Trump's Tariffs

Daniel A. Peters, MD, MBA, FRCSC, FACS, FAAP¹
and Douglas R. McKay, MD, MBA, FRCSC²

Plastic Surgery
 2018, Vol. 26(4) 295-296
 © 2018 The Author(s)
 Article reuse guidelines:
sagepub.com/journals-permissions
 DOI: 10.1177/2292550318806000
journals.sagepub.com/home/psg

It's the end of the summer of 2018 and as many of us are enjoying the last few days of summer, we continue to be embroiled in national conversations regarding trade. Canadians are understandably apprehensive about our strained relationship with our southern neighbors and concerned about the impact on our economy.

Canada has a resource-based economy. Our Gross Domestic Product (GDP) is approximately CAD\$1.8 trillion, making it the 10th largest economy measured by GDP. A total of 30.9% of our economic activity is related to exports and a total of over 64% of economic activity involves trade. As a consequence, the impact of changes in trade relationships is of crucial national importance. This is most acutely felt in the natural resources, manufacturing, and agriculture sectors. Changes to trade relationships have the potential to profoundly affect the underpinnings of the Canadian economy.

Recent media attention on the North American Free Trade Agreement has highlighted the importance of the relationship between Canada, the United States, and Mexico in fostering a collaborative relationship. Most economists agree that trade fosters growth for all countries. This notion dates back to 1817 and the theory of Comparative Advantage, first offered by David Ricardo. This theory emphasizes the gains that accrue to all parties through international trade. Most significantly, such gains continue to accrue even if one party is more efficient than another at producing every single good or service. It shows that when countries focus on producing the good or service at which they are most efficient and then trade with other countries, each country will benefit.

The problem is that while trade may improve the lives of each country on average, it does not mean that the gains are evenly distributed or accrue to all members of each society. As a consequence, some members of societies can be harmed through free trade. In an effort to mitigate this harm, multiple countries have turned to various protection mechanisms to prevent their citizens from suffering harm or ruin. These mechanisms have been broadly published throughout this summer, but none has garnered as much attention as the imposition of tariffs.

What Are Tariffs?

Tariffs are taxes on imports which are paid by the domestic buyer pays for goods which are imported from a foreign country.

They can also be called duties or levies and are collected by the domestic customs officials and go into the coffers of the domestic government. For example, in the United States, tariffs are imposed on US citizens who import foreign goods. They are collected by American Customs and Border Protection Agents. The proceeds of the tariffs go to the US treasury. In other words, these are taxes levied by the American government on American citizens whose proceeds go to the American treasury.

Why Do Countries Impose Tariffs?

Tariffs are intended to accomplish 2 things. The first is to raise domestic revenue. Basically they are a consumption tax that is limited to items that have been imported into the country. They are a sales tax for imports. Governments use the proceeds of taxation to fund government activities and the tariff can be a very effective form of taxation.

The second objective is to differentiate between different types of products and to provide an advantage to domestic producers. Tariffs make imports more expensive and thus dissuade consumers from purchasing these items and promoting alternatives. For example, if Canada can produce milk at \$1 per litre and the United States can produce milk at \$1.10 per litre (ignoring exchange rates), then the imposition of a 20% tariff by the US government would have an effect. It would create a cost of \$1.20 for Americans to purchase a litre of Canadian milk, thus making the American milk cheaper. It would thus support the American dairy industry. Many governments argue that tariffs are appropriate because trading partners subsidize the cost of production and engage in unfair trade practices.

Tariffs have increasingly declined in global popularity as countries have entered into comprehensive trade agreements which have prohibited unfair trade practices and have leveled

¹ Division of Plastic Surgery, Department of Surgery, University of Ottawa, Ottawa, Ontario, Canada

² Division of Plastic Surgery, Department of Surgery, Queen's University, Kingston, Ontario, Canada

Corresponding Author:

Daniel A. Peters, Division Head Plastic Surgery, University of Ottawa/The Ottawa Hospital, Ottawa, Ontario, Canada.

Email: dapeters@toh.ca

the playing field. As a result, tariffs have become increasingly perceived as damaging as they discourage trade (and thus the benefits of comparative advantage) and increase prices globally. Basically, these tariffs result in an unending escalation of a trade war whose victims are consumers who end up paying more for everything.

So Why Would Anyone Want to Impose Tariffs?

The problem with trade is inherent in the gains that were originally described by Ricardo. While the benefits of trade accrue to countries *on average*, they do not accrue to every citizen. While more citizens will see improvements in quality of life (as measured by proportional GDP), this will not be true for everyone. In the example listed above, many people will gain from the ability to purchase cheaper milk in the absence of a tariff. However, some domestic milk producers will suffer or go broke. As a consequence, some governments have elected to abandon the notion of collective improvements in favor of gains to some segments of their populations. This has been particularly true as manufacturing jobs have shifted to low wage countries and there has been an increase in automation. Many countries are able to produce goods at a lower price, thus rendering some domestic production too expensive. As a consequence, some industries have argued that they require a tariff for support. Basically, these tariffs are government support for industries that are no longer able to compete globally.

There is a caveat to this line of reasoning. Several populist governments have argued that the lack of competition is not through lower wages or advanced technology but rather through foreign government support, dishonest trade practice, currency manipulations, or other nefarious activities. In some cases, these are credible culprits, but not always. Unfortunately, the imposition of tariffs is a crude tool to remedy these injustices.

Most economists would argue that tariffs are not a sound policy. They reduce competitive pressure and allow domestic producers to raise their prices by artificially driving up the cost of imports. That is good for those producers but not great for everyone else. This causes an increase in inflation. Furthermore, tariffs can disrupt supply chains by increasing the prices of raw materials necessary for the production process. For example, tariffs on steel can reduce the competitiveness of American car companies.

But there is also a psychological problem that arises with tariffs. They result in a rapidly escalating trade war. Each country feels aggrieved at perceived unfair trade practices and will impose tariffs in a series of escalating rounds, each designed to rectify the perceived injustice of the last round. The victims of this escalation are the citizens who pay more for imports and ultimately more for domestic production as domestic suppliers raise prices.

Why Does It Matter?

Canada and the United States have a long history of close economic collaboration in which the benefits of trade have

accrued to a large swath of citizenry in each country. However, there are constituencies within each country who have been harmed by this increase in trade. This history has resulted in highly integrated economies and interdependence. Such escalation in trade wars threatens the security of consumers, companies, and workers on each side of the border as the factors within supply chains become increasingly expensive. In addition, it portends increased inflation and increased cost for everything affected.

As plastic surgeons we will not be immediately affected by these changes, but they will have effects on our economy and practices in the medium term. In most cases, the purchase of plastic surgery is derived from discretionary income. This can be most affected by changes in the price level within a country. In other words, as we enter an inflationary environment (especially with respect to specific goods and services), consumers may be forced to abandon discretionary purchases. This may be more true for segments of the population rather than the population as a whole.

The US government has instituted a series of tariffs affecting Canadian goods. The most public of these are on steel and aluminum. Both of these goods have implications for Canadian exporters as well as for American consumers. Both deeply affect supply chains and both affect the manufacturing sectors in each country. Furthermore, the tariffs affect a host of downstream goods including canned goods, beverages, and prepared meals. The Canadian government introduced a list of retaliatory tariffs in response. The list is very specific and includes items such as food, fruit and vegetables, and detergents. These are considered necessities and often affect the core inflation in an economy. However, the list of tariffs also include manicure or pedicure preparations and some skin care products which may directly affect costs for plastic surgeons. As a consequence, we may experience these price alterations both in terms of the ability of the population to pay for our goods and services and also in terms of increases in the cost of our imported supplies. As mentioned above, as the cost of imported supplies increases, even the domestic cost will increase in response to decreased competition.

As plastic surgeons, we have a strong interest in understanding the manner in which these tariffs could affect our own supply chain as well as the overall economic environment in which we operate. Clearly an efficient trade environment is beneficial. However, we need to be cognizant of these changes as we navigate an increasingly complex world of interconnected trade relationships. It behooves us to understand these economic forces and their potential impact on our business.

Declaration of Conflicting Interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author(s) received no financial support for the research, authorship, and/or publication of this article.