

FASTEN SEAT BELT

Tariff Turbulence, Mollified Market



The founder who shaped our economic system more than all the others was Alexander Hamilton. Unlike Thomas Jefferson, Hamilton favored an economy based on finance and industry rather than agriculture. And Hamilton was also in favor of tariffs. But in a [recent post](#) Matt Winesett of the American Enterprise Institute doubts that Hamilton would favor tariffs today. First, he quotes Hamilton's biographer Ron Chernow saying that Hamilton favored free trade except when government could stimulate nascent enterprises with tariffs. The U.S. was what we might now call an "emerging" market or even a "frontier" market at the time of the founding, and tariffs could improve "American self-sufficiency, leading to a favorable trade balance and more hard currency." Since the U.S. has abandoned the gold standard, Winesett thinks it's no longer necessary to worry about hard currency flows (the exchange of goods for gold). Moreover, national security isn't threatened by free trade. Winesett notes that "the DOD only needs about 3% of current U.S. steel production to meet its needs." This is important because even Adam Smith, who generally favored

free trade, recognized that the defense of one's country is of higher importance than 'opulence,' according to Dartmouth economist Douglas Irwin's recent book [Clashing Over Commerce](#). But if defense isn't imperiled, then free trade should prevail. Winsett quotes Irwin from a [recent WSJ op-ed](#) arguing that Hamilton wanted moderate tariffs as a means of collecting revenue, not onerous ones to stop the importing of foreign goods. The government had to finance its Revolutionary War debt, after all, and wasn't interested in imposing excessive tariffs as much as it was in collecting taxes. Tariffs couldn't be so heavy that they stopped the inflow of goods. Chernow also notes, according to Winsett, that Hamilton favored lower tariffs on raw materials to encourage manufacturing. In other words, the point wasn't to be draconian against other nations, but to get some revenue for the government and facilitate industry. None of this means free trade eliminates the government's role completely. Irwin quotes Hamilton remarking on the idea that trade can be left to itself as 'one of those wild speculative paradoxes, which have grown into credit among us, contrary to the uniform practice and sense of the most enlightened nations.' Still, this doesn't mean Hamilton would have favored heavy tariffs today. It's possible that President Trump is interested in imposing tariffs 'or interested in threatening to impose tariffs' in order to compel foreign countries into reciprocity or removing their own tariffs. This means President Trump is really a free trader. So argues Marc Thiessen, also of the American Enterprise Institute, in a [recent op-ed](#). However, Thiessen's AEI colleague, Claude Barfield, [disagrees](#), arguing that Trump's invocation of national security to our historical allies and his compounding protection with subsidies, such as the recent \$12 billion to farmers harmed by foreign tariffs, display something other than a desire for free trade. Barfield thinks Sen. Ron Johnson (R-WI) is more accurate in his assessment of Trump's tariff subsidy as a 'Soviet type of economy. . . (with) Commissars. . . figuring out how they are going to sprinkle around the benefits.' Columnist George Will [agrees with Barfield](#), calling Trump a socialist for seeking to create a managed economy. There is no rule for who gets subsidies, Will notes; everything is done on a whim, putting us on what economist Friedrich Hayek called the '*road to serfdom*.' Of course, still another possibility is that Trump is so erratic and inconsistent that he doesn't have a clearly defined policy goal. Not fully understanding if he wants free trade or not, and perhaps correctly perceiving that things are not as advantageous as they could be for the U.S., he argues different things at different times 'national security at one moment, the quest for free trade and tariffs as a means or threat to that end at another. How financial markets remain relatively calm through inconsistent rhetoric and lack of defined policy goals is another mystery.