The Daily Dish

Liberation Day, Greenland Edition

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Eakinomics did not want to discuss tariffs. Eakinomics did not want to discuss Greenland. Eakinomics is not qualified to discuss NATO or foreign policy. Yet here we are because President Trump has threated 10-percent tariffs on all imports from Denmark, Norway, Sweden, France, Germany, the United Kingdom, the Netherlands, and Finland starting February 1 (and rising to 25 percent on June 1). That is, unless Denmark gives the United States complete and total control of Greenland, an act that threatens to tear apart NATO and utterly scramble traditional foreign policy toward Europe. (According to *The New York Times*, this is somehow related to President Trump's failure to win the Nobel Peace Prize.)

The tariffs would affect $362 billion in imports from Europe and are presumably intended to harm Europeans. In this way, they are similar to the recently announced proposal to put a 25-percent tariff on imports from those nations that trade with Iran. As noted in Eakinomics, this would raise $100 billion to $350 billion. Evidently in the eyes of President Trump, these countries deserve severe penalties for their foreign policy sins.

Except it is U.S. households and firms that bear the cost of the tariffs. As reported by *The Wall Street Journal (WSJ)*:

> *Trump has repeatedly claimed that his historic tariffs, deployed aggressively over the past year as both a revenue-raising and foreign-policy tool, will be paid for by foreigners. Such assertions helped to reinforce the president's bargaining power and encourage foreign governments to do deals with the U.S.*

> *Trump's claims have been supported by the resilience of the U.S. economy, which recorded relatively brisk growth and moderate inflation last year, even as growth in Europe and other advanced economies remained sluggish.*

> *The new research, published Monday by the Kiel Institute for the World Economy, a well-regarded German think tank, suggests that the impact of tariffs is likely to show up over time in the form of higher U.S. consumer prices.*

The Iran plus Europe tariffs bode poorly for foreign policy outcomes and the U.S. economy. As noted by WSJ, the notion that tariffs have no impact on growth or inflation has gained popularity recently. Unfortunately, this is more a tribute to the delays and reductions in announced tariffs than their having no economic impact. Indeed, arguing that they have no impact is like arguing there is no gravity. Tariffs are a tax and that cost is collected from a U.S. purchaser. That's an undeniable fact that the administration likes to trumpet (sometimes).

The only remaining question is whether that tax cost is shifted onto another U.S. purchaser (as with a tax on imported intermediate goods) or back onto the exporter. The Kiel study affirms that the tax cost remains in the United States. The whole episode looks like a foreign policy loss, a threat to economic growth, a boost to near-term inflation, and probably a hit to the president's odds of winning the Nobel Prize in Economics.