

**Trade Secrets** **US politics & policy**

## Donald Trump's tariff calamities are the least of it

The US president is destroying far more than rational trade policy



Donald Trump speaks at a US Steel plant in Pennsylvania. Protecting the steel industry allows presidents to create big optics without catastrophic economic damage © AP

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It's all FT colleague Rob Armstrong's fault for inventing [the Taco concept](#) (Trump Always Chickens Out), obviously. [I asked you](#) this time last week whether Trump would go ahead with the steel and aluminium (aluminum, whatever) tariffs he had threatened at the end of the previous week. You split almost exactly down the middle. But what tipped the balance of responses to the correct Yes camp was, and I quote a loyal reader, "mostly because he wants to avoid being ridiculed by Rob Armstrong". So instead of Taco I'm positing Tabasco (Trump Angered By Armstrong Saying "Chickens Out") as the new paradigm, and everyone facing their pension funds being wiped out can thank Rob for it.

Today I look at why the steel tariffs went ahead and why those pension funds are nonetheless not wiped out. Yet. But before that I examine why perhaps markets (and certainly everyone else) ought to be more scared by the ongoing dismantling of the American republic. **Charted Waters**, where we look at the data behind world trade, is on the euro against the dollar.

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## Trump unconstrained

I've relegated what would normally be seen as the most extraordinary act of destructive protectionism, 50 per cent — FIFTY PER CENT — tariffs on steel and aluminium, to the second item in today's newsletter. What's happening in the US polity is a great deal more threatening to openness and prosperity than any individual act of trade policy.

Back in February, two weeks into the Trump administration, [I wrote that](#) tariffs were the least of it, and what really mattered was the destruction of a republic by the president and his cronies. And well, here we are with US residents being snatched off the street and out of courthouses, troops being deployed on the streets of American cities to suppress protests, and columns of tanks moving into the nation's capital for a presidential birthday parade.

It turns out his cronies are optional extras. Trump's spat with Elon Musk last week only underlines that there is very little, except financial market turmoil and fear of economic catastrophe, standing in his way on the path to amassing and centralising power. As my [colleague Ed Luce writes](#), the Trump-Musk argument is really about psychology, not economics. But even if Musk really were a principled fiscal hawk and free trader, there's no way he could resist the pressure in favour of unfunded tax cuts or a wildly destructive tariff war from the Trump White House.

Nor has genuine resistance emerged on Capitol Hill. The hunt for genuine Republican budget hawks has now been fruitlessly going on for decades. A search for staunch Republican defenders of Congress's prerogatives over trade policy against Trump similarly comes up empty.

Musk seems annoyed at the budget bill taking away tax breaks for electric vehicle sales. ([He denied that](#) on X, but he would, wouldn't he?) This is a relatively new development. As recently as March, the general belief among EV-watchers, based on Musk's previous comments, was that [Tesla would cope with](#) and even benefit from the abolition of the tax credit. Removing the tax break would consolidate the company's leading position in the US market (which the credit had helped establish). It was also believed Tesla was relatively insulated from tariff increases, despite the company issuing some [warnings on that subject](#) and Musk's [extraordinarily infantile exchange](#) over trade policy with White House China hawk Peter Navarro.

That would seem no longer to be the case. [Bloomberg reports](#) that Musk personally

lobbied Mike Johnson, Speaker of the House, to retain the EV tax credit. It seems the backlash to Musk's political activities and the grotesque vandalism of his so-called Department of Government Efficiency enterprise [hurt Tesla's sales everywhere](#), to the extent that he needs to try to expand the overall EV market in the US, not just maintain the barriers to new entrants.

It would take a heart of stone not to laugh, and there's more damage to Musk's interests to come from his lack of political clout. (The US is unlikely to be trying to force trading partners to [buy one of](#) his Starlink satellite systems any more.) But ultimately, it shows that Trump continues to trash US trade and fiscal policy unrestrained by anyone in the administration, just as he is undeterred by Congress or currently by the courts.

Maybe the federal courts will persist in blocking Trump from misusing the International Emergency Economic Powers Act (IEEPA). But as I said last week, there are plenty of other tools he can turn to. In the meantime, with regard to the tariff case and the wider question of presidential powers, read what former federal court appeals judge Michael McConnell (appointed by George W Bush) [wrote here](#) in the New York Times.

The federal statute books abound with vaguely worded laws that, if broadly interpreted, could empower Mr Trump and future presidents to take upon themselves extensive powers never intentionally delegated by Congress. If the courts uphold the Trump tariffs, it will be a major step toward a presidency that does whatever the president wishes to do.

The financial markets are currently taking a remarkably sanguine view of the fact that a vengeful and economically illiterate president has such freedom to act. So long as they continue, or unless severe economic dislocation forces Trump to reverse, he will carry on as he is.

## The sideshow of steel

I wrote [last week's Trade Secrets column](#) (and reprised it in the FT's [Swamp Notes podcast](#) on Saturday, [transcript here](#)) about why steel frequently dominates trade disputes, particularly in the US: the frequently bogus national security justification, the salience of job losses in one-industry towns in American swing states, the global overcapacity and oversupply, the general vibe of economic virility.

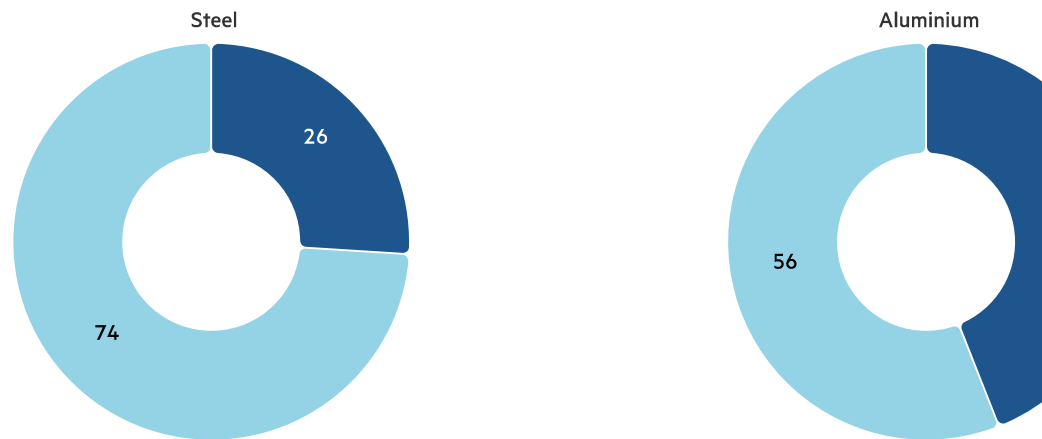
The other reason, of course, is that it's a good way of creating big optics without

catastrophic economic damage. Steel isn't actually that important. Oxford Economics reckons the marginal damage from increasing the steel and aluminium tariffs to 50 per cent will be no more than 0.2 per cent of GDP. The assiduous use of anti-dumping and anti-subsidy duties means the US only imports about a quarter of its steel anyway. Hence, Trump executed the Tabasco strategy without spooking markets.

### The US relies more on imports of aluminium than steel

Share of US consumption, 2023 (%)

Imported Produced domestically



FINANCIAL TIMES

Sources: US Department of Commerce, US Geological Survey, Mineral Commodity Summaries

Those with very long memories will recall the tremendous fuss when George W Bush [put tariffs on steel in 2002](#) and caused much wailing and teeth-gnashing among trade types. It was an entirely cynical exercise, designed to help him in the 2002 midterm elections, which worked and did not derail the economy. The tariffs were clearly against World Trade Organization rules; Bush knew they were. He knew he would lose the [inevitable WTO case](#) (to the EU, in the event). He knew the overall economic damage would be non-negligible but limited. He knew he would be able to tell the steel industry that he did his best but was foiled by dastardly foreigners in Geneva. Presumably the steelworkers knew a lot of this as well. [It's all a game](#). It's only steel.

And repeatedly playing this game makes it more marginal each time. Steel is an important input to other industries, but protecting the sector helps to hurt it, as protection often does. Ed Gresser of the Progressive Policy Institute [points out](#) that steel output in the US actually declined after Trump's steel tariffs were imposed in 2018, and was lower in 2023 than in 2017. If you make something more expensive, people use less of it. Incredible, but true.

## Chartered waters

The dollar rose against the other major currencies, including the euro, at the end of last week after some stronger than expected jobs data. But it's still much weaker than it was before Trump took office. Please note: this is not the mythical Mar-a-Lago Accord at work.

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### The euro is still up sharply against the dollar despite Friday's fall

Euro/US dollar spot rate



Source: LSEG via markets.ft.com

## Trade links

The US and China are set to hold [a new round of high-level trade talks](#) in London today.

A [New York Fed survey says](#) US manufacturing and services companies are passing through tariff costs to their customers, despite Trump's threats against companies that do.

The FT's Free Lunch newsletter [says](#) the investment deals Trump claims his policies are bringing to the US are a mirage.

China is [arming itself](#) for more battles over export controls, but [fast-tracking licences for rare earths](#) for some European companies.

A meeting of ministers at the OECD [was shaken](#) by Trump's go-it-alone trade

doctrine, and no one seems to have much idea about how to boost the WTO.

Politico's Graham Lanktree [looks at](#) the non-appearance of the UK-US trade deal Sir Keir Starmer's government was so proud of.

A paper by the Lowy Institute looks at what some people call the "global south" [navigating a post-US world order](#).

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*Trade Secrets is edited by Harvey Nriapia*

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