



FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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Trump's Tariffs

One of the things I liked least about the Trump campaign last year was his fondness for tariffs, which he called "the most beautiful word in the dictionary." [He claimed](#) that "tariffs make our country rich" and "cost Americans nothing," which is not true. A tariff is a tax on imports that is supposedly paid by foreign companies that export products to the tariff-imposing country. But those companies don't just sit there and take the tax out of their profits (as most politicians would like you to believe), they pass along the additional cost to the buyer—consumers in the tariff-imposing country. So the consumers' own government interferes in what otherwise would have been a peaceful and mutually beneficial trade with a foreign company.

There are three primary reasons a government imposes a tariff on imports: to influence a foreign government, to protect a domestic industry, or to raise revenue. I think Trump loves tariffs for the first two reasons. Trump's brand is based on his reputation as a strong man and a tough negotiator. I think he revels in getting what he wants through hard bargaining. And like the Chinese government, he has a trump card that he can play: access to America's large and affluent market. He can also use a trump card in trade negotiations that virtually no other government has: the extension or withdrawal of actual or implied protection by America's military, which is currently causing the EU to freak out.

Some would credit Trump for taking full advantage of the first trump card of being able to use access to America's market as a bargaining chip. But since that's an unfair advantage, it creates resentment and eventually enemies. But Trump (and to a lesser extent, the U.S.) already has more enemies in the world than just about anyone in the last 75 years. Within the last decade or so, these enemies and non-aligned countries have been slowly organizing themselves into international organizations that don't need the U.S. or its currency, SWIFT payment system, etc. In the early years, the U.S. would simply invade a country and kill the leaders of such movements (e.g., Saddam Hussein, Muammar Gaddafi), but now too many countries have joined this movement to do that.

Of course, peaceful trade among nations (which the Founding Fathers supported) creates a disincentive for war because few people want the mutually beneficial trade to end, and there is more contact between people in different countries, which allows greater understanding and more trust. An American is less likely to fall for his government's "Kill the Hun!" posters if he's been buying his German wine from Jerry for years. Trade wars can sometimes lead to shooting wars since there is less at stake for two countries that have little trade with each other. As Otto Mallery wrote, "When goods don't cross borders, soldiers will."

I think Trump's use of tariffs (or the threat of them) to try to influence other governments has become too much of a distraction from implementing the rest of his agenda. Due to Trump's supersized ego and readiness to punch back five times harder, all of these tariff threats and retaliations have descended into a kind of "who has the biggest d*** in the jungle" contest. It doesn't make for good policy, doesn't build trust and good relationships, and rattles financial markets. There are better ways to persuade others to see your viewpoint.

Trump is also using tariffs to protect certain domestic industries, for two reasons. First, union workers in stagnant or dying industries comprised a significant part of the unprecedented coalition that he assembled to win. So now he needs to return the favor. Unfortunately, America probably no longer has a competitive advantage in these industries, so a number of companies need to exit the business and their employees need to find a new line of work. If the lifespan of these companies is artificially prolonged by protective tariffs, they'll become inefficient zombie companies and American consumers will be harmed by having fewer options, higher prices and lower quality. This is the kind of policy that Democrat politicians supported in the past, and I can see them supporting this again to win back union workers.

There is also a strategic argument to use tariffs to protect America's industrial base, especially in industries that would be critical to national defense. China—America's most formidable long-term threat--has become the world's factory, so they make many if not most of the products used in the U.S. today. However, protecting industries with tariffs usually results in bloated, inefficient companies such as Boeing that can't actually get the job done. It also creates constituencies that lobby politicians to make their protected status permanent.

Tariffs are expected to raise about [\\$658 billion](#) of revenue for the federal government this year, and there has been some talk about replacing the income tax with tariffs. Not only do I not think that will happen, I think we'll end up with both! The income tax is a key plank of the Communist Manifesto, allows statist politicians to wage class warfare, and is expected to raise over [\\$2.6 trillion](#) of revenue for the federal government this year. Although Trump is making unprecedented changes to the federal government, given the razor-thin Republican majority in the House, I don't think they have the votes to massively scale back the federal income tax. Yes, DOGE has saved about [\\$250 billion](#) thus far, but I think the government will need a lot of tariff revenue to help reduce the [\\$2 trillion](#) budget deficit and keep interest rates reasonable.

Tariffs are similar to a value-added tax in that they are both invisible to the consumer/taxpayer. When a consumer buys a product subject to a tariff, they don't receive an invoice that explicitly shows "25% tariff" as part of the cost. In contrast, the income tax and payroll taxes are very visible due to payroll stubs and the requirement to file an annual income tax return. And sales taxes are visible on a receipt. This makes a tariff much more likely to continue to be imposed in the future, as consumers eventually assume the total price is just what the product costs to make.

Apparently the president has statutory authority to impose tariffs, but I think Congress should reclaim that power, as the imposition of tariffs needs to be less capricious and more deliberative, which would reduce risk for businesspeople and investors. Trump supporters may cheer the aggressive way he is using tariffs to advance his agenda, but I think it sets a bad precedent for future presidents who Trump supporters may oppose. As I've written before, civilization (which includes a free market) [is a fragile miracle](#) that can easily be destroyed by thoughtless, reckless actions, such as imposing retaliatory tariffs and getting into a trade war. It is much more challenging to negotiate a free trade agreement, which would create abundant prosperity.

In conclusion, I disagree with Trump on this issue. The most beautiful word in the English language is not *tariff* but *liberty*.

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