Market Memo

Research and Insights

Tariffs Through History and Trump's 2025 Plan

Tariffs might sound like something from a dusty textbook, but they're tools governments have used for ages to shape economies—sometimes helping, sometimes hurting everyday people like us. In his book "The Economic Weapon", Nicholas Mulder explains how tariffs and sanctions became ways for countries to push their goals without starting wars. On April 2, 2025, President Trump announced a new set of tariffs: a 10% tax on all goods coming into the U.S. starting April 5, with higher rates like 25% on Mexico, and 50+% on China, kicking in by April 9. He said it's about fixing a $1.2 trillion trade gap and addressing security concerns. Let's look at what tariffs did to regular Americans, prices, the stock market, and economic growth in the past, then see how Trump's 2025 move fits into today's very connected world.

What Tariffs Did in the Past

Mulder organizes tariffs into three main purposes: raising money, protecting local businesses, and punishing other countries. Back in the early days of the U.S., tariffs were how the government paid its bills. The Tariff Act of 1789 put taxes on things like sugar and rum coming into the country. By 1800, this brought in 90% of the federal budget. There was no income tax then, so most people didn't notice unless they bought imported luxuries. Prices stayed pretty steady—inflation was only about 1% a year. The stock market was small and new, not a big factor yet. The economy grew slowly but reliably, around 2-3% each year.

Then tariffs shifted to protection. In 1890, the McKinley Tariff raised taxes on imported goods to 48% to help American factories compete with Europe. It worked for some industries—steel production went up 10% in just one year, and factory jobs grew 15% over the next decade. But for regular folks, it meant higher prices. A wool suit, for example, cost 70% more, which hit working families hard. Farmers who sold crops overseas suffered too—when Europe fought back with their own tariffs, U.S. wheat exports dropped 25%, and farm incomes fell 20%. Prices rose a bit—inflation hit 2%, still low compared to today's roughly 3%. The stock market dipped 5% when the tariff passed, as people worried about trade wars, but it recovered quickly. Over the long term, the economy grew at 4% a year through the 1890s, though it took a short-term hit, shrinking 1% in 1891.

Canada felt the squeeze from this tariff. Its exports to the U.S., like lumber and fish, fell 33%. Small towns like Halifax saw their sawmills close, and unemployment rose 5%. Canada's economy shrank 3% that year. Britain managed better by shifting trade to its colonies, but smaller countries couldn't adjust as easily.

Next came tariffs meant to punish. After World War I, the Fordney-McCumber Tariff of 1922 raised rates to 38% to support U.S. farmers. Wheat prices held steady, which helped rural areas. But for everyday Americans, food prices went up about 10%. Companies selling cars to Europe lost 40% of those sales when France added its own tariffs in response. Inflation stayed around 2%. The stock market did well at first—the Dow Jones Industrial Average rose 20% in 1922, boosted by stronger farm profits. The economy grew slowly that year, just 1%, as trade took a hit, but it averaged 3.5% yearly into the late 1920s. Germany, meanwhile, struggled—tariffs from the U.S., Britain, and France cut its exports 50%. German factories slowed, unemployment reached 15%, and its economy shrank 20% over the decade.

The Smoot-Hawley Tariff of 1930 was the biggest example. Congress raised tariffs 20% to protect farmers and factories as the Great Depression began. It went wrong fast. U.S. exports fell from $5.2 billion to $1.6 billion, and imports dropped 70%. For regular people, bread cost 25% more, and jobs disappeared—unemployment hit 25% by 1933. Prices didn't just rise; they flipped to deflation, falling 10% a year as no one could afford anything. The stock market took a beating. The Dow crashed 30% in six months after the tariff passed. The Dow Jones Industrial Average dropped from 240 to about 170. The economy shrank by 8% in 1931, a significant short-term blow, but it gradually recovered to achieve 3% growth by the late 1930s. Canada's exports to the U.S., which made up 70% of its trade, collapsed, shrinking its economy 40% and pushing unemployment to 19%. Germany's industries, already weak, saw production cut in half again. Other countries fought back with their own tariffs, creating a mess for everyone, as Mulder points out, tariffs can hurt those who use them as well.

The Smoot-Hawley Tariff was definitely a mistake, considering it was passed just as the Great Depression was taking hold.

Trump's 2025 Tariffs

On April 2, 2025, Trump signed a plan for a 10% tariff on all imports, with extra rates like 25% on Mexico, 54% on China, and 40 %+ on Vietnam, using a law called the International Emergency Economic Powers Act. It's meant to boost U.S. jobs, cut the trade deficit, and pressure other countries on issues like border security. Experts at the Tax Foundation estimate it could bring in $1.5 trillion over ten years, but it might shrink the economy by 1-1.5%, adding to earlier tariff effects. Canada and Mexico are already discussing retaliation, similar to past actions, and China has responded with a 34% tariff on all U.S. exports to China.

How the Past Compares to Now

Tariffs have always been about protecting or pushing back. The McKinley and Smoot-Hawley tariffs shielded U.S. businesses, much like Trump's 2025 plan aims to do, while also targeting countries like China (54%) and Mexico (25%) over trade and security. In the past, tariffs focused on specific items—wool or steel. Today's 10% rate, plus higher ones, covers $2.5 trillion in imports. It's more about leverage than just defense.

The effects depend on the era. Past tariffs disrupted trade less when economies were simpler, like with the Smoot-Hawley tariffs. Today, global rules and supply chains will limit a company's ability to quickly adapt supply chains or source inputs locally. If other countries retaliate, it could magnify the impact. Trump's approach relies on the U.S. as a major buyer, a departure from historical trends.

The World Then and Now

In the past, economies were less connected. Trade was only 5-10% of U.S. GDP before 1930—most goods came from nearby farms or factories. Ford's Model T in the 1920s was built in Detroit with steel from Pittsburgh and rubber from Ohio. Exports were 15% of sales, and when the Smoot-Hawley Act reduced exports, sales dropped 20%. However, Ford was less impacted since it didn't need parts from abroad. For regular people, prices went up, but businesses stayed afloat. Inflation was low. The stock market had ups and downs—the Dow rose 50% by 1929. The economy experienced short-term setbacks but ultimately grew over time.

Today, everything's linked. Trade is 24% of U.S. GDP, 70% for Canada and Mexico, and 37% for China. A Ford F-150 now imports the engine from Mexico, wiring from Canada, and steel from China. Tariffs could add $4,000 to $10,000 to the price based on projections by car manufacturers, which you'd feel when buying a truck. Inflation today is running right at 3%, and many economists say tariffs could push it to 5%. This makes the Fed's job harder. When inflation is low, even below the Fed's 2% target, they have the ability to cushion the economy by preemptively lowering interest rates. With inflation currently above target, the Fed fears that lowering interest rates could reignite inflation at a time when economists expect increased inflation due to the impact of tariffs. The stock market was surprised by the size and scope of the April 2nd tariff announcement. The S&P 500 fell nearly 5% after the announcement, and when China retaliated with its own 34% tariff on all U.S. imports, the markets fell another 6%.

In 1930, U.S. textile mills used local cotton. The Smoot-Hawley tariffs raised cloth prices 20%, but production didn't stop. Now, Nike gets 80% of its materials overseas—cotton from India, stitching from Vietnam. Technology companies are in the same boat; Apple's iPhone comes from 43 countries. In the past, trade between countries was slow. Today, companies utilize technology to rapidly and efficiently ship parts and products from all over the world. Half of U.S. imports are parts for our own companies.

What's the Purpose

The U.S. is carrying a debt burden that's hard to comprehend; $35 trillion as of 2025, according to the U.S. Treasury Department, with a yearly deficit of $2 trillion, as reported by the Census Bureau. That's like a family running up credit card bills faster than they can pay, borrowing $2 for every dollar they earn. The Congressional Budget Office warns this can't go on forever; interest payments alone hit $1 trillion in 2024, eating 20% of federal revenue. Left unchecked, it risks higher taxes, cuts to services, or a dollar that is worth less, affecting everyone from retirees to small business owners. It's a slow burn now, but without a fix, it could turn into a full-blown crisis.

The Department of Government Efficiency (DOGE) is pushing to cut federal spending by $1 trillion over the next year, as proposed in early 2025 talks. Pair that with Trump's 2025 tariffs, projected to generate $1.5 trillion over a decade, according to the Tax Foundation. Together, that's $2.5 trillion to chip away at the deficit, like a household selling the second car and skipping vacations to pay off debt. In the short term, it's rough; tariffs could raise family costs by $2,000 to $4,000 a year, and DOGE cuts might mean fewer government benefits. But this isn't just about pain for pain's sake; it's an attempt to reset the U.S.'s finances and trade policy before it's too late.

Picture that family again. They're drowning in debt, stressed every month. They bite the bullet; cut cable, eat at home, and work extra shifts. It's miserable for a year or two, but once the debt's gone, they have more cash for college funds, vacations, and don't have the stress that too much debt causes. The U.S. could be on that path. Historical tariffs like McKinley's in 1890 took a toll, wool suits up 70%, but fueled 4% GDP growth long-term. Post-2018 tariffs drew $24 billion in foreign factory investment, per the Commerce Department, adding 400,000 jobs. If DOGE and tariffs shrink the deficit, that $1.5 trillion in revenue could ease taxes, possibly saving $500 billion in personal taxes over a decade, per Tax Foundation estimates, or $300-$400 back in your pocket yearly. Stock volatility is expected, as we have already seen over the last couple of weeks. Remember the stock market doesn't like uncertainty, and any time there is a shift in government policy that impacts businesses, markets react, trying to price in an unknown future. I expect volatility to remain elevated until we get clarity on what tariffs are negotiable and likely to be removed versus tariffs that are likely to persist. More on that later.

Economic Impact

Tariffs and government spending cuts will likely slow the economy. When that happens, inflation and interest rates usually drop. Less spending—by the government or on imported goods—means less pressure pushing all prices up. Businesses might hold off on big price hikes, and the Federal Reserve could cut rates, making loans like mortgages cheaper. I don't view tariff price hikes as the same thing as general inflation, where everything from gas to rent becomes more expensive. Take a $200 coffee maker with a 15% tariff—the importer pays $230 to bring it in, but that doesn't mean your rent costs rise too.

That $30 extra won't hit you right away either. The importer might eat $10 to keep sales going, so it's $220 instead of $230, and the store buying from the importer might price it at $210 to keep consumers buying. **In 2018, when tariffs up to 25% hit Chinese goods, prices rose just 3% over a year, per the Bureau of Labor Statistics, because companies phased it in slowly.** Your coffee maker might go to $208 in 2025, $210 in 2026—not a sudden $230 jump.

Stock Market Volatility

As mentioned earlier, I expect the stock market to remain volatile until there is certainty around tariffs. The S&P 500 has sold off by 10% over the last two days, and is down over 15% from its high set in February. The VIX (an index that measures stock market volatility) has spiked to levels last seen during the pandemic. The Tech sector was hit the hardest and is now down over 20% from its February peak. Most economists agree that if current tariff rates remain in place, the U.S. may enter a recession later this year. I believe this is the reason we have seen such a dramatic sell-off in stock markets. I don't believe the current tariff rates will remain at these levels, and as countries come to the negotiation table, we could see these tariff rates reduced or even removed for some, which could lead to a market rebound. Either way, we are likely going to continue to see elevated volatility.

Portfolio Adjustments

Many of you may have observed that, prior to the recent tariff announcement, we maintained cash allocations of approximately 15-30% in client portfolios, tailored to each client's risk tolerance. The markets were caught off guard by the magnitude and breadth of the reciprocal tariffs, which triggered a significant downturn. Our portfolio management algorithms, which evaluate each asset across short-, intermediate-, and long-term timeframes, responded decisively. Most assets, including a majority of our fixed income holdings, shifted to safety (cash/money markets). Gold, which has been a great performer for us over the past two years, held steady during the initial sell-off but prompted a 50% reduction in our position on Friday, as dictated by our intermediate-term algorithm. In the days ahead, we will monitor whether our remaining gold allocation can avoid being triggered to safety by our long-term algorithm. We will continue to monitor markets as the tariff news unfolds, looking for opportunities as they arise. Until then, we will maintain our current overweight cash/money market positions.

All my best,

CFA, CMT, CFP

Footnote & Disclosures

This framework draws upon the principles outlined by Ray Dalio, founder of Bridgewater Associates, in his extensive study of debt crises.