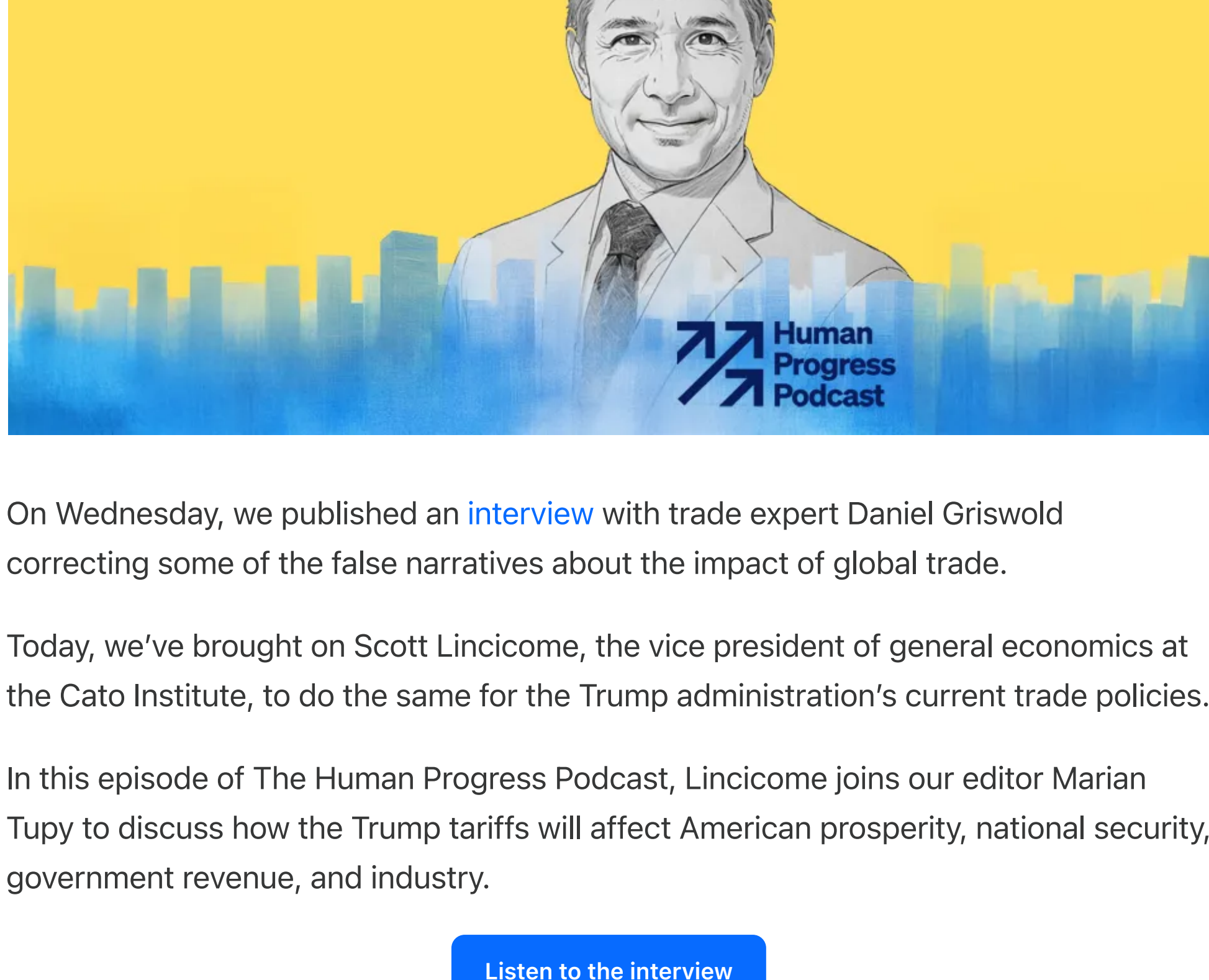


An Update on the Trump Tariffs

Scott Lincicome joins Marian Tupy to discuss how President Trump's trade policies will affect American prosperity, national security, government revenue, and industry.

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On Wednesday, we published an [interview](#) with trade expert Daniel Griswold correcting some of the false narratives about the impact of global trade.

Today, we've brought on Scott Lincicome, the vice president of general economics at the Cato Institute, to do the same for the Trump administration's current trade policies.

In this episode of The Human Progress Podcast, Lincicome joins our editor Marian Tupy to discuss how the Trump tariffs will affect American prosperity, national security, government revenue, and industry.

[Listen to the interview](#)

Below is an edited and abridged transcript featuring some highlights from the interview.

Why is trade important to human progress?

Trade helps us access goods and services from around the world at low prices. That improves our living standards, allows our wages to go further, and makes life more fun.

Thanks to international trade, we have year-round access to fruits and vegetables that used to be seasonal or simply not available at all.

But it's deeper than that. Trade is part of the great prosperity machine of free markets. Individuals trade not only goods and services but also for knowledge. That boosts our society and prosperity. It allows for innovation, either via competition or by importing innovations from abroad. Trade also allows individuals to learn about other places. And in general, trade tempers the desire to go to war. You don't want to kill your customers. And that helps make the world a little safer.

Now, let's assume that you don't like foreigners. You think they are nasty don't treat us fairly and whatever else. We have 350 million people in America. Why can't we make everything we need here?

We technically could make everything ourselves, especially in a place like the United States, but that would just make us poorer and less productive.

I'll give you a good example. It pays about \$12 an hour to work at a T-shirt manufacturing plant in South Carolina. It pays much more to go work at Amazon or Costco. So why not purchase T-shirts from a place like Guatemala, where working in a T-shirt factory is a good, high-paying job? It just makes sense for us to trade for those things and not force American workers into those low-wage jobs.

Instead of making clothes and shoes, we can outsource those things and focus instead on higher-value production. We can work in tech, services, or advanced manufacturing. That specialization is critically important for raising living standards.

Trade is also about opportunity cost. At any given time, we only have a set amount of raw materials, workers, and capital, and if you devote those resources to lower-value production, those resources can't flow to higher-value options. This is part of the unseen aspect of protectionism. When we put tariffs on washing machines, we might get a washing machine plant in South Carolina, but what we don't see is that all of the resources that went to making and operating that factory could have been deployed in more productive endeavors if we had just simply bought washing machines from abroad.

Resources are also wasted on the consumer side. If you and I are forced to spend an extra hundred dollars on a washing machine, that's money we can't spend elsewhere in the economy. Those washing machine tariffs I mentioned created about 1000 washing machine jobs, but it cost American consumers around \$800,000 a year per job created. That's simply a loss of financial resources that could have been deployed elsewhere.

What do you make of the arguments that consumption should take second place to something else, such as national cohesion or pride or security?

First we should simply note the facts.

The first thing to know is that the United States today is the world's second largest manufacturing nation. So, we are still a large manufacturing nation; we just don't need a lot of workers because our workers are very productive, probably the most productive in the world.

The second is that American manufacturing is very dependent on trade. All manufacturers are consumers at some level, but that's especially true for more advanced manufacturers like we have in the United States. They need access to cheap raw materials and parts. If you jack up the price of steel and throw a bunch of tariffs on auto parts, you end up lowering production in these more advanced industries. Steel was a case study of this. We imposed a bunch of tariffs on steel during the first Trump administration, and studies have shown that we saw a modest increase in steel output and employment, but overall manufacturing output and employment fell. According to the United States International Trade Commission, we had about a \$500 million yearly net loss in manufacturing output because of the steel tariffs.

I should note one of my favorite stats: about half of everything imported into the United States today is a manufacturing input. It's stuff that our manufacturers use to make other stuff. A lot of that also comes from their own companies abroad. So, Airbus has a facility in South Carolina that imports from Airbus France. BMW, also in South Carolina, imports from BMW in Germany. If you shut down their ability to access their parts and equipment abroad, you're going to reduce their output in the United States. If you care about national defense, kneecapping BMW, Airbus, and Boeing is a bad thing.

Our manufacturers also need access to overseas markets and overseas consumers. About 95 percent of the world's consumers live outside the United States. And so, if you deny American companies the ability to access those markets or make them globally uncompetitive by raising their input costs, then you're harming the manufacturing sector.

So if you remember those things, as well as access to foreign capital, you realize that openness and production are not exclusive; they're complementary. The former boosts the latter.

I also think there is a misunderstanding here about national security and trade. The criticism is that if we don't have steel mills in the United States, we will depend on Chinese steel to build our aircraft carriers and tanks. But that's not really how it works.

Right. We do import a good amount of steel, but the top steel suppliers to the United States are countries like Canada, Europe, and Japan. Countries like Russia and China are not in the top 10. And when you talk about a country like China with a billion and a half people and a massive manufacturing footprint, it makes sense for us to pool our resources with our allies and enter into trade and defense agreements. That allows us to work together boost the overall productive capacity of our defense industrial base. The US Defense industrial base includes Canada right now. That's how close of an ally Canada is. So slapping tariffs on stuff from Canada just doesn't make much sense, and it's even more baffling that they're doing it on national security grounds.

This is a good place for you to tell us about what's been happening since Donald Trump took over the presidency. Where are we currently?

It's been a busy few weeks. Shortly after President Trump's inauguration, he issued several executive orders invoking a national emergency with respect to fentanyl coming from China, Mexico, and Canada. By invoking that national emergency, he unlocked tariff or trade powers under the International Emergency Economic Powers Act. It's a cautionary tale about congressional delegations of power, but that's an issue for another podcast. The President has since then imposed 20 percent tariffs on all Chinese goods. And those are on top of the 25 percent tariffs from his first term on half of Chinese goods and 25 percent tariffs on imports from Canada and Mexico.

He has also jacked up tariff rates from 10 percent to 25 percent for aluminum, and he kept the 25 percent steel tariffs, but he closed all of the exemptions that had been there before.

This is a huge change because around half of all steel and aluminum imports were exempt from the national security tariffs that Trump imposed the first time around. There were a series of agreements with companies going to the administration and saying, "We can't get the steel and aluminum we need here," and getting an exclusion. Trump has now shut all of those down. Not great for our manufacturing sector.

The President has also promised reciprocal tariffs. So, if India has a 20 percent tariff on American motorcycles, we're going to put a 20 percent tariff on Indian motorcycles.

Markets are not thrilled. Not only with the tariffs but also the uncertainty. Economic policy is not supposed to be enacted via a switch in the Oval Office. The President is turning on tariffs and then turning them off, sometimes in the same day. As any investor or lawyer will tell you, the thing that companies hate more than taxes is uncertainty. Without that predictability and consistency in the market, they can't hire or invest. They freeze up and sit on their hands. That's probably a bigger immediate problem than the tariffs themselves.

The other thing they're going to do is stockpile. Right now, people in the construction industry are filling warehouses with construction materials because they're worried about tariffs on Canadian lumber and steel. Having a warehouse full of stuff is a huge cost. You have to rent the warehouse and buy all the stuff, and that's capital that you can't deploy by hiring more workers or boosting output. Instead of focusing on their business, people are focusing on these emergency game plan scenarios.

And by the way, they're all also lobbying in Washington. Trade policy lobbying has skyrocketed. Trade lawyers are making fortunes. They're building beach houses in Delaware, all because of this tariff uncertainty. That's good for them but bad for the economy. And it contradicts so much of the rhetoric coming out of this administration about eliminating inefficiency and waste and reducing the government's role in the economy. It seems they've forgotten all of that on the trade front, and they're doing basically the opposite. That will counteract the good parts of their economic agenda.

But what about fairness, Scott Lincicome? Is it fair that the Indians are placing a 20 percent tariff on us, and we are only placing 5 percent?

I have to tell you, when I heard about the reciprocal tariff, my lizard brain said to me, "Absolutely yes. Let's make it fair." What's wrong with that argument?

A lot of the global trading system is based on this notion of reciprocity, but there are a few problems.

The first is the economics: matching other countries' tariffs will make Americans poorer. Going back to the example of food, Mexico imposes certain tariffs on food, and we get a lot of food from Mexico. Does it make economic sense to impoverish our citizens in the way that Mexico impoverishes theirs? No, it doesn't. So that's the first issue.

There's also a collectivist logic to this, that the government should punish some citizens to benefit others. But most of us don't work in an export industry. We won't benefit personally from any sort of expanded access to a foreign market. A few businesses might, but the vast majority of individuals won't see any gains.

The other issue is America First. If you match other countries' tariffs, you're effectively letting them set your trade policy. I'll give you examples because this can get very absurd. We buy a lot of coffee from Colombia. We do not grow coffee, except for a little bit in Hawaii. Well, Colombia has a 10 percent tariff on coffee beans from America, and we don't send them any coffee beans. Should we let the Colombian government dictate our tariff policy in applying a 10 percent tariff on Colombian coffee? That's not America First; it's America Second. We should set tariffs and any other policy based on what's good for America and what's good for us as individuals, not what another country does.

Finally, practically speaking, this is a mess. You're talking about thousands and thousands of different products from 200 different countries. You're talking about trying to quantify not just tariff barriers but non-tariff barriers, subsidies, value-added taxes, you name it. Trying to administer this system would be incredibly difficult and would require thousands of new customs officials and tons of new paperwork, going back to how the administration is contradicting itself.

China is looming very large in this conversation. There is a lot of talk about the millions of jobs lost in the United States because of China. But my understanding is that most manufacturing jobs have been lost to automation.

First of all, is it true? And if so, should we be against automation? Tucker Carlson famously said he would be against autonomous vehicles if they took jobs away from truck drivers.

It is true that increased trade with China, starting around 1999, caused around a million manufacturing jobs to be lost. But there are two big caveats. First, those studies only looked at the jobs lost, not the jobs gained from lower input prices in manufacturing, jobs gained in services, and jobs gained from exports to China. When you include those figures, the overall net effect is a wash.

The second point is that those million manufacturing jobs were just a fraction of the total manufacturing jobs lost over the last several decades. Most of the manufacturing job loss over the last several decades was due to improving productivity. Not just robots, but computers, improved business practices, that kind of stuff.

And look, losing a job is painful, but it is an essential part of economic progress. The reason wages improve over time is productivity growth. In general, we want those robots. We want to outsource manual labor, unsafe labor, and the rest to machines because that allows us to make more stuff and have higher wages.

You can go back to telephone operators in the 1920s. That was a huge labor market shock, particularly for young women. But we would be worse off if we still had to pick up a rotary dial phone and have some woman connecting us like you see in the old movies. She'd have a job, but we would be worse off as a society. It is better to let that disruption happen and make it easy for people to adjust and move into other industries. We have all of these different policies in place—labor policy, occupational licensing, housing policy, regulatory policy—that make it harder for American workers hit by disruption to move on. That's what we need to be focusing on.

I want to bring up one last subject. There's a lot of discussion about Donald Trump playing some sort of four-dimensional chess. One of the arguments I'm hearing is that the tariff system is part of a concerted effort to reduce government spending and transition away from income taxes to a more consumption-oriented model. What do you think of that?

I'm extremely skeptical. One reason is the administration's words and actions. There really isn't a concerted effort in Washington right now to cut spending in the long term. The nips and cuts that DOGE is making are not going to make a dent in our spending trajectory. Mainly it's Social Security and Medicare that need reform, and those are not being touched.

The second issue is the math. Tariffs aren't a broad-based consumption tax; they are attacks on a narrow band of our consumption. Imports make up about \$4 trillion out of \$25 trillion in total consumption. And if you raise tariffs too high, you don't get any imports, and you don't get any revenue. So, there's only so much revenue you can get from tariffs. You're looking at maybe \$400 billion a year maybe, and that's generous. Others have said maybe \$200 billion. Any more than that and imports will start shrinking. You would need to replace \$2.5 trillion a year to eliminate the income tax.

The other big issue is that tariffs tend to cause the dollar to appreciate, which will make it harder for our exporters.

I just don't see a lot of grand strategy here. And that leaves aside all the gossipy stuff we read in Politico. If we apply Occam's razor, the simplest answer is that President Trump likes tariffs. He likes using them as negotiating tools. He likes how it makes CEOs and government officials run to him seeking favor. He likes that they're raising some revenue and that he can use them to push foreign governments around. That's a far more likely explanation than some deep grand strategy.

[Read the full transcript](#)