



Tales of the unexpected

How to deal with the US administration's tariffs is a tough question, particularly when it's hard to understand the logic that's underpinning it, says **Jon Moulton**

Should the authorities be interested, I have written this, at the request of your editor, literally on the morning after the (first) announcement of the 'historic' global tariff attack by the extraordinary (as polite as I could be) actions of Donald Trump.

Past free trade treaties have been disregarded. There are 24 such treaties with 20 countries. This could be a record for treaties discarded in 24 hours. There can be no international trust in a Trump signature. In any case, he is leaning incredibly hard on the US legal profession with exclusions from federal legal work being the price for acting for a cause not in this particular administration's self-perceived interest, so remedies will be difficult to get in such cases. Something similar may be coming for accountancy firms. A serious worry.

Trump is the biggest variable in the global economy – and a wildly unpredictable one at that. He is surrounded by his (mostly male) followers of assorted (being polite again) wit. The main thing is to occupy the headlines as often and for as long as possible.

Trump is doing a lot. Some bullets are hitting deserving targets, such as the miserable defence spends from European NATO members, where the US was obviously being given far too much of the funding. Some of the tariffs are also reasonable responses to steep tariff and non-tariff barriers, such as those that India used to benefit its domestic economy. But many of this flood of executive orders are poorly based.

Shock and aargh

Trade effects of tariffs can be surprising. Trump does not seem to have learned from his first term where he imposed an up to 50% tariff on imported washing machines, largely because the US producers were losing market share on cost and quality to overseas suppliers. These tariffs did decrease imports, but the US consumer found that prices rose 11% in a year. Profits of US manufacturers roared away, too. As regards saving US manufacturing jobs there was a benefit – some 1,800 jobs were generated in the USA, but because of the price increases these jobs cost the US consumers \$1.5bn per annum at an annual cost per job of over \$800,000. The tariff was quietly killed in 2023.

These facts are still disputed by Trump supporters. There is a quite remarkable 298-page publication

on the effectiveness of 'washer duties' by the US International Trade Commission – nearly all the financial and operational information is redacted.

The new tariffs are based on very dodgy assumptions – they largely discount the fact that the reason for some imports to the US is that other countries specialise in production of certain goods. For example, South Korea exports a lot of semi-conductors to the US because it is very good at producing them and has prospered because US competition was not so good. South Korea could never import anything like enough goods from the US to balance its trade with the country. They were given a 25% tariff, although of course that moved to 10%. It may be another number altogether by the time you read this.

It's not the only error in the hastily produced proclamation. The Heard and McDonald Islands, anyone? They have a 10% rate. Odd really, as they have no human presence, just lots of penguins, seals and birds. It's two weeks by boat from Perth. Last known visitor 10 years ago.

Games galore

So, what for accountants? Arbitrating tariff rates between, say, the UK 10% and EU 20% gives an obvious game of shipping goods from, say, France and on shipping to the US from the UK. We must assume that fixing Certificates of Origin to get the lowest tariff will be tempting.

As of today, services are not apparently caught, but they may be soon. Splitting value in an export of, say, a computer loaded with software that is serviced from the UK to the US could be a lot for IT services and a miserable price for the hardware. In practice, the US government will be judge and jury so evasion could be expensive.

Clearly some industrial areas will suffer a lot – the auto industry, ports and whisky are all targets. The overall picture is unpredictable until countervailing actions are implemented, but it seems likely economies will suffer.

Meanwhile, the US government continues to produce its mixture of bizarre logic and fake news. The COVID pandemic is now the "non-existent pandemic" in official publications. Unexpected change is the only certainty. *Note: This column was written after 'Liberation Day', but before 'backtracking month'.*

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