

# Trump's tariffs are bad news for everyone

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Trump's plan to impose massive tariffs on imports into the USA are bad news for US consumers, and most specially the poorest people in that country. But they are also really bad news for the UK in a great many ways, and for the rest of the world as well, because we just don't know how to manage the chaos they will unleash.

[https://www.youtube.com/watch?v=wgvhHaQq\\_8s?si=PvvdZOavEdV5Jc\\_p](https://www.youtube.com/watch?v=wgvhHaQq_8s?si=PvvdZOavEdV5Jc_p)

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This is the transcript:

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Trump loves tariffs, or so he says, and there's some evidence to back up his claim that he thinks they work because he did undoubtedly use them during his first period as president, largely to tackle imports from China.

But this time he's talking about something very different. Trump is talking about imposing tariffs of up to 60 per cent universally on imports from China into the USA and of 10 per cent on the rest of the world, and this is going to upset international trade in a way that hasn't been seen for decades and maybe even centuries.

So what is Trump up to?

Why is it important?

What are the consequences going to be for the US, for the UK, and for the rest of the world? That's what this video is about.

What is the consequence of Trump imposing tariffs in the USA on imports into that country from other places, China or otherwise? It's very simple and it's very straightforward. It puts up the price of imported commodities inside the USA so that US consumers will have to pay more for whatever it is that they buy that is built outside the USA. That might be a games console, it might be a camera, it could be a car, it could be anything that is imported, but those are particularly important items as far as the US consumer is concerned.

Now, the USA is much less dependent upon trade than many European countries are, and as a consequence, this will have a smaller impact on the US consumer than will be seen in other countries if this move is replicated in places, for example, like Germany and the UK, but let's not pretend this has no consequences within the USA because it very clearly has.

There will be inflation as a consequence of Trump imposing tariffs on imported goods. That is the whole point of imposing tariffs. The tariff is put on an imported item to make it more expensive than a domestically produced item.

Now that's fine if there is a domestically produced item which the consumer can choose instead of the imported item. That's possible, perhaps, with regard to cars, but not if you want an Audi, and not if you want a Kia, and not if you want other brands. Of course, you can buy a General Motors or whatever else, a Ford made in the USA, and that would be fine if they really are made in the USA. But remember, the tariff will also apply to imported components, and very few car companies now make a single car in a single country.

So, this is going to have impact? Right across the board, even on those items that look to be made in the USA this is something that is going to deeply upset the U. S. economy. And it's going to deeply upset the US consumer because it is going to increase US prices. To pretend otherwise is absurd; wrong. It just will happen because there is no opportunity for substitution on the scale that Trump would hope for. There is, for example, no way in which US manufacturers could up their rates of production at present to substitute for the goods which might have tariffs put on them very soon if Trump has his way.

So, this is going to hit hard and long whilst those tariffs remain and you can be sure that the Fed is going to notice this. The Fed - the US Federal Bank - is responsible for setting interest rates in the USA with the dual task of delivering full employment in that

country and controlling inflation. Note that it does have an employment criterion, and let's be clear, tariffs will help, to some degree, the creation of full employment in the USA, although, overall, it's not doing badly on that score already.

It will not help employment in the service sector though, because there'll be less money to spend in the service sector if products become more expensive because of tariffs, but the Fed has an overall duty to keep inflation low. And its tool, like that of all other central bankers to achieve that goal, is to increase interest rates.

The likelihood is that if the US imposes significant tariffs as a consequence of Donald Trump's decision to do so, then the Fed will keep US interest rates high or even increase them from the levels to which they are currently falling. Now that would also be bad for US consumers. Not for those of course at the top of the pile, they do just nicely out of high interest rates. But amongst the US middle class, it's going to be particularly serious for things like car finance deals, which are a big issue in the USA.

So, you can't pretend that Trump deciding to put tariffs on the import of goods into the USA is going to be some form of panacea. Nor is it going to generate enough revenue to remove the income tax on most people, which is what Trump claims. That is simply not possible. The maths does not support that outcome. It is just not the case that this can be done. So let's ignore that, but remember that this is not going to significantly boost employment for all the reasons I've said, and it might harm it in the services sector because there'll be less money to spend.

In other words, this is a deeply recessionary choice by Trump, which may have significant backlash. He needs to understand that. It doesn't appear that he does. It's one thing to use it as a specific trade war item. As he has done with regard to steel, for example, from China. It's quite another to put on a blanket tariff, which is what he's proposing.

What's the consequence of this for the UK? For the UK, this is really serious. We are a small, open economy in world economy terms. What does that mean? It means that we trade a high proportion of our GDP. What that means is that goods flow into and out of the UK at a very high rate, particularly during the course of the manufacturing process of many items.

So, in practice, although we don't trade 100 per cent of our GDP, which Germany does, we do trade something like 70 - 80 per cent of our GDP. Now this is a gross figure. In other words, that figure includes imports and exports, so we have to be realistic that this figure involves bringing items in and sending them out again, just because they've been manufactured here temporarily.

For example, a car company might import an engine from Belgium into the UK, put it into a vehicle manufactured here, and then export it again. Now, that counts as trade both ways. So that is why we appear to have such a high proportion of GDP traded. It

doesn't necessarily mean, of course, that everything that we buy is imported. That's far from the truth. We obviously do make a great deal. But we are heavily exposed. to the risk of tariffs.

And let's just have a little theoretical discourse here. Tariffs have always been opposed by economists on the grounds that they are impediments to free trade. Now that's a bit hypocritical by most economists because in practice the so-called free nations of the world, the developed countries like the USA, the UK and the major economic powers of Europe, all developed behind tariff barriers. The UK steel industry was built behind a tariff barrier. It traded with the Empire, it had barriers to prevent British companies buying steel from anywhere else. That was the hypocrisy that was implicit inside the philosophy of being anti-tariff. We developed using tariffs to protect the development of our industries but when it came to the post-war consensus, and when it in particular came to something called the Washington Consensus - which emerged in Washington, DC in the 1980s and was spearheaded by the IMF and the World Bank and was pure world trade theory in play - the story was that tariffs were now bad things and that developing countries should not be able to use them because they would reduce the flow of trade into and out of their countries and therefore it would be harmful for them to use them to protect the developing industries that they had in their countries.

That is why so many developing countries still export raw materials rather than process them in their jurisdictions and then create added value there. But, that is the theory, that's what has been imposed on the world, and that is why anti-tariff moves have been so common around the world, and why the world is now frightened of Trump.

Now, I'm not actually, as a result, saying that all tariffs are bad things. I actually think tariffs do have a role to play to protect developing industries in, in particular, developing countries. I think they can be very beneficial to ensure that during a period when an industry is getting into play, then whatever that industry might be, it might need some protection to get it onto a sound footing to provide local security of production and local skills. That's fine.

But the general approach to tariffs that Trump is suggesting is something quite different. And that's what's worrying. If he imposes, for example, a tariff on all exports from the UK to the USA of 10 per cent as he is implying, they are our biggest trading partner taking more than £300 billion of goods from the UK each year, which in an economy worth around two and a half trillion pounds, or eight times that sum, is a significant amount of money that we are exporting to the USA in terms of goods and services sent to them.

If tariffs are imposed on even part of that, our competitiveness in the US market will, of course, go down. That's the purpose that Trump wants to create the tariff for. He wants to make our goods less attractive in the US market. Therefore, we are going to export less. How much less? We clearly don't know at the moment because there are, of course, other vagaries in this whole thing, such as exchange rates, which might in some

way compensate for what is happening. Again, we don't know what will happen there. There are too many variables to be sure of what the outcome is. But my point is this. We will suffer from that trade war.

We will suffer even more if the rest of the world reacts to what Trump is doing by increasing their own tariff barriers. So, if we create retaliatory tariff barriers in the UK against the US, then so might the EU, and the EU might create tariff barriers against us, because of course we are no longer a member, and then there could of course be tariff barriers between us and Japan and Australia and everybody else, and who knows where we might end up.

We don't know. The consequence of that is massive trade uncertainty. Now in the long term, I am honest in saying that I think we might need less trade in the world. Why? Because we need to consume fewer goods. Why do we need to consume fewer goods? Look to COP29 and the whole issue around climate change and you will get your answer for that. We cannot afford to consume goods at the level we have without burning our planet. So, to some degree, measures that will reduce the volume of world trade are beneficial, are welcome, are good, but not in the chaotic way in which Trump is going to impose them. That chaotic way of imposing these tariffs could be deeply destructive.

And for the UK economy, if we have tariff barriers with Europe, this will be deeply destructive for us because we are a small trading partner relative to the EU which will have no tariffs within it. That's one of the definitions of what the EU is all about, and therefore, they could actually price us out of Europe if they were to have tariff barriers around that economic bloc.

All in all then, this spells bad news, at the very least in the short term, for almost every country that it impacts seriously, which will include most of the major trading nations, and might include quite a lot of developed countries too.

Trump's short-term approach to try to raise revenues to substitute for the income tax, which he so hates in the USA, and to attack China, which he thinks he will do, is naïve. Partly because he somehow thinks that this will be paid for by the exporting country, and it isn't. It's always paid for by the people in the importing country, in other words, the USA. But also because he's going to disrupt every known pattern of trade we've got in a way that will be chaotic. And chaos is never a good way to run an economy and never a good way to supply certainty.

And the uncertainty that follows is bound to be penal. And my concern is, quite simply and straightforwardly, that whenever there's a penal economy, it is the poorest who suffer. And that is what I fear will happen in the USA, and that is what I fear will happen in the UK, and much more broadly around the world.

I'm not saying tariffs are necessarily bad things. They can be used to good effect, with care. So, Trump isn't completely wrong, but he's wrong in the way that he proposes to

use them because these are bad news for the people of the world.