

Turbulence from Tariffs 04.04.2025

Sometimes even the people of whom not much is expected to provide surprising disappointment. In 30 years of writing notes to clients, I've never gotten political. Always been careful to walk the line of policy vs personality. I'm as close as I've ever been right now to crossing the line. I'm so livid about what has been done by Trump it's hard to quantify. The whole tariff scheme is like one bad joke nightmare, all based on lies that were put in front of the American people specifically designed to trick voters. It is shameful. I promise, after I explain "tariffs" and how the rates were determined (see bottom), you are going to realize this is all a sham fiasco that has cost us many \$1000s of dollars.

A tariff/tax on a product/service causes people to pay more or for a company/investors to make less with more of the transaction going to the government coffers. Two quick examples: If you buy pants for \$50 with an 8% tax, the total cost is \$54, with \$4 going to the state. You now don't have that \$4 to spend on coffee next door, so their business is less than it would be otherwise. Now, let's say there are 50% tariffs on the \$25 wholesale price of the pants. That's an extra \$12.50. The store could eat that increase but then their profit margin shrinks 50% and they'll go out of business or have to fire a bunch of people or renegotiate the lease, causing problems with the landlord and the lender. Or they raise prices, perhaps causing you not to buy them at all and "suddenly" the local department store is firing workers or maybe going out of business. Either way, it's bad for consumers and businesses.

Now, you may say "But, but, but, what about the foreign countries ripping us off?" The question really is, how are they ripping us off? What is a trade deficit? Anytime you buy something from the store, gasoline station, restaurants, or doctor, you're running a trade deficit. I'm many \$1000s in deficit w/ Costco, Trader Joes and Papi's Mexican Grill in Pismo Beach. Should I quit buying from them because they aren't doing business with me? That's silly. What's sillier is...should I slap an extra tariff/tax on the cost of their goods before I buy because they aren't buying from me? If I do, doesn't that hurt me and all of us? We end up paying more and they end up making less because more of the transaction is going to the government due to the higher taxes/tariffs.

The US' existing overall deficit is not driven by trade barriers, but by how the US economy works and because we are so big relative to other countries' economies. Because our government runs a \$2 trillion yearly deficit, Americans spend and invest more than they earn, and that gap means the US buys more from the world than it sells to the world. If we "balanced our budget" (haha), our trade deficits would be magically cured because we wouldn't have the money to spend on excess goods.

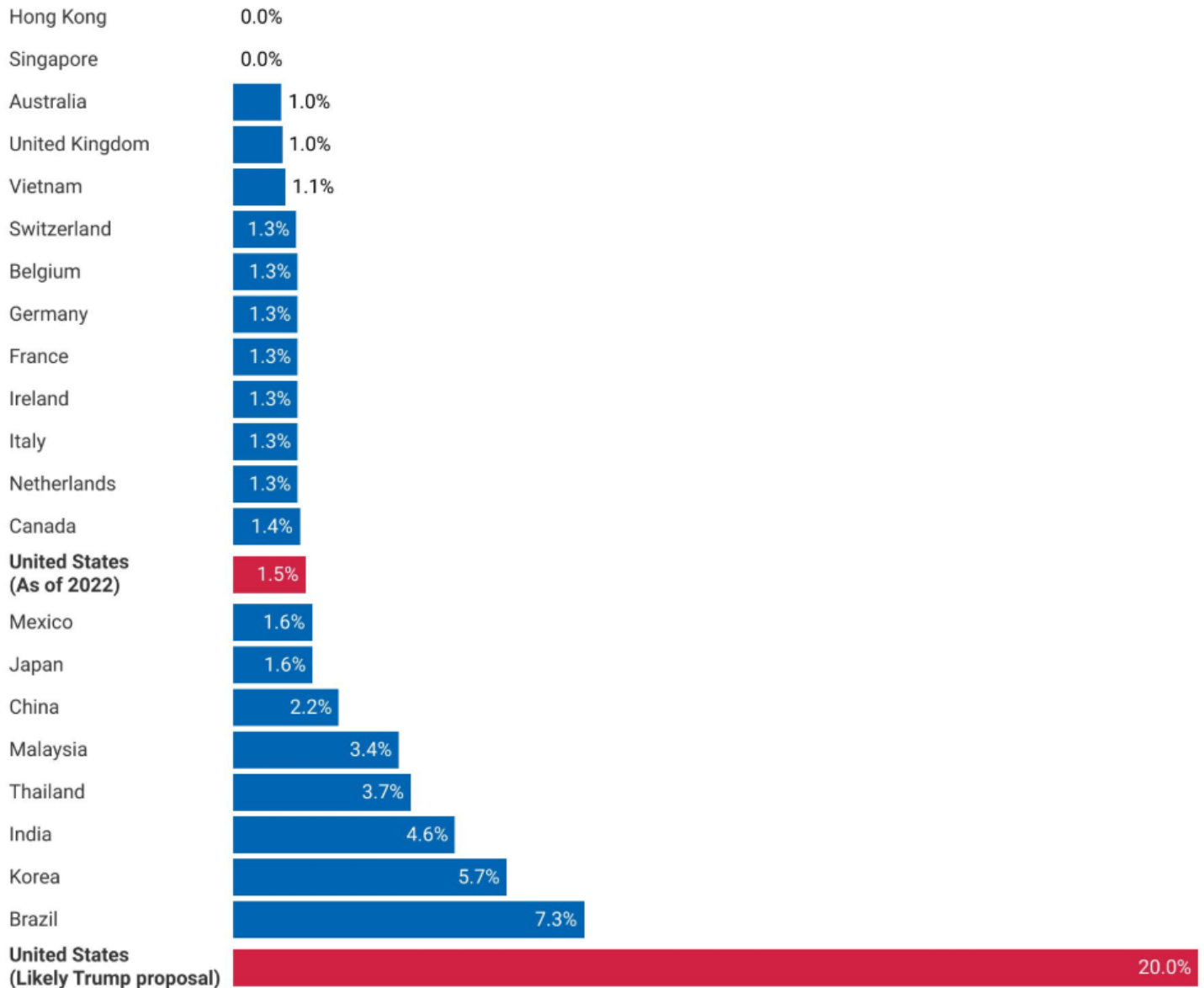
Finally, here's how Trump came up with the tariff rates[^]. You are going to go out of your mind when you read this. Essentially, if we sold country A \$15 billion in goods (exports) and they sold us \$30 billion in goods (imports), the export to import ratio is 50% (15/30). Based on this metric, Trump said Country A's tariff rate to us was 50%. He cut the 50% in half and made it a 25% tariff on that country.[^] You can't make this stuff up. A dirt poor country in Africa, Lesotho,* with a yearly GDP of \$2.3B, that can't afford much of anything we make in the US, now has a 50% tariff rate. Yes, it's insanity squared. Trump's tariffs aren't based on the percentage tariff levied by a country, but by the gross value of the exports vs imports. This is the only way he could sell his tariffs because the real numbers (see below), are nothing like that. What

makes it worse is so many people in his administration are going along with this, including people who know better.

Here are the actual tariff rates for our biggest trading partners. When you look at them, you are going to be shocked and ask, “this is what the squawk is all about?”

America's major trading partners charge relatively low tariff rates, on average

Trade-weighted mean of the applied tariff rate over all goods



Latest estimate shown for each country, typically around 2022.

Chart: @JustinWolters • Source: World Bank and for Trump proposal, Washington Post

[^]<https://www.independent.co.uk/news/world/americas/us-politics/trump-tariff-rates-math-b2726828.html>

^{*}<https://www.businesstoday.in/latest/economy/story/math-makes-no-sense-at-all-lesotho-one-of-africas-poorest-nations-hit-with-50-us-tariff-470592-2025-04-03>

As I type on Friday April 4th at noon, stock markets are down 9-10% in 2 days and this stupidity has cost us \$1000s. I am “hoping” for a bounce on Monday. This is not standard ebbs and flows of markets and business cycle stuff. This has the chance to be something much worse. I have already written to several people in Congress to stop this madness. I suggest you do the same.

The difficulty with investing now is, Trump could “tweet” out that he’s come to agreements with various countries (even if he hasn’t), and the markets would instantly take off, meaning our losses would then be set if we sold out. I’m not going to tell you I have a crystal ball, but I do know, if we do get a bounce, we will reduce risk considerably.

Enjoy,

Thomas B. Paine

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