

Van Mobley: The irony of Trump's tariffs

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The stock market has been going down since Trump tweeted that tariffs on China are going up. This is no surprise since at first blush more tariffs on China seem like bad news. But in fact at this particular juncture tariffs are, ironically enough, great news. As long as the chattering heads misread the import of the new tariffs the stock market will go down but as they figure it out the market will end its correction and recover. What underlying economic processes make Trump's tariffs such a good idea at the current juncture?

First of all, tariffs at this juncture are great news for the US because the situation we face now is directly the reverse of the situation that prevailed at the time of the Smoot-Hawley tariffs. Back then the US was the world's greatest creditor and had the world's largest industrial base with an emerging service sector and an economy hurtling down into recession. American tariffs prevented our global creditors from selling us stuff and paying us back, collapsed our nascent and newly reorganized financial sector, and hurtled us into the Great Depression. Today the US is the world's greatest debtor, has a formerly great but now recovering industrial base, a fully mature (and perhaps overripe in some areas) service sector, and an economy that is performing smartly as we reindustrialize. Tariffs will generate revenue that keeps us solvent, helps us work off our debts, funds the creation of necessary infrastructure, and supercharges our economic activity. Hence Trump's tariffs will prolong, rather than end, America's current expansion.

Trump's tariffs are good for the Chinese too. For years China has desired to accomplish its grand vision of the "Belt and Road" initiative – but instead of directing the resources necessary toward making this vision a reality they have poured resources into the American trade instead. As the US reindustrializes we will increasingly manufacture more for our own needs. The Chinese will no longer be required to lend us money so we can use this borrowed money to buy tradeable goods made in Chinese factories. Instead the Chinese can redirect their industrial

capacity to build out their Belt and Road initiative – or liquidate it and flesh out their emerging service sector. What a happy outcome!

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Finally, for those people of the world who are neither Chinese nor American the new American tariffs will prove to be beneficial as well. On the one hand, the non-Chinese can expect the Chinese to continue (or even accelerate) the Belt and Road initiative with the resources freed up as the American trade winds down. On the other hand as time passes some of the manufacturing activity in China that currently serves American needs will return to America but not all of it will. Some will go to a place like Vietnam, or Mexico, or Chile. What a happy boon for the developing world! The delinking of the American and Chinese economies which is being facilitated by Trump's tariffs is great news for the forgotten people at home and abroad.

If viewed from a long-term perspective Trump's tariffs represent a successful conclusion, not the failure, of trade talks with China. They are good for America, China, and the whole world. Of course, it will likely take a few months for the talking heads to figure it out and while they chatter the markets are likely to keep heading down – but is that really all that bad either? After all as the market sells off over the summer shaking out the weak hands will probably do it some good and give Chair Powell the cover he needs to cut rates and resume the expansionary monetary policy Trump has called for repeatedly. Three cheers for Trump's tariffs! Isn't it ironic that the chattering classes have misidentified the source of our economic salvation?

— *Mobley is a professor of history & economics at Concordia University Wisconsin and president (mayor) of Thiensville, Wisconsin.*