



The Daily Dish

Tit for Tat on Trade

DOUGLAS HOLTZ-EAKIN | MARCH 12, 2025

Sometimes there is no substitute for the original, so here. – in its entirety – is the tweet President Trump posted on Truth Social yesterday:

Based on Ontario, Canada, placing a 25% Tariff on “Electricity” coming into the United States, I have instructed my Secretary of Commerce to add an ADDITIONAL 25% Tariff, to 50%, on all STEEL and ALUMINUM COMING INTO THE UNITED STATES FROM CANADA, ONE OF THE HIGHEST TARIFFING NATIONS ANYWHERE IN THE WORLD. This will go into effect TOMORROW MORNING, March 12th. Also, Canada must immediately drop their Anti-American Farmer Tariff of 250% to 390% on various U.S. dairy products, which has long been considered outrageous. I will shortly be declaring a National Emergency on Electricity within the threatened area. This will allow the U.S to quickly do what has to be done to alleviate this abusive threat from Canada. If other egregious, long time Tariffs are not likewise dropped by Canada, I will substantially increase, on April 2nd, the Tariffs on Cars coming into the U.S. which will, essentially, permanently shut down the automobile manufacturing business in Canada. Those cars can easily be made in the USA! Also, Canada pays a very little for National Security.

There are multiple lessons to be gleaned from the episode.

First, and most important, this is the tit for tat retaliation that is the signature of a dangerous trade war. Almost all of the estimates of the inflation and/or growth impacts of Trump’s announced tariffs are done as if they existed in isolation. But they do not. Other countries have retaliated, and will continue to retaliate. This produces compounding negative impacts on the global economy. Trump started the cycle by announcing 25 percent tariffs on Canada and Mexico, violating the U.S. – Mexico – Canada (USMCA) trade agreement.

Canada retaliated, knowing its economy would suffer. However, one of the features of the Canadian system is that provinces can impose tariff and non-tariff barriers to trade. In this case, Ontario raised the price of electricity (and it really is electricity, not “Electricity”) for U.S. customers. This prompted President Trump’s further escalation of the trade war. Where does it stop? How much damage will be done?

Second, the president has either learned nothing, or cares little, about the financial market reactions to his erratic trade policy announcements. Since those pricing decisions reflect the impacts on the underlying real economy, one can only conclude his level of concern about slowing growth and rising prices is comparable.

Third, the president can kiss his fantasy of a manufacturing “renaissance” goodbye. Every time people look at steel tariffs they find that the damage done by higher steel prices on users of steel outweighs any benefit to steel. The aluminum story will be similar.

Fourth, enough of the “emergencies.” Each tariff has been enabled by declaration of an emergency - economic, fentanyl, national security, and now electricity. It is time for Congress to re-read the Constitution and take back its authorities in trade.

And it could go on. Trump himself negotiated and signed the USMCA, including the pattern of auto production in North America. What changed? Why is Canada’s defense spending an issue?

The entire episode is an example of poor form, poor process, and poor policy...right up until the president did a U-turn and [backed down](#) late yesterday (as did Ontario premier Doug Ford). Stay tuned for the next act in this drama.