21. Through the free exchange, the same goods generate six extra units of value. While this example is abstract, if value units are replaced with dollars, economists still see the value created through trade.

Just as it is impractical to protect candlemakers from the sun, so too is it impractical to protect domestic markets from foreign countries with workers who are willing to do more for less. The free money created by trade is valuable, but it is not infinite. Tariffs can easily take that value from consumers with just a few percentage points. Goods may still yield a profit if the tariff is 10%, but if that tariff is raised to higher numbers, like 20%, 50%, or even 90%, the free money created by trade is used up. Consumers are forced to “close their shutters” and must buy more expensive goods. Governments lose out on tax revenue, and more robust economies while impoverished workers lose American money that could have been used to improve their quality of

²³ Frederic Bastiat, “The Candlemakers’ Petition: An Economic Fable,” *Policy*. 17, no. 2 (January 1, 2001): 60–62.

life. Preventing mutually beneficial trade through protectionist tariffs creates a disadvantaged economy and is just as detrimental as forcing people to forgo the sun's free benefits.

The Law of Comparative Advantage

Comparative advantage is the theory that some countries can produce goods more cheaply than others.²⁴ Note that countries must consider more than the direct cost to produce a good when factoring the cost of production. Producers must also factor in opportunity cost. For example, Switzerland is a landlocked state; thus, it would be very costly for it to invest in maritime trade. Greece is more fortunate and benefits heavily from its ports. Because of its natural advantages and disadvantages, Switzerland provides world-renowned banking services instead of maritime trade.

Similarly, if the United States chose to, it could produce vast amounts of coal. The United States could supply coal to the entire world, but the resources used to produce coal are much better spent building advanced goods like microchips. While a developing country in Africa may struggle to produce coal as efficiently as America because of a lack of technology, it is still cheaper for them to do so than if the U.S. produced all its coal.

China has its own comparative advantage: cheap labor. With a population of 1.5 billion compared to 327 million in the United States, China will always have a surplus of workers willing to work for less than Americans.²⁵ Goods made in China are typically cheaper than those made in the U.S. because the U.S. artificially inflates wages through minimum wage laws. Legislators fear that Chinese labor will suppress American wages if companies could fully utilize it. While this is true, prices will simultaneously fall. The U.S. will receive cheaper goods and resources displaced by cheap labor and channeled towards more productive enterprises. Instead of cutting Americans off from cheap Chinese labor through protectionist tariffs, the U.S. should utilize comparative advantage benefits to enjoy cheaper goods.

The Most Vocal Opinion is Rarely the Best Opinion

Those who suffer from international trade are always more vocal than those who benefit from it. It is difficult for consumers to tangibly see the reduced cost of a good because it is created in China as opposed to the United States. Rarely do activists protest to ensure t-shirts can be manufactured in Taiwan so consumers can enjoy cheaper clothing. The same is not applicable for those who suffer displacement from foreign trade. When jobs are lost, workers turn to the government for protection. Unfortunately, this loss of jobs is the natural result of living in a changing, technological world. Professions and careers evolve and become obsolete as technology improves. While it is painful to be displaced, it is better than the alternative. Advances in medicine, iPhones, cars, and food quality – benefits still enjoyed by displaced workers – would not be possible without creative destruction. If the government were to outlaw all consequences of creativity to preserve jobs, the United States would never have left the dark ages.²⁶ Electric lights would be banned to preserve the coal industry. Cars would be banned to preserve the equine

²⁴ *Britannica Academic*, "Comparative advantage," <https://academic-eb-com.ezproxy.liberty.edu/levels/collegiate/article/comparative-advantage/25009>.

²⁵ Joseph Chamie, "World Population: 2020 Overview," *World Population: 2020 Overview* (YaleGlobal Online: Yale University 2020).

²⁶ Arthur M. Diamond, "Schumpeter's Creative Destruction: A Review of the Evidence," *Journal of Private Enterprise* 22, no. 1 (Fall, 2006): 125.

industry, and farming advances would be banned to preserve farming jobs. Protectionist policy for the sake of retaining jobs holds more consequences than benefits and does not benefit the nation nor the workforce in the long run.

Interest Groups Encourage Tariffs

The Cost-Benefit Analysis of Voting

Domestic factors can motivate governments to institute protectionist tariffs despite their negative economic impacts. Tariffs benefit small interest groups, as interest groups experience a temporary boost in sales or a decrease in competition. In turn, they give publicity, support, and resources to the representatives who create those tariffs. Finally, the costs of protectionist tariffs are dispersed over a comprehensive tax base, so their impact goes unnoticed. If the increased prices are noticed, the blame is usually misdirected. Consumers blame corporate Walmart or greedy CEOs, but in reality, it is the government raising prices.

Tariffs on Sugar

For simplicity's sake, assume that the cost of voting on sugar tariff costs \$50. Voting may be free, but the opportunity cost and expenditure of emotional energy to make an informed vote is a real voting cost expressed in monetary value. Given its climate, the U.S. economy should not include sugar farming. Farmers must artificially alter the environment in greenhouses, which significantly increases the cost of production²⁷. Conversely, foreign tropical countries have more humid and warm environments and can thus produce sugar more cheaply. Decades ago, it may have been cost-effective to produce sugar domestically, but now, with improvements in the global supply chains, it is much cheaper to buy sugar abroad and ship it home. However, that is not currently practiced.

As direct beneficiaries of the sugar tariff, sugar farmers have a greater interest in the vote to increase sugar tariffs and thus lobby to see that it is passed. If the tariff is passed, they will receive \$100 of increased profit, revenue from taxpayers who will now be forced to pay more for sugar. Because the tax base is so wide, the cost is significantly diluted, escaping average Americans' notice. Voters end up paying \$25 in increased sugar costs instead of the \$50 it would cost to vote. In a vicious cycle, special interest groups will call for tariffs. Rational voters will choose to be uninformed and pay increased prices to avoid opportunity costs and politicians will create and pass tariffs to capture the goodwill of interest groups. Each group sacrifices long term prosperity for short-term gain, continuously creating greater tariffs, stifling innovation, and increasing inefficiency.

Foreign Trade Reactions to Protectionist Tariffs

Not only do tariffs have the ability to hurt economies, but they can also hurt foreign relations. Contrary to the 1930 Congress's belief, tariffs are not exclusively domestic matters.²⁸ Every country has a personal stake in United States tariff decisions because even if countries are

²⁷ Paul L. Poirot, "Flies in the Sugar Bowl," *Freeman*, May 1, 1956, Accessed Sep. 8, 2020, <https://fee.org/articles/flies-in-the-sugar-bowl/>.

²⁸ Douglas A. Irwin, *Peddling Protectionism: S moot-Hawley and the Great Depression* (Princeton, New Jersey: Princeton University Press, 2017).

interdependent, as was the case with Canada, tariffs have the power to sever those relationships. Many livelihoods depend on the supply chains made possible through international trade. When those ties are cut off, positive relationships are replaced with bitterness and resentment, damaging future international cooperation.

Canada's Reaction to the Smoot-Hawley Tariff

The United States' relations with Canada in 1929-1931 provide an example of protectionist tariffs' effects on friendly countries. Based on the changes in Canada's legislature and top officials' public statements, evidence supports the assertion that Canada enacted retaliatory tariffs on the U.S. in response to increased tariffs.²⁹ Being neighbors, the United States and Canada have strived to maintain good relations, which were significantly strained by the Smoot-Hawley tariff. In 1929, 18% of all U.S. exports went to Canada, while 11% of U.S. imports came from Canada.³⁰ Before the tariff, Canada made no indication of changing the status quo by instituting tariffs. For over a decade, liberals who denounced protectionist tariffs maintained a majority over the conservatives, whose platform included protectionist measures.³¹ Only when the U.S. instituted unreasonable tariffs did the liberals lose the legislature, allowing the conservatives to increase tariffs on U.S. goods.

Before the enactment of the tariff, Mackenzie King, the prime minister of Canada, implored Hoover to stop the bill. In a public statement, he declared he would "do everything in his power to discourage Congress from enacting drastic tariff increases whose chief effect would be to arouse resentment in Canada."³² United States politicians agreed the tariff would have ill-effects abroad, with one Southern Democrat going on record saying such policy invited retaliation from foreign countries.³³ Once the tariff was passed, King reluctantly addressed Canada, announcing it would significantly restrict trade with the U.S., and that Canada's "commercial relations must not be one-sided."³⁴ It was years before U.S. and Canadian relations were repaired and the tariffs removed, highlighting the diplomatic consequences of the Smoot-Hawley Tariff.

2002 Bush Steel Tariffs

In 2002, George W. Bush passed a tariff on all imported steel to protect domestic producers from foreign dumping.³⁵ His assessment of the importance of steel was correct: 66 out of 84 sectors in the United States economy depend on steel in some form or fashion. However, in his attempt to stimulate U.S. steel companies, Bush inadvertently injured every domestic industry that relied on steel. Every state lost jobs because of the higher costs. To put the industry's difference into

²⁹ Judith A McDonald, Anthony Patrick O'Brien, and Colleen M. Callahan, "Trade Wars: Canada's Reaction to the Smoot-Hawley Tariff," *The Journal of Economic History* 57, no. 4 (1997): 803, www.jstor.org/stable/2951161.

³⁰ U.S. Department of Commerce, "Statistical Abstract of the United States", 1938 Supplement, (Statistical Abstract Series: United States Census Bureau 1939) 82, <https://www.census.gov/library/publications/1939/compendia/statab/60ed.html>.

³¹ McDonald, "Trade Wars," 810.

³² Ibid.

³³ Ibid.

³⁴ McDonald, "Trade Wars," 810.

³⁵ "CITAC Study shows 200,000 U.S. Jobs Lost Nationwide from High Steel Prices in 2002 - Steel Tariffs an Important Cause," *PR Newswire*, Feb 04, 2003. 1, <http://ezproxy.liberty.edu/login?url=https://search-proquest-com.ezproxy.liberty.edu/docview/447001556?accountid=12085>.

perspective, roughly 12 million Americans work in steel-consuming jobs, while only 190,000 work in steel production.³⁶ Florida lost 8,370 jobs.³⁷ California was the worst hit, losing 19,392 jobs.³⁸ The tariff was especially harmful because 98% of the companies that depended on an affordable steel supply were small businesses, who could not afford to absorb the costs.³⁹ After a year of increased prices and layoffs, 12 million Americans were furloughed, and questions arose about why the federal government favored 190,000 steel production jobs over their work.⁴⁰

Bush eventually came to realize the harm that the tariff was doing to the U.S. economy. Even if steel producers were maintaining higher prices, the benefit was being canceled out by higher prices across the board. If millions of jobs are being inadvertently taxed through protectionist tariffs in favor of mere thousands of jobs, the economy's net effect is negative. As prices for machinery and production rise, so do the prices of products. For example, domestic car manufacturers must charge higher prices to make up for artificially high supply costs, reducing transportation availability to more impoverished Americans. When the tariff was repealed, the steel consumption industry could bounce back, but the effort was costly. Not only did Americans lose jobs, but support for Bush and the country's general prosperity was distinctly diminished.

Trump's 2018 Tariff Increases

Current U.S. policymakers continue to institute tariffs to protect domestic industries and right wrongs. In 2018, President Trump increased taxes on \$283 billion U.S. imports to protect the domestic business. These rates ranged anywhere from 10% to 50%.⁴¹ A 50% tariff does not just make U.S. markets unappealing to foreign businesses. It effectively closes them off. The U.S. is a vast market, so when Trump drastically increased tariffs, he provoked a global response. Ten nations, including China, Canada, and Mexico, filed cases against the U.S. at the World Trade Organization.⁴² In addition to claiming the tariffs violated treaties, each country erected its retaliatory tariffs. The EU, Mexico, Russia, and Turkey all levied tariffs of an average of 16% on approximately \$121 billion in U.S. exports.⁴³

China's Reaction to the 2018 Tariff Increases

Because the United States consumes and exports billions of dollars in goods with China, the 2018 tariffs have a significant impact both economies. In retaliation, China instituted tariffs on U.S. steel, aluminum, food, and agricultural products, a sum of \$113.3 billion in exports.⁴⁴ Goods continued to cross borders, but the increased costs forced both countries to lose out on

³⁶ "CITAC Study," *PR Newswire*, 2003.

³⁷ *Ibid.*

³⁸ *Ibid.*

³⁹ Joseph Francoise, and Laura M. Baughman, "The Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact During 2002," (*The CITAC Foundation*, Feb. 2003): accessed Feb. 4 2020, http://www.tradepartnership.com/pdf_files/2002jobstudy.pdf

⁴⁰ *Ibid.*

⁴¹ Mary Amity, Stephen J. Redding, and David E. Weinstein, "The Impact of the 2018 Tariffs on Prices and Welfare," *Journal of Economic Perspectives* 33, no. 4 (Fall 2019): 200, doi:10.1257/jep.33.4.187.

⁴² *Ibid.*

⁴³ *Ibid.*

⁴⁴ *Ibid.*

approximately \$1 billion in exports and imports, respectively.⁴⁵ Both Chinese and American consumers want to exchange goods and reap free trade benefits, but protectionist tariffs prevent such transactions.

Reducing trade simultaneously reduces American influence on China. The less connected both economies become, the less incentive both countries have to cooperate. Given the rampant copyright infringement in China on American products, the U.S. must maintain its ability to exert its influence on China to protect American inventors and businesses.⁴⁶ Considering U.S. history of dedication to capitalism and free-markets, instituting anticompetitive tariffs will only hurt its foreign influence abroad.⁴⁷

China's History with Tariffs

The effects of protectionist tariffs are not restricted to the United States economy. China's economic history showcases the inherent harm that protectionist tariffs place on an economy. Roughly fifty years ago, China kept itself isolated from the rest of the world.⁴⁸ In other words, China placed an infinite tariff on all foreign products. When it eventually instituted economic reforms and opened its borders to the rest of the world, an explosion of economic growth followed. For years, China experienced near double-digit growth. In 2018, the gross domestic product (GDP) increased by 9.5%.⁴⁹ By doubling its GDP every eight years, China raised 800 million of its citizens out of poverty while simultaneously becoming the world's largest economy, trader, and foreign U.S. Treasury securities holder.⁵⁰ China's growth was so significant that many feared it would surpass the United States' global dominance.⁵¹ What was once a backward economy became an industrialized economic superpower. China's success would not have been possible without removing its barriers to foreign trade.

Preexisting Flaws in China's Economy

It must be noted, however, that China's restriction of foreign trade was not the sole cause of its economic struggles. Currently, China utilizes a communist-capitalist economy; however, before it instituted economic reforms, China's economy was dictated by a Communist regime. Naturally, such centralization created an economy full of state-mandated inefficiencies, economic stagnation, and perverse incentives, all of which was compounded by false internal economic reports.⁵² One particular example of the harms of centralization was the Four Pests Campaign. As

⁴⁵ Stuart Nagel, "Lose-Lose and Win-Win Policies" *Handbook of Public Policy Evaluation*, (Thousand Oaks, CA: SAGE Publications, Inc, 2002): 27. doi: 10.4135/9781412973533.n4.

⁴⁶ Kristie M. Kachuriak, "Chinese Copyright Piracy: Analysis of the Problem and Suggestions for Protection of U.S. Copyrights" *Dickinson Journal of International Law* 13, no. 3 (Spring 1995): 600.

⁴⁷ Stuart Nagel, "Lose-Lose and Win-Win Policies", 27.

⁴⁸ U.S. Congressional Research Service, "China's Economic Rise: History, Trends, Challenges, and Implications for the United States" (RL33534; June 25, 2019) Text in: LexisNexis® Congressional Research Digital Collection; accessed: April 27, 2020, <https://crsreports.congress.gov/product/pdf/RL/RL33534>.

⁴⁹ *Ibid.*

⁵⁰ *Ibid.*

⁵¹ John G. Ikenberry, "The Rise of China and the Future of the West, (Cover Story)," *Foreign Affairs* 87, no. 1 (January 2008): 24, <https://search-ebshost-com.ezproxy.liberty.edu/login.aspx?direct=true&db=a9h&AN=28018827&site=ehost-live>.

⁵² Hu Angang, *The Great Leap Forward, 1957-1965*, (Honolulu, HI: Enrich Professional Publishing (S) Private, Limited, 2013): 99.

a part of the Chinese Great Leap Forward plan, Mao Zedong launched an initiative to eradicate flies, mosquitos, rats, and sparrows.⁵³ Sparrows were targeted because each ate four and a half grams of rice a day. If they were eliminated, farmers would save enough rice to feed tens of thousands of people.⁵⁴ What Mao and his policymakers failed to consider was that sparrows played an integral role in controlling the locust population. For two years, roughly 200,000 sparrows were killed every day.⁵⁵ When the regime finally relented its purge, the sparrow population was decimated. Without the sparrows, the unchecked locusts destroyed already meager crops, causing widespread famine. Although tariffs were not the sole cause of its economic struggles, if China had allowed free trade, it would have had greater access to food that would have saved millions from dying

Less is More?

Tariff supporters who claim tariffs benefit the United States, or any country, have adopted a belief that less is better. Consider the U.S.'s long history of placing tariffs on Japanese cars. Car importers would love to sell cars to Americans for lower prices, but the U.S. government believes such prices are too low. Little consideration is given that the Japanese produce cars far more efficiently and cheaper than Americans. The government and American car producers prefer the U.S. consumer make do with less. Theoretically, this is supposed to aid the national economy. Japan has also fallen into the same logic: for years, Japan placed a tariff on California oranges. Compared to the warm, flat orchards of California, Japan is ill-suited to grow oranges. Nevertheless, Japanese officials believe American oranges are too cheap. Instead of allowing Japanese consumers to buy four oranges at market price, the tariff's added cost quadruples the cost.⁵⁶ If the choice were presented to an individual, "What is better, four oranges or one?" they will recognize more is better. If the same question were posed to a politician or Keynesian economist, the answer would be quite different. Through models and convoluted charts, they will construct an argument that tariffs help countries; that the beneficiaries of protected markets will use their wealth to stimulate the rest of the economy. When the economic jargon is brushed aside, the core remains.

Liberalization Between Japan and the U.S.

When tariffs are removed, trade booms. After U.S. withdrawal of the Transpacific Partnership (TPP), Trump negotiated new trade deals with Japan, which significantly benefitted both countries. \$7.2 Billion in U.S. exports will now enter Japan duty-free, including many

⁵³ "The Four Pests Campaign," *Waikato Times*, Feb 24, 2016. 1, <http://exproxy.liberty.edu/login?url=https://search-proquest-com.exproxy.liberty.edu/docview/1767399175?accountid=12085>.

⁵⁴ *Ibid.*

⁵⁵ *Ibid.*

⁵⁶ "U.S., Japan sign bilateral trade agreement," *BEEF* 7 Oct. 2019: NA. *Business Insights: Global*. April 30, 2020.

agricultural products like.⁵⁷ The U.S. will reciprocate by cutting tariffs on 42 Japanese exports.⁵⁸ American ranchers are also benefitting from the deal. Despite Japanese markets acquiring a taste for beef, the U.S. market has been significantly closed off from the island because of a 38.5% tariff on imported beef.⁵⁹ In 2018, Japan imported roughly \$2.07 billion in beef, but that number would have been significantly higher without the tariff.⁶⁰ Under the new agreement, the tariff has been reduced to 26.6%, sparking a mutually beneficial surge in U.S. exports to Japan.⁶¹ Ranchers are prospering from the surge in demand and poorer Japanese consumers now have access to beef. Everyone benefits from liberalization and the lowering of trade barriers.

Trade Deficits are Not a Justification for Protectionist Tariffs

It is undisputed that the United States has a trade deficit with China, but that is not inherently bad for the United States' economy. President Trump and many Americans believe trade deficits are unfair because billions of dollars are being spent in other countries.⁶² The assumption is that if that money were spent domestically, Americans would benefit instead of foreigners. Not only is this belief inaccurate, but a trade surplus would also reflect a decline in American prosperity, as a surplus would indicate a decrease in the U.S.'s ability to purchase goods abroad.

The trade deficit fallacy comes from looking only at fiscal numbers while overlooking goods received. In 2010, U.S. imports from China exceeded American exports to China by \$273 billion. In 2006 that trade deficit peaked at \$759 billion.⁶³ However, this does not mean that the U.S. is giving billions of dollars to China. While the U.S. is paying billions of dollars to Chinese businesses, it is simultaneously receiving billions of dollars in goods. Trade deficits are a mark of financial prowess. Because the U.S. has so much wealth, it needs other countries to create goods for it to consume. When billions of dollars cross borders, vast value is created. Americans value the goods more than their dollars, and the Chinese value American dollars more than their goods.

Trade Deficits in Everyday Life

Trade deficits are a normal part of life. Unless someone is a farmer, most people will have a trade deficit with their local grocery store. A man walks in, pays \$100, and leaves. In terms of dollars, the grocery store swindled the man. He gave \$100, and the store bought nothing from him. If the man were to be confronted and informed of his plight as he walked to his car, he would be confused. He has not lost anything or been cheated. His arms are full of groceries. Why would he

⁵⁷ Jacqui Fatka, "Agreement with Japan monumental for U.S. ag.," *Feedstuffs*, no. 4 (November 2019): 4, https://link-gale-com.ezproxy.liberty.edu/apps/doc/A606373185/AONE?u=vic_liberty&sid=AONE&xid=eddc677.

⁵⁸ "Fact Sheet on U.S.-Japan Trade Agreement," Office of the United States Trade Representative, accessed April 12, 2020, <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2019/september/fact-sheet-us-japan-trade-agreement>.

⁵⁹ "U.S., Japan sign bilateral trade agreement," *BEEF* 7 Oct. 2019: NA. *Business Insights: Global*. April 30, 2020.

⁶⁰ *Ibid.*

⁶¹ *Ibid.*

⁶² Dongsheng Di, Gal Luft, and Dian Zhong, "Why did Trump Launch a Trade War? A Political Economy Explanation from the Perspective of Financial Constraints," *Economic and Political Studies: A special Issue on Sino-US Trade War* 7, no. 2 (2019): 214.

⁶³ Kim, Myeong Hwan, "The U.S.-China Trade Deficit" *The International Trade Journal* 28, no. 1 (2014): 65.

want the store to buy from him? To maintain a true trade equilibrium or surplus, consumers would be forced to revert to bartering. Foregoing the benefits of shared currency to step back in time would be impractical as bartering reduces efficiency, increases transaction costs, and hampers commerce. If a customer offers a good with inherent value that is undesirable to the seller, the customer must trade their goods with third parties until they find a product the seller will accept. Eventually, some proxy to money would be created as individuals in service industries or who do not produce tangible goods would be forced to create some shared exchange medium. Trade deficits are a neutral phenomenon; neither party is hurt. Instead, it is a natural result of commerce.

Conclusion

Protectionist tariffs are fundamentally counterproductive as a political influence tool. Most often, they damage the overall economy to benefit a select few. In the early United States, the use of government interference with the agrarian and manufacturing industries stunted the natural growth of both industries. When the 1816 Tariff and the Tariff of Abominations were enacted, manufacturing was favored at the expense of agrarian sectors. Such tariffs violated the spirit of Article 1, Section 8, Clause 1 of the U.S. Constitution, and the economic hardship created extensive controversy between the States that arguably laid the foundation for the Civil War. In the Great Depression era, the Smoot-Hawley tariff virtually cut off all U.S. imports and exports, turning a mild recession into a global depression. The U.S. cut off trade with close allies like Canada, forcing other countries to institute retaliatory trade measures. Instead of increasing the domestic industry, the Smoot-Hawley tariff stifled it by cutting off American suppliers from their buyers. When Bush passed tariffs on steel, the United States experienced a similar economic result. The 2018 tariffs decreased exports and imports, forcing consumers to forego billions of dollars in revenue while paying higher costs for domestic and imported goods. American foreign diplomacy is also hurt whenever tariffs are instituted, as was the case with Canada. The U.S. sacrifices its influence and the goodwill of other nations when protectionist tariffs are enacted. However, despite continuous failure, policymakers still believe that tariffs help the domestic industry. Trade creates a win-win scenario where both countries are incentivized to cooperate, while protectionism contrasts the U.S.'s free-market foundations. In light of the historical track record of protectionist tariffs in the United States and abroad, American policymakers should minimize their use as political influence tools as they are inherently economically counterproductive. Instead, a single revenue generating tariff should be instituted on foreign products.

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