



Political Economy  
Research Institute

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MIDDLE TENNESSEE STATE UNIVERSITY

# An Economic Analysis and Assessment of How Tariffs Will Affect Ginseng Growers

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Established in late 2016, the Political Economy Research Institute is a joint venture between the [Jennings A. Jones College of Business](#) and the [University Honors College](#), established with initial seed money from the Charles Koch Foundation.

The mission of the institute is to engage undergraduate and graduate students with faculty in research that will further the understanding of business and economic principles, as well as their impact on regional, national, and international financial conditions and the well-being of society. To advance its mission, the PERI will engage in research and educational programs which uncover the institutions and policies that encourage and enhance human well-being.

# Tariffs

Tariffs can be expected to harm ginseng growers in four capacities:

1. Directly through retaliatory tariffs (or removing tariff concessions)
  - China has timed retaliatory tariffs to correspond with the timing of Trump's tariffs on Chinese goods.
  - Why ginseng?
    - The Speaker of the House, Representative Paul Ryan, is from Wisconsin
    - American Ginseng is primarily exported to China
2. Directly through port inspections and other holdups in China
3. Indirectly through the rising cost of the dollar
4. Indirectly through the increase in the cost of inputs (fertilizer, tools, etc.)

# The Political and Economic Justifications for Trump's Tariffs

- Protect American Jobs
- Trade Deficit
- National Security

# Will Trump's Tariffs Protect American Jobs?



There are an estimated 80 Americans in steel- and aluminum-using industries for every one American employed in the steel and aluminum industry. One estimate suggests that as many as five Americans will lose their jobs, primarily in low-skilled industries, for every one job saved in the steel and aluminum industry.

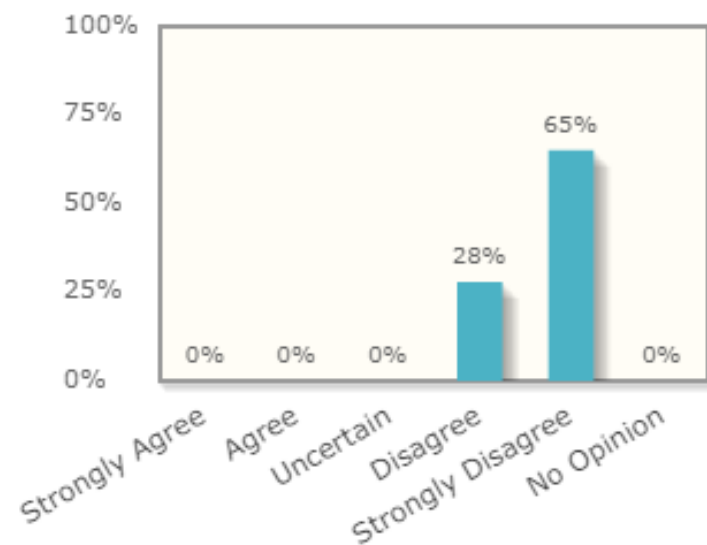
This doesn't begin to include the individuals that can be expected to be harmed in any subsequent trade war.

Monday, March 12th, 2018 3:31 pm

## Steel and Aluminum Tariffs

**Imposing new US tariffs on steel and aluminum will improve Americans' welfare.**

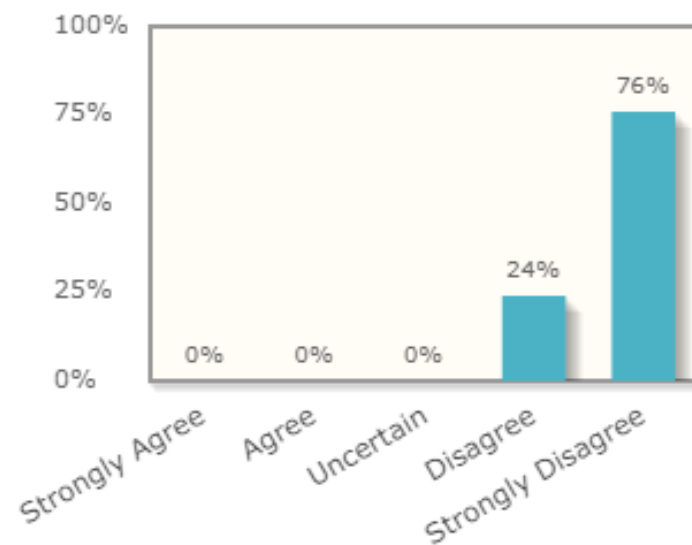
### Responses



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### Responses weighted by each expert's confidence



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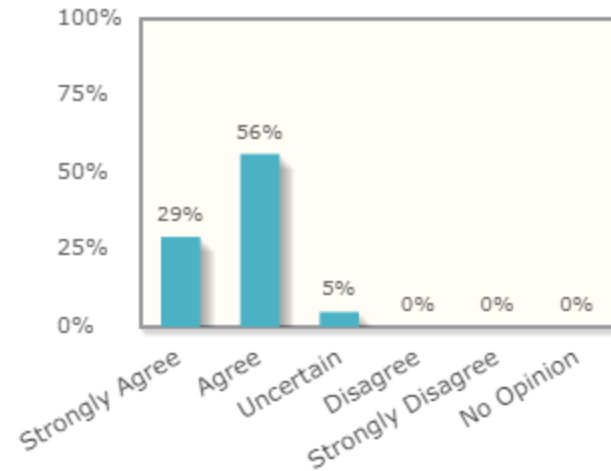
Source: IGM Economic Experts Panel  
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Tuesday, March 13th, 2012 9:18 am

## Free Trade

**Question A: Freer trade improves productive efficiency and offers consumers better choices, and in the long run these gains are much larger than any effects on employment.**

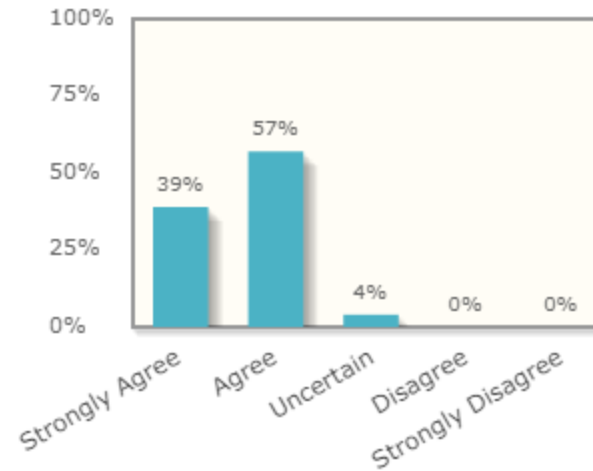
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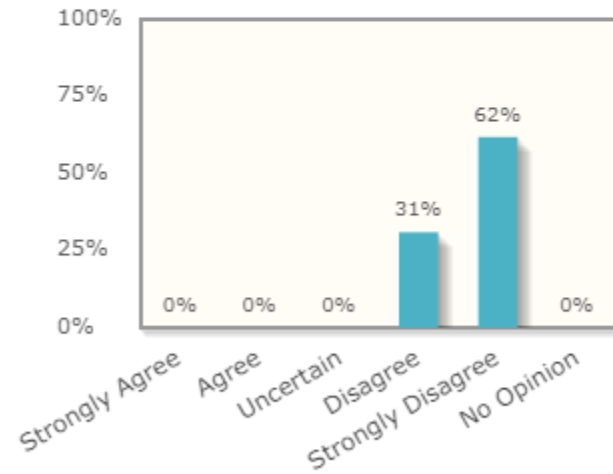
Source: IGM Economic Experts Panel  
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Tuesday, October 4th, 2016 1:11 pm

## Import Duties

**Adding new or higher import duties on products such as air conditioners, cars, and cookies — to encourage producers to make them in the US — would be a good idea.**

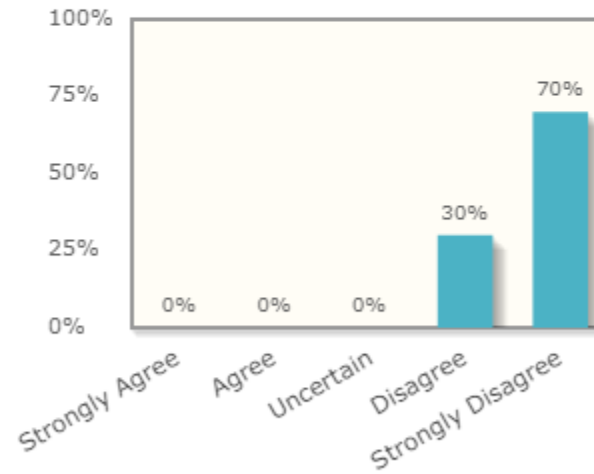
### Responses



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# Over 1,100 Economists Sign Open Letter to Trump Opposing Tariffs and Protectionism

“We are convinced that increased protective duties would be a mistake. They would operate, in general, to increase the prices which domestic consumers would have to pay. A higher level of protection would raise the cost of living and injure the great majority of our citizens.

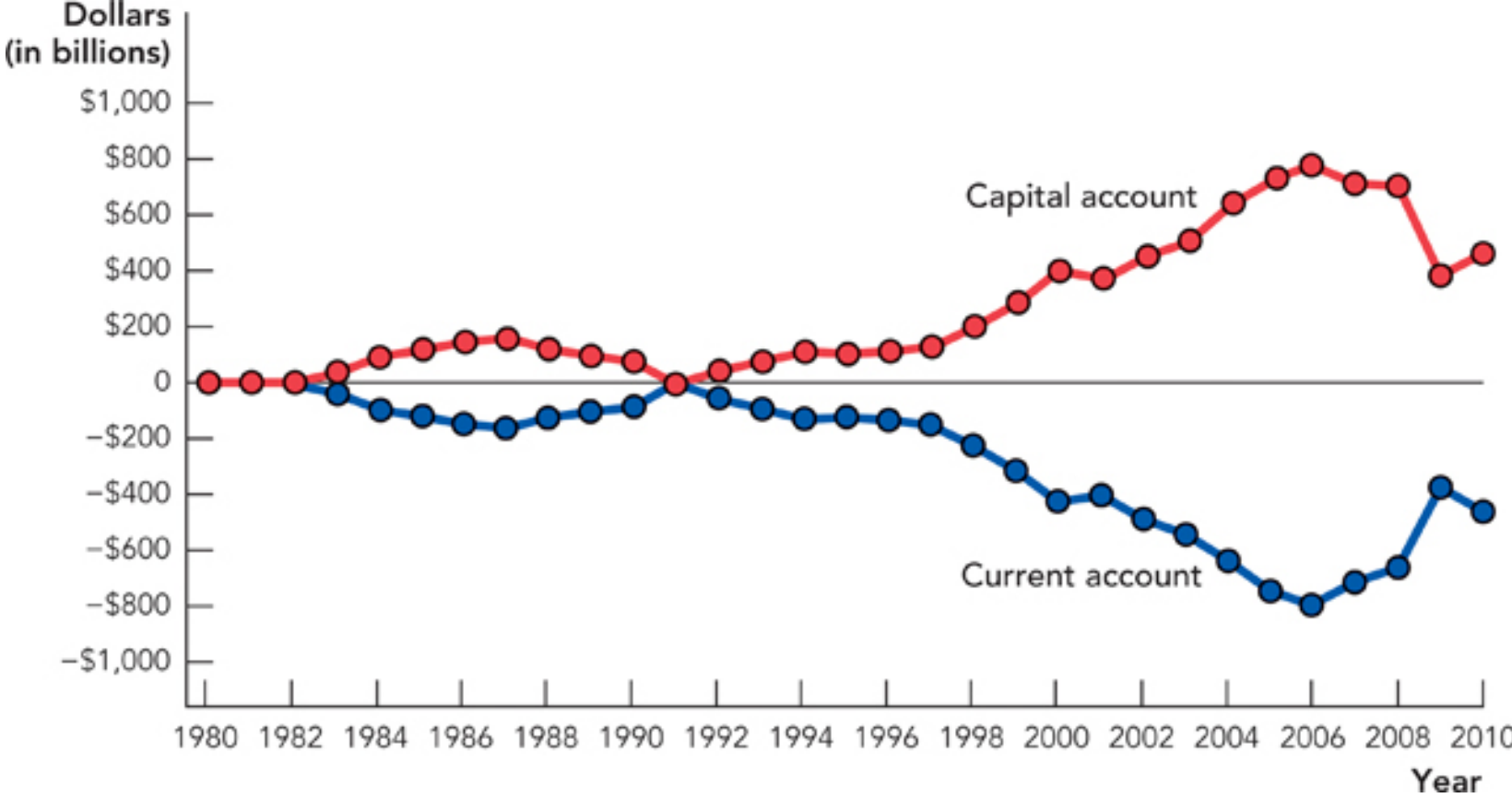
Few people could hope to gain from such a change. Construction, transportation and public utility workers, professional people and those employed in banks, hotels, newspaper offices, in the wholesale and retail trades, and scores of other occupations would clearly lose, since they produce no products which could be protected by tariff barriers.

The vast majority of farmers, also, would lose through increased duties, and in a double fashion. First, as consumers they would have to pay still higher prices for the products, made of textiles, chemicals, iron, and steel, which they buy. Second, as producers, their ability to sell their products would be further restricted by barriers placed in the way of foreigners who wished to sell goods to us.

Our export trade, in general, would suffer. Countries cannot permanently buy from us unless they are permitted to sell to us, and the more we restrict the importation of goods from them by means of ever higher tariffs the more we reduce the possibility of our exporting to them. Such action would inevitably provoke other countries to pay us back in kind by levying retaliatory duties against our goods.

Finally, we would urge our Government to consider the bitterness which a policy of higher tariffs would inevitably inject into our international relations. A tariff war does not furnish good soil for the growth of world peace.”

# Trade Deficits

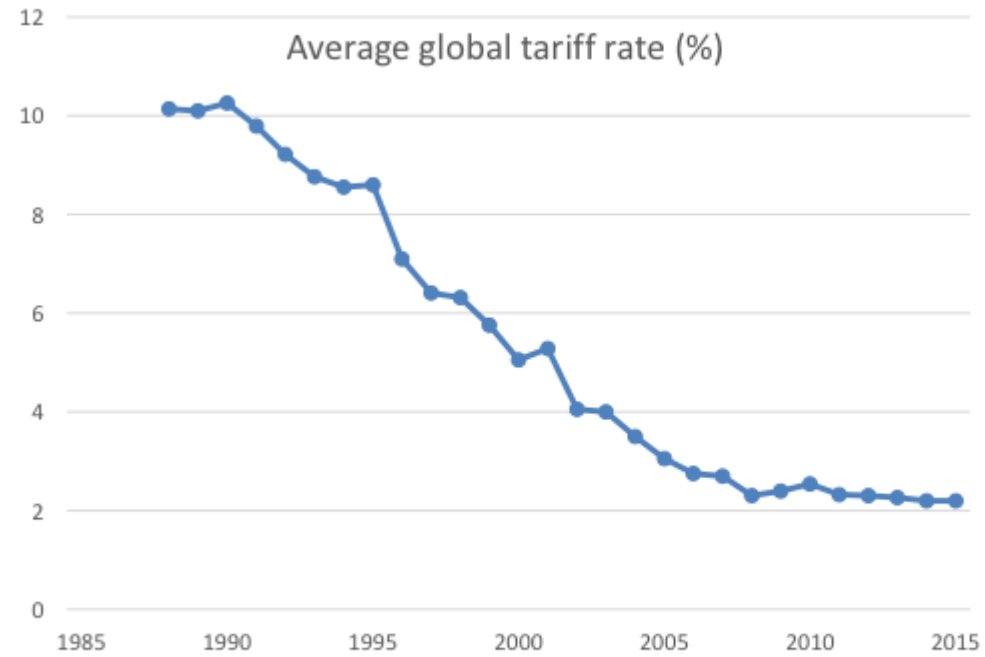


Cowen and Tabarrok (*Modern Principles of Economics*)

# National Security

- How much steel and aluminum is really needed for military security?
- Is it conceivable that free trade would destroy the entire steel and aluminum industry?
- Is it really conceivable that we would go to war with every producer of a militarily strategic good?
- Protectionism tends to reduce the entrepreneurial dynamism, economic flexibility, and material abundance provided by free trade. These are some of the best assurances of military stability
- Knowledge and incentive problems
  - Every industry can, and will, argue they are necessary for national security
- More efficient alternatives to provide for national security in ways that would more evenly distribute the costs:
  - Stockpile steel and aluminum
  - Maintain a factory that doesn't produce
  - Subsidize

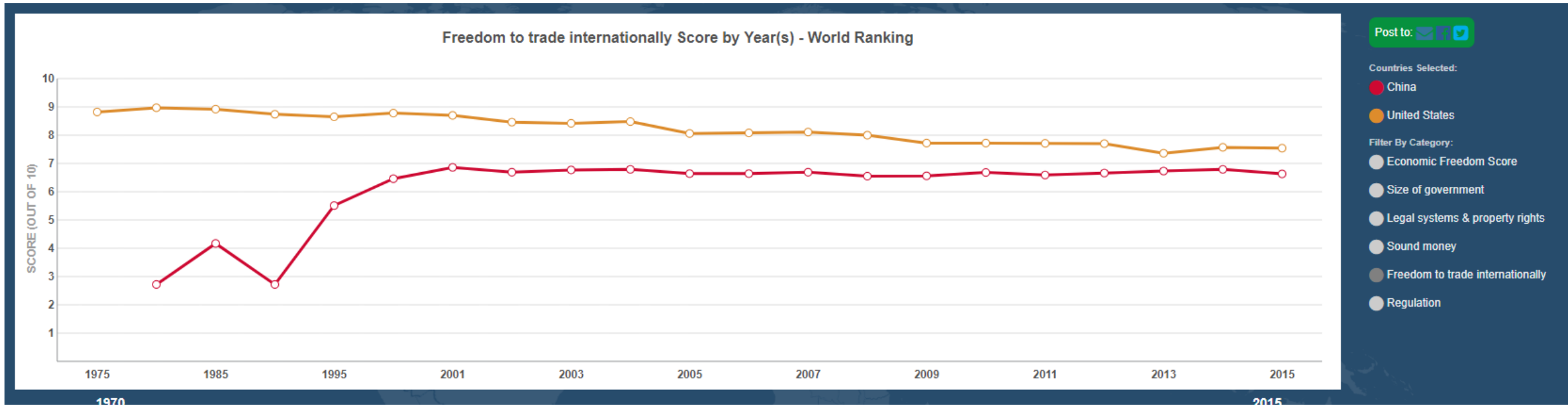
**Figure 3** Average global tariff rate, 1988–2015



*Note:* Averages of 64 countries representing 91% of world trade in 2010, weighted by 2010 shares of imports.

*Source:* World Bank.

William Nordhaus (2017)



Frasier Economic Freedom Score by Year(s) – World Ranking

# Chicken Tariff

- Lyndon Johnson imposed a 25% tariff on light trucks in 1964 in response to a U.S. chicken tariff imposed by France and West Germany.
- That tariff is still in place today.
- That tariff is so high that many automobile manufacturers, including Ford, import trucks as “passenger vehicles” with seats, seatbelts, and other passenger interior trims, and then tear them out and discard them, to turn them back into trucks.