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THE PENINSULA

With Trump's Tariff Policies, Time is a Flat Circle

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Former President Donald Trump's campaign position to implement tariffs of up to 10 percent—or even 20 percent as his pronouncements have suggested—has grabbed the attention of the international business community. It was also featured prominently in the first and possibly only debate between Trump and Vice President Kamala Harris.

Already, analysts are concerned about the broader effects this might have on the US public and the world at large. Although the tariffs could have some positive impact on the longstanding US trade deficit, such as by slowing the growth of imports, the Center for American Progress has suggested it could amount to a roughly \$1,500 tax increase for the average US household while the Peterson Institute for International Economics notes a reduction in after-tax income of up to 3.5 percent for the bottom half of the US population.

Regardless of its ultimate effects, Trump wants to implement these tariffs as a protectionist policy to address perceived deficiencies in US trade—namely, the deficit and the United States' loss of control over strategic and legacy industries. It would be easy to say that these changes would be unprecedented, but they might as well come word-for-word out of former President Richard Nixon's 1970s economic playbook.

As the country grappled with inflation and competition with foreign manufacturing economies throughout the 1960s and early 1970s, the US balance of trade went negative for the first time that century in 1971. Although technically pegged to the US dollar, the fixed

exchange rate system meant that many export-oriented economies' currencies resisted natural market appreciation pressures, thereby making it cheaper for other countries to import their goods. Accordingly, countries with undervalued currencies could develop large trade surpluses, and this presented an impossible weight on the post-World War II Bretton Woods system, which had allowed countries to have instant convertibility of their dollars for gold.

Nixon and his team of economic advisors felt the need for fast action. In a televised speech made at Camp David on August 15, 1971, Nixon declared the end of dollar-gold convertibility. Believing that shutting the gold window was not enough to negotiate with other countries to revalue their currencies for fair competition, a 10 percent tariff was imposed on all imported goods—which was to be removed once a new monetary system could be implemented.

Nixon's advisors were aware of the consequences that this action would pose to the United States' place in the international trade system. In the leadup to the official announcement, Nixon's then Undersecretary of the Treasury for International Monetary Affairs and future Chairman of the Federal Reserve Paul Volcker noted, "Embarking on this course, we should do so only with our eyes wide open as to the risk of monetary disturbance both to the prestige of the United States and to the effective operation of the international monetary system."

As the tariff went into effect, the United States had to delicately balance its negotiating prowess against the possible retaliatory effects inflicted by global trading partners. But ultimately, it emerged in Nixon's favor by succeeding in forcing major trade partners to revalue their currencies against the dollar—with a 10.7 percent average devaluation of the dollar against the up-valued foreign currencies as a net effect. The tariff was removed following exchange rate negotiations at the G10 "Smithsonian" meeting in Washington, DC, in December 1971.

Where the Nixon tariff was added with the goal of getting other countries to reevaluate their currencies, it is unclear if the proposed Trump tariffs have the same targeted direction or goal toward exchange rate ultimatum. The Nixon tariff was not imposed long enough to act as a panacea to attack the US deficit and was only instituted with a temporary goal of expediting currency negotiations.

What can be said is that Trump's desire to impose similar tariffs resurrects the same insecurities about the US role in the international trade system. The Trump plan takes a twentieth-century playbook and applies it to twenty-first-century trade, and depending on the outcome of the election, it will have to be closely studied to see if and how it will succeed.

Still, where Nixon's tariffs were a strategic and temporary measure aimed at forcing currency revaluation, Trump's plan—without strategic direction—could signal a broader economic retrenchment if protective barriers are hoisted too high and for too long and with unclear effects for US industrial competitiveness in the world. In fact, Nixon cautioned against such a path in his 1971 address by stating, "There will be voices urging us to shrink from that challenge of competition, to build a protective wall around ourselves, to crawl into a shell as the rest of the world moves ahead." Although the present moment echoes the past, it remains unclear how Trump, if elected, would heed that message.

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