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ECONOMIC TALKING POINTS

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Trade Tariffs and Hegel

The German philosopher Georg Hegel observed 200 years ago that "the one thing we learn from history is that we do not learn from history." It appears we are about to witness another embarrassing example of that.

President-elect Donald Trump shook up American businesses and consumers, and also unsteadied financial markets by threatening to impose on his first day in office a 25% tariff on all imports from Canada and Mexico, and add another 10% tariffs on goods entering the US from China.

His rationale for doing so is not because these countries have engaged in unfair trade practices, like dumping goods in the US or by heavily subsidizing their export industries. No, Trump is ready to launch these duties to exact other policy concessions. He sees tariffs as a way to force these countries to prevent illegal immigration and block the shipments of illicit drugs into the US.

Whatever you think of his objectives, the folly here is that such tariffs (along with a slew of other import duties he campaigned on) will, in the end, boomerang back to hurt the US in the form of higher inflation, rising interest rates, and foreign retaliation.

In one blunderous stroke Trump will undo the singular pledge he gave to Americans during the campaign, which is to bring down the cost of living after accusing Biden's presidency of economic malpractice. Trump's daft love affair with tariffs will in the end not only re-ignite inflation but soon spur talk of a recession late next year or in 2026.

You may have heard of the old joke that if you're in a room with three economists, you'll typically get four different opinions. That may be true in most respects, but on the subject of tariffs there is near unanimity. Economists widely agree such forms of protectionism end up doing more harm to domestic consumers and the economy at large.

Neverthless, let's assume for now Trump does carry out his threat and raises tariffs. What might the fallout be?

There are several scenarios.

1. **A foreign exporter finds the US market so lucrative that it may be willing to lower the price of their products enough to offset the duties the importer has to pay.**
   How likely is such a scenario? Don't count on it. As attractive as the US market is, foreign firms will have little trouble selling their goods elsewhere in the global marketplace --- and at full price.

2. **US importers may choose to absorb part or all of the tariff to avoid passing it on to consumers. Yes, a magnanimous gesture, to be sure. But such a step would erode profits and --- if you're a public company --- may well trigger a revolt among its shareholders. The days of that CEO might be numbered in such circumstances.**

3. **Pass the cost of the tariff entirely on to the final customer. That would ultimately push up the cost of intermediate goods and ultimately to consumers. And therein lies the flaw behind tariffs. Mexico and Canada are our largest trading partners in the world. (Mexico ships 80% of its exports to the US; Canada routes 75% of its shipments to its southern neighbor.) By significantly ratcheting up tariffs on imports from these countries and China, Trump would cause consumer prices to shoot up toward 4% by next year, if not exceed it.**

So, could Hegel prove to be right again?

There is no shortage of examples in history to show the corrosive effects of tariffs. Many point to how much worse the Great Depression was as a result of the Smoot Hawley tariffs of 1930. That was long ago, you might argue, and the world economy has since changed. So let me toss in a more current event.

When President Trump jacked up tariffs against America's major trading partners in 2018, the inflationary impact was immediate. The CPI that year rose to its highest level in seven years! It eased back in 2019, but largely because economic growth itself cooled.

By the way, isn't it interesting how Trump's newest buddies --- I speak of Elon Musk and Vivek Ramaswamy --- dutifully cite their intellectual hero,

Milton Friedman, to kick-off their DOGE gig and chainsaw down the size of government. Yet they conveniently wave off, or ignore, or suffer selective amnesia when it comes to Friedman's other vociferous opposition to all tariffs! But then why upset the big boss in the Oval Office by bringing that part up.

What about another long time tax-cutting darling of the GOP, economist Arthur Laffer? He catapulted to fame by drawing on a napkin a bell curve belly showing the ills of significantly raising taxes. Lift it too much, he argued, and it would create disincentives to spend time at work. The result: high taxes would end up shrinking federal revenues. It makes inherent sense.

You might therefore think Laffer's position should also apply to the tax on imports! After all, if you raise import duties to prohibitive levels, it would reduce the volume of US foreign trade and that would also lessen revenues flowing into federal coffers. Well, think again. A TV reporter asked Laffer earlier this year if he thought raising tariffs can be inflationary. His response was not what you would expect. Linking the two, Laffer said, was "gobblygook." He then went on to cite the Lerner Symmetry Theorem to defend his view. (Good try, but not applicable! That economic theory was published in 1936 by an excellent economist, Abba Lerner, who stated in essence that the inflationary impact from a tariff on imports can be offset by a tax on exports. How so? A tax on US exports will make those goods less competitive in the global marketplace. American exporters will then reroute that supply into the US market, increasing domestic supply and lowering prices. Of course, one obvious problem using this theory is that Trump has no plans to boost export taxes.)

The point to hammer home is that tariffs are self-defeating. Yes, one can make a solid the case they are necessary to protect industries essential to national security. In all other respects, however, such duties can do extensive damage. Higher inflation will bring on higher interest rates from the Federal Reserve and in the government bond market. Countries targeted for higher tariffs can retaliate and hurt US production and employment. Anti-trade policies may also lead to corporate complacency. US companies will be less inclined to spend heavily on improving efficiencies because they know there's a protectionist club in the White House who will safeguard them from foreign competition.

Look, economists can warn of tariffs, point to history of its harms, present the data and make a most convincing case. But I fear Hegel's lament will still transcend all.

United States

	I 2025	II 2025	III 2025	IV 2025	I 2026	II 2026	III 2026	IV 2026	I 2027	II 2027	III 2027	IV 2027	I 2028	II 2028	III 2028	IV 2028
Real Gross Domestic Product (GDP):																
%	2.1	3.3	2.8	2.4	1.9	2.6	2.2	1.9	1.2	2.0	1.5	1.8	0.9	1.2	1.4	1.2
Personal Consumption Expenditures:																
PCE %	1.5	1.7	2.0	1.8	1.4	1.8	2.1	2.3	0.9	1.6	1.7	2.1	1.3	1.9	2.0	2.2
Inflation, end of period, year-over-year:																
CPI %	2.9	3.2	3.4	3.5	3.6	3.5	3.5	3.3	3.0	3.3	3.3	3.1	2.9	2.9	2.6	2.8
Unemployment Rate (end of period):																
%	4.0	4.0	3.9	3.8	3.9	3.7	3.6	3.6	3.9	4.1	4.3	4.2	4.3	4.4	4.2	4.1
Non-farm Payrolls, monthly avg. thousand:																
	155	165	160	170	155	170	175	160	145	140	130	130	100	85	95	115
Treasury 10-yr Note Yield % (end of period):																
	4.55	4.65	4.85	5.10	5.05	5.15	5.10	5.10	5.00	5.10	5.05	4.85	4.55	4.45	4.30	4.20
Federal funds rate % (mid-point, end of period):																
	4.63	4.63	4.63	4.63	4.63	4.38	4.13	3.38	3.38	3.38	3.38	3.13	3.13	2.88	2.88	2.88

GDP Growth - Global Economy - Year over Year

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
US	2.6	1.6	2.2	1.8	2.3	2.7	1.8	2.5	3.0	2.6	-2.2	6.1	2.5	2.9	2.5	2.7	2.2	1.6	1.2
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.8	1.6	-6.2	5.7	3.5	0.5	0.7	1.2	1.6	1.3	1.1
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.7	1.6	-10.4	8.7	4.3	0.1	1.1	1.2	1.5	1.3	1.2
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	1.7	0.6	-0.4	-4.3	2.3	1.0	1.9	0.2	1.3	0.9	0.8	1.0
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.8	1.9	-5.1	5.0	3.4	1.1	1.4	2.3	1.8	1.7	1.6
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.4	4.0	-5.9	9.2	7.2	7.7	6.9	6.4	6.1	6.0	5.8
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.7	6.0	2.2	8.5	3.0	5.2	4.6	4.5	4.3	4.6	4.4
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.4	-3.6	5.3	3.0	2.9	3.1	2.4	2.2	2.7	2.6
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.2	-0.3	-8.8	6.1	3.9	3.1	1.4	1.5	1.9	2.2	2.4
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-1.1	4.7	3.7	1.5	1.5	2.1	2.5	2.2	1.9
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.8	2.2	-2.7	5.6	-1.2	3.6	3.9	2.3	2.4	2.4	2.1
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.7	-3.0	6.2	3.0	2.7	4.4	4.1	3.9	3.9	3.6

Key Currency Values

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End 2021	End 2022	End 2023	End 2024	End 2025	End 2026	End 2027	End 2028
USD/Yen	91	93	81	77	87	105	119	120	117	113	110	109	104	115	131	141	155	148	139	135	130
Euro/USD	1.40	1.43	1.34	1.29	1.32	1.37	1.21	1.09	1.05	1.20	1.14	1.12	1.23	1.17	1.07	1.10	1.03	1.00	1.04	1.10	1.12

Oil (Brent spot) & Gasoline (U.S. average retail unleaded, $)

	End 2008	End 2009	End 2010	End 2011	End 2012	End 2013	End 2014	End 2015	End 2016	End 2017	End 2018	End 2019	End 2020	End 2021	End 2022	End 2023	End 2024	End 2025	End 2026	End 2027	End 2028
Crude oil per barrel	46	78	95	107	111	111	58	38	49	67	54	67	52	78	85	77	75	80	74	71	70
Gasoline	1.61	2.57	3.00	3.27	3.30	3.32	2.26	2.00	2.31	2.47	2.26	2.58	2.30	3.38	3.20	3.12	3.10	3.30	3.22	3.10	3.12