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The Tariff Man Is Coming for America's Entrepreneurs

One small business has paid nearly $30,000 in the past two months.

By Annie Lowrey

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Over the past two months, Stuart and Susan Rosen say they have paid nearly $30,000 in tariffs to the American government. Their Burbank–based small business designs costume jewelry, manufactures it in China, imports it to the United States, and sells it to department stores and online boutiques. When Donald Trump took office, he slapped a 10 percent tariff on their imports, and then another 10 percent.

Tariffs cause "a little disturbance" and require "a little bit of an adjustment period," the president has conceded—and the Rosens confirmed. Their retail partners have declined to increase in-store prices for their necklaces and earrings, leaving their business with no choice but to eat the cost of the levy. "Trump gets online and says, *This is great! These tariffs, we're going to make a lot of money*," Susan told me. "Well, you're stealing money from me."

After this adjustment period, Trump has promised, the tariffs will "protect our businesses and our people." Business owners will dump their foreign trading partners and foreign firms will invest in the United States. Companies will hire American workers, open American factories, and buy American goods. The trade deficit will decline and employment will go up. "Tariffs are about making America rich again," Trump said, addressing a Joint Session of Congress earlier this month. "It's happening."

It sounds great. But it is not happening. Many entrepreneurs, such as the Rosens, have no practical way to onshore their supply chain. If they managed to do so, their jewelry would cost more than imported jewelry, making their business uncompetitive. If the tens of thousands of American firms relying on imported goods did the same, the country's rate of productivity growth and consumers' purchasing power would go down. "If we try to make every damn thing here, it's a road to poverty," Kimberley Clausing, an economist at UCLA, told me. "The idea that there's going to be some sort of long-term benefit is hogwash."

The White House is not creating a little disturbance in service of making America rich again; it's creating a huge disturbance in service of making America poor again. Tariffs will encourage American firms to use more American products and American workers. Yet that still does not mean they will bolster American employment or improve American lives.

Washington's yen for onshoring is bipartisan, and predates Trump by more than a decade. After the Great Recession, Barack Obama pushed a "Make It in America" plan, praising businesses that created manufacturing jobs stateside. In 2016, Trump, Bernie Sanders, and Hillary Clinton issued competing policies to promote factory employment. In 2021, Joe Biden called industrial production the "engine of American prosperity" before spending hundreds of billions of dollars on tax credits and subsidies for semiconductor factories and clean-energy plants.

This 21st-century push for 19th-century industry is about hope for the future and, perhaps even more so, fears from the past. From the 1970s to the 2000s, deindustrialization and globalization eviscerated the country's heartland, the Steel Belt corroding into the Rust Belt. It would be hard to overstate the financial and social ramifications: persistent depopulation, permanent income loss, severe regional inequality, increasing drug overdoses, rising political polarization, ascendant right-wing populism. Moreover, studies have indicated that the erosion of the country's manufacturing base might have reduced productivity and innovation economy-wide. The dislocations caused by the coronavirus pandemic and rising tensions with Beijing gave Washington a strong security justification for supporting domestic supply chains too.

A self-proclaimed "tariff man," Trump has taken these arguments to extremes, bellowing that foreign countries are ripping off Americans and promising to eliminate the country's trade deficit. "Globalization has made the financial elite, who donate to politicians, very, very wealthy," he said while campaigning against Clinton. "It has left millions of our workers with nothing but poverty and heartache." During his first term, he implemented tariffs on aluminum, steel, and $380 billion in Chinese imports, and renegotiated the North American Free Trade Agreement. In his second, he has levied tariffs on Chinese, Mexican, and Canadian goods, and is preparing tariffs on trillions of dollars of imports from around the globe.

But there is a difference between using trade policy to generate new jobs and to restore old ones, as Trump wants to do, promising to take the country back and make it great again. "Rectifying the bad things we went through in the past—and I am not minimizing that there were costs—this is not going to fix that, and I fear that it's holding out false promise," Chad Bown of Peterson Institute for International Economics told me. Tariffs aren't reparations.

Trump's nostalgia notwithstanding, the American economy was not more prosperous when a large share of its workers were toiling on assembly lines. Fifty years ago, the middle class was larger and inequality was lower. But wages and household incomes were smaller, and consumer goods were much more dear. Trade liberalization and automation made most Americans better off.

Trump's crackbrained understanding of trade economics threatens to reverse those welfare gains, and without aiding the Rust Belt. He insists that tariffs are paid by foreign exporters, when they are paid by domestic businesses and consumers, as the Rosens show. He argues that the United States' trade imbalances indicate that other countries are taking advantage of us, when it simply means that we sell fewer goods and services to foreign nations than we buy from them. (Savings rates, currency prices, industrial policy, trade barriers, and labor costs figure into countries' trade imbalances.) He argues that making everything in America would bolster GDP growth rate, when that would reduce it.

China's ascension to the World Trade Organization and decades of automation beforehand did damage the Rust Belt economy. But economists told me that trade policy has no way to reverse the phenomenon. Washington cannot dictate where business executives choose to build new plants; those decisions take into account not just tariffs but tax incentives, labor rules, the location of ports and highways, and local employment conditions. "If we try to undo the China Shock, those jobs are probably going to go to the South or Southwest"—where wages are cheaper and labor laws are laxer—"not the industrial heartland," Douglas Irwin, a trade economist at Dartmouth, told me. Place-based policies could help, he said, but "trade barriers just aren't going to do it."

When companies build plants in the United States today, they look nothing like the Manhattan garment factories and Big Three assembly lines of yore. Automation has diminished the number of manufacturing positions globally; countries such as Ethiopia and Bangladesh have seen most of their job growth in the service sector. Given the high cost of labor in the United States, manufacturing firms tend to invest heavily in robotics, machine tools, and AI systems. In the 1930s, the biggest Detroit auto plant employed more than 100,000 workers. Hyundai's new electric-vehicle plant outside Savannah is expected to employ 8,500.

Modern factories tend to be not unitary production facilities but nodes in complex, globe-spanning networks. A car finished in Illinois might contain components from Mexico, Canada, Japan, and Germany, with parts crossing in and out of the United States multiple times during assembly. "If you don't have tariff-free access to those parts, your car is going to be more expensive than the same-quality car made in South Korea or Germany," Clausing told me. Tariffs would make it "harder to make things in America, not easier," she added: A company would pay only a single tariff to import a car made entirely abroad, but multiple rounds of tariffs on a vehicle produced inside and outside the United States. Tariffs, she told me, "could decimate the U.S. auto industry."

Trump's proposed tariffs do not emphasize strategically important or high-tech industries, as prior administrations have done. As a result, "we're going to reallocate production away from stuff we were good at making and towards stuff that we're not good at making," Clausing told me, and away from crucial goods and toward trivial ones. Trump's policies could squeeze capital away from weaponry, batteries, and semiconductor chips and toward toasters, sports equipment, and, well, costume jewelry. Other countries that have engaged in this kind of autarky have generally given up, Clausing noted. “You realize that you can’t make everything yourself and it ultimately makes your citizens poor.”

Trump’s enormous tariffs would increase consumer prices and limit the quantity and quality of goods available for American households to purchase. The policies would kill off firms reliant on imported goods or parts. The misallocation of investment capital would make the country less vibrant in the long term.

Trade experts anticipate that Trump will reduce or withdraw his tariffs before that happens; business executives are likely to wait out the administration rather than scrambling their supply networks. “To really bring manufacturing back in a big way, tariffs have to be permanent,” Irwin told me. “Firms are not going to spend millions of dollars on a plant if they think the policy is going to change in three years.”

The Rosens told me that they would love to commission costume jewelry from an American factory or produce it themselves, as they used to do. Before they owned their import business, they operated a firm called Accessories du Jour. A “very vertical business,” as Susan put it, Accessories du Jour designed pieces and fabricated them in a 72,000-square-foot factory with as many as 800 employees. “We made the plastic stones. We did our own plating, our own color, our own gluing of stones, our own assembly,” Susan said. “There wasn’t anything we didn’t do.”

The cost of hiring American workers and operating in one of the most expensive regions on Earth made it impossible for the company to compete with imports from South Korea and China. “It was so sad to watch that evolution happen,” Susan told me.

Trump’s tariffs would not make Accessories du Jour a viable business today, the Rosens thought. “Reassembling that factory would take years, years, years,” and millions of dollars of investment, Susan said. “Where do you get the actual workers who want to plate, and work with chemicals all day, and glue with epoxy?” she added. “The employees that we would probably need are all being deported.”

The Rosens were looking into getting an exemption from Trump’s tariffs, on the basis that they could not find a domestic fabricator for their jewelry. I asked what would happen if the exemption did not come through. “That’s the question,” Stuart told me. “We’re very loyal to our employees. I mean, we’re stupid! What can you do?” They hope that their retailers would agree to raise retail prices. If they don’t, the Rosens might not make it through Trump’s adjustment period. They would go out of business again.

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