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OPINION

Trump's Tariff Folly

His tax on aluminum and steel will hurt the economy and his voters.



US President Donald Trump speaks on steel and aluminum tariffs during a meeting with industry leaders in the Cabinet Room of the White House on March 1, 2018 in Washington, DC. / AFP PHOTO/AFP/Getty Images PHOTO: /AGENCE FRANCE-PRESSE/GETTY IMAGES

The Editorial Board

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Donald Trump made the biggest policy blunder of his Presidency Thursday by announcing that next week he'll impose tariffs of 25% on imported steel and 10% on aluminum. This tax increase will punish American workers, invite retaliation that will harm U.S. exports, divide his political coalition at home, anger allies abroad, and undermine his tax and regulatory reforms. The Dow Jones Industrial Average fell 1.7% on the news, as investors absorbed the self-inflicted folly.

Mr. Trump has spent a year trying to lift the economy from its Obama doldrums, with considerable success. Annual GDP growth has averaged 3% in the past nine months if you adjust for temporary factors, and on Tuesday the ISM manufacturing index for February came in at a gaudy 60.8. American factories are humming, and consumer and business confidence are soaring.

Apparently Mr. Trump can't stand all this winning. His tariffs will benefit a handful of companies, at least for a while, but they will harm many more. "We have with us the biggest steel companies in the United States. They used to be a lot bigger, but they're going to be a lot bigger again," Mr. Trump declared in a meeting Thursday at the White House with steel and aluminum executives.

No, they won't. The immediate impact will be to make the U.S. an island of high-priced steel and aluminum. The U.S. companies will raise their prices to nearly match the tariffs while snatching some market share. The additional profits will flow to executives in higher bonuses and shareholders, at least until the higher prices hurt their steel- and aluminum-using customers. Then U.S. steel and aluminum makers will be hurt as well.

Mr. Trump seems not to understand that steel-using industries in the U.S. employ some 6.5 million Americans, while steel makers employ about 140,000. Transportation industries, including aircraft and autos, account for about 40% of domestic steel consumption, followed by packaging with 20% and building construction with 15%. All will have to pay higher prices, making them less competitive globally and in the U.S.

Instead of importing steel to make goods in America, many companies will simply import the finished product made from cheaper steel or aluminum abroad. Mr. Trump fancies himself the savior of the U.S. auto industry, but he might note that Ford Motor shares fell 3% Thursday and GM's fell 4%. U.S. Steel gained 5.8%. Mr. Trump has handed a giant gift to foreign car makers, which will now have a cost advantage over Detroit. How do you think that will play in Michigan in 2020?

The National Retail Federation called the tariffs a "tax on American families," who will pay higher prices for canned goods and even beer in aluminum cans. Another name for this is the Trump voter tax.

The economic damage will quickly compound because other countries can and will retaliate against U.S. exports. Not steel, but against farm goods, Harley-Davidson motorcycles, Cummins engines, John Deere tractors, and much more.

Foreign countries are canny enough to know how to impose maximum political pain on Republican Senators and Congressmen in an election year by targeting exports from their states and districts. Has anyone at the White House political shop thought this through?

Then there's the diplomatic damage, made worse by Mr. Trump's use of Section 232 to claim a threat to national security. In the process Mr. Trump is declaring a unilateral exception to U.S. trade agreements that other countries won't forget and will surely emulate.

The national security threat from foreign steel is preposterous because China supplies only 2.2% of U.S. imports and Russia 8.7%. But the tariffs will whack that menace to world peace known as Canada, which supplies 16%. South Korea, which Mr. Trump needs for his strategy against North Korea, supplies 10%, Brazil 13% and Mexico 9%.

Oh, and Canada buys more American steel than any other country, accounting for 50% of U.S. steel exports. Mr. Trump is punishing our most important trading partner in the middle of a Nafta renegotiation that he claims will result in a much better deal. Instead he is taking a machete to America's trade credibility. Why should Canada believe a word he says?

Mr. Trump announced his intentions Thursday, so there's still time to reconsider. GOP Senators Orrin Hatch (Utah) and Ben Sasse (Nebraska) spoke up loudly against the tariffs, but a larger business and labor chorus is required. Mr. Trump is a bona fide protectionist so he won't be dissuaded by arguments about comparative advantage. But perhaps he will heed the message from the falling stock market, and from the harm he will do to the economy, his voters, and his Presidency.