

Trading losses

Tariffs will spark retaliation, not a manufacturing renaissance

Donald Trump's pursuit of tariffs will make the world poorer—and America, too



Photograph: Getty Images

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MORE THAN 90 years ago Franklin Delano Roosevelt surveyed the wreckage of the Great Depression. He pointed to one of its causes: sky-high tariffs had put America on the “road to ruin” by inviting retaliation and suffocating investment. It was a painful lesson, and it took decades of sustained global effort, led by America, to bring tariffs down and let commerce flourish. From our vantage in 2025 the perils of protectionism should still be abundantly clear. Tragically, if Donald Trump gets his way, America risks repeating the errors of the past.

There is uncertainty about how far Mr Trump will actually go in his second term. Investors and diplomats alike were relieved that he [refrained](#) from slapping universal tariffs on all imports on his first day back in office. But make no mistake: the man who declared tariff to be the most beautiful word in the dictionary is determined to [ratchet up protection](#). He sees tariffs as a simple tool to achieve multiple objectives: shrink America's trade deficit, rebuild its manufacturing might and generate a gusher of revenue for the government. On every count he is wrong.

Mr Trump's dalliance with tariffs in his first term already shows that they did nothing to narrow America's trade deficit. One reason is that the dollar tends to strengthen when tariffs are applied. The first-order effect of tariffs is to reduce American demand for imported goods, leading to less demand for foreign currencies. But when fewer dollars are sold, the greenback's value increases which in turn depresses global demand for American exports. The result is that even as Americans buy less from the rest of the world they also sell less to it.

To truly shrink its trade deficit America would have to undergo fundamental economic changes, with its savings rate increasing or its investment decreasing. It is not obvious that either change would be desirable: high investment, in particular, is vital if America is to hold its own in new technologies, including artificial intelligence. A monomaniacal focus on the trade balance has no bearing on the economy's real strengths. Just look at Germany and China today, both running giant trade surpluses and both mired in lacklustre growth.

The record from recent tariffs also proves that they do not magically create jobs in American factories. Manufacturing as a share of American employment has fallen since Mr Trump's first tariffs went into effect. Companies in industries directly protected by tariffs during Mr Trump's first administration—notably steel and aluminium—did indeed increase their revenues. But that gain came at the expense of the thousands of downstream companies that suffered from higher input costs. Put another way, America protected the parts of

its economy that were struggling in the global marketplace by imposing burdens on its most competitive industries. That is hardly a recipe for a manufacturing renaissance.

In Mr Trump's most feverish moments, he has talked about completely replacing income tax with tariffs. It is a beguiling vision: eliminate taxes on hardworking Americans and force foreigners to foot the government's bills instead. The External Revenue Service—a brilliant bit of Trumpian marketing—would displace the Internal Revenue Service.

However, data from Mr Trump's first term demonstrates that the real cost of tariffs is borne, to a large extent, by American consumers through higher import prices. Besides, the banal reality is that tariffs will barely move the fiscal needle. Even if import levels were to remain constant, a 10% universal tariff would fund little more than a twentieth of the federal budget. In reality, imports would not in fact remain constant but rather would decline as higher tariffs raised the price of imports. Even by Mr Trump's flawed logic, tariffs cannot both create lots of jobs and also raise large amounts of income for the government. That is to count their effects twice over.

The most optimistic assumption about Mr Trump's professed love for tariffs is that he mainly wants to deploy them for negotiating leverage. It is true that America, as the world's biggest market, has plenty of weight to throw around. But tariffs are just as likely to tie America in knots. Once implemented, they are hard to retract, and their potency diminishes through repeated use. If, for instance, Mr Trump doubles down on tariffs against China because it blocks a sale of TikTok, a video-sharing app, will he then triple down because of its export of fentanyl precursors and quadruple down to counter its clout in the Panama Canal?

Mr Trump and many of his supporters have taken to lionising the late 19th century as the golden age for America's economy, a period when tariffs were high and growth was strong. That is a distorted reading of what really happened. Scholars have found that tariffs sheltered less-productive companies and raised living costs, and that it was other factors, including a growing population, the deepening rule of law and the success of non-traded goods that fueled America's growth. This may all sound technical and academic. Alas, it is Mr Trump who, in his mangling of history and economics, is steering America and the world back to a dead end. ■