

## Tariffs

Tariffs, quotas, subsidies, and regulations stifle the transport of goods and services. These barriers to open trade are rising across the world. Protectionist policies are ascending to levels not seen in decades driven more rapidly here at home by the rollercoaster of tariff tensions. A historical recap of the cyclical relationship of Protectionism and Globalization may add perspective.

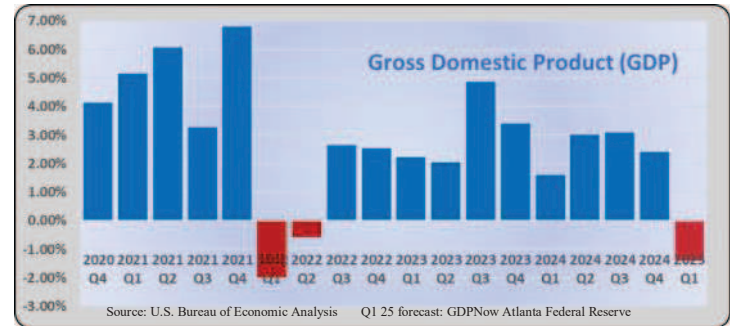
Before World War II, the United States, isolated by two great oceans, was self sufficient and pursued protectionist trade to shield its fledgling industries. Aiming to avoid the war, the US sought to remain neutral. However when the Japanese attacked Pearl Harbor, the US no choice but to declare war on Japan and subsequently Germany and Italy.

The US transformed their factories to produce massive amounts of tanks, airplanes, ships and ammunition. During the war, the US became the "Arsenal of Democracy" supplying its allies with vast quantities of military supplies. The US emerged from the war as the world's leading manufacturing power propelled by American ingenuity developing the most efficient mass production systems in the world.

After WWII, the world faced an immense challenge of rebuilding. The US's Marshall Plan was a massive commitment to European recovery but also provided markets for American goods, created reliable trading partners, and supported stable democratic governments. Not only did the US assist its allies, but also embraced the enemy supporting the reconstruction of Germany and Japan fostering strong alliances with both nations. America was no longer just an isolated nation but emerged as the singular global superpower and trading partner to the world.

Epic postwar reconstruction created a global economic boom dubbed **The Golden Age of Capitalism**. Globalization replaced prewar protectionism. America propelled itself into the lead of the "free world" with the most powerful military and economy while the American Dollar became the world's reserve currency. The US led in forming the Western alliance with Europe when the Soviets revealed their intent to dominate Eastern Europe.

Globalization touted elevating living standards over the entire world, espousing that interconnectedness would nurture the exchange of goods and services. China's accession to the World Trade Organization (WTO) in 2001 was seen as a victory for free trade and economic liberalization. Although Americans benefited from lower cost goods over the next 25 years, they lost countless domestic industries and manufacturing jobs to lower



wage nations. Today America is still one of the top manufacturing countries but a distant second to China, the largest trading partner with over 120 countries, representing 32% of global output.

Today the world's rise of protectionist policies stemmed from the acute awareness of effects of the world's interdependence laid bare by the 2008 financial crises and again by COVID-19's fallout exposing the vulnerabilities in global supply chains. The world is inextricably linked and disengaging will not be easy nor painless.

With tariffs as the tool of choice, the US is firmly on a path of protectionism first from China, its global rival, then from its neighbors and longtime allies, and finally sweeping tariffs on April 2<sup>nd</sup> "Liberation Day" for the rest of America's trading partners. There is much public anxiety and speculation as to the extent and severity of these "reciprocal" tariffs. Many economists believe that if the tariffs are high and punitive, they would threaten to plunge the economy into recession and instigate trade wars which would destroy decades-old alliances.

Over the last three months the on-again off-again tariffs have triggered investor jitters driving gyrations in the US stock markets. These uncertainties have also triggered corporate anxieties of higher operational costs and weaker growth reflected in the Atlanta Fed's alternative model forecasting a 1.4% GDP loss for this first quarter.

Americans are hunkering down worried about tariffs, inflation, and the US economy. Investors feel like they are on a rollercoaster being thrown side-to-side, even tossed upside down by the whipsaw rollout of punitive tariffs on America's biggest trading partners. That uncertainty drove the major US stock markets to their worst quarter since 2022.

