Trade and Tariff Protection

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Trade is an important and growing constituent of New York's regional economy. In 2016 over 34,000 firms from within the New York Metropolitan region exported $89.6 billion worth of goods to the rest of the world. These figures make it apparent that tariff and trade policies and changes to these policies may have a profound impact on the Long Island regional economy.

In the course of the past year, U.S. trade policy has stepped back from a pronounced movement towards globalized free trade and free trade agreements such as NAFTA, and trade proposals for both the Pacific Rim and our European trading partners. While the U.S. Trade Commission rejected a proposal to impose new tariffs on Canadian commercial jetliners, tariffs were imposed on washing machines from South Korea and solar panels from China. Last November, new import duties were imposed on Canadian lumber.

Trade between countries is usually explained in terms the notion of comparative advantage. In other words, the goods and services that are traded across country borders are the result of differences in relative costs and resource endowments. While each country (or group of countries such as the European Union) may have its own set of regulations concerning trade, across the last thirty to forty years, globally there has been a general movement towards the harmonization of trade policies, reductions in tariff rates, and less restrictive trade through organization such as the World Trade Organization.

The imposition of tariff is usually defended as a means to protect domestic producers from some form of unfair competition. A significant body of literature in economics that suggests that high trade barriers may in the short run limit the impact of lower priced goods from abroad on domestic producers but may have serious negative impacts on economic growth and a country's competitiveness in the long run. It is even suggested that trade policies in the form of high tariff barriers contributed significantly to the Great Depression and slowed the country's recovery.

The imposition of a thirty percent tariff on solar panels from China (the leading supplier of solar panels worldwide and to the United States) primarily serves the concentrated interests of a handful of producers and jobs in the country. Consumers will end up facing higher prices potentially impacting the sales and installation of solar panels on Long Island and across the country. Firms that are protected from the competitive forces of the market may not necessarily remain competitive globally or innovate and there is a loss of overall consumer surplus.

While it is possible that tariff policy is being used as a short-term strategy to bring our trade partners (China and South Korea) to the negotiating table, it can also have serious consequences on the economy.