

The Paradox of Protectionism: How Tariffs Hurt the Businesses They're Supposed to Help

By Paul Best

Clifford Digre flew 17 combat missions as a ball turret gunner and six as a radio operator during World War II, returning home in 1945 and settling near Minneapolis with his wife. Fascinated by the rapid advancement in electronics during America's war effort, he decided to go to school to become a licensed radio operator but then pivoted after identifying a massive hole in the market during the postwar economic boom.

Digre had been struggling without success to find someone to repair his wife's broken radio, eventually deciding to just recone the malfunctioning speaker himself with the help of some classmates at radio school. That experience led Digre to create the Minneapolis Speaker Reconing Company in 1949, repairing everything from radios to speakers for drive-in movie theaters. The start-up transitioned to creating original speakers in 1956 and evolved into MISCO (Minneapolis Speaker Company), with Digre and his partners honing the full manufacturing process over the next three decades, including design, production, and testing.

Dan Digre, Clifford's son, took the helm in 1990 and grew MISCO into a respected

original equipment manufacturer, creating custom speakers for commercial aircraft, vehicles, medical devices, instruments, and even the *Orion* spacecraft for NASA's Artemis mission.

"MISCO has changed quite a bit in response to changing markets, changing technology," Digre told *Free Society* while reflecting on the company's 75-year history.

Adjusting to market forces and customers' preferences allowed MISCO to continue growing in the United States while other manufacturers shipped production overseas.

In 2018, though, MISCO's costs skyrocketed 25 percent overnight—not because of a supplier's bankruptcy or the cancellation of a big contract, but because of hundreds of billions in new tariffs that former president Donald Trump placed on goods from China.

"If we're going to build speakers in America, we've got to buy these low-cost inputs, raw components, which are no longer made in America, and get them from wherever we can in the world," Digre said.

These imported component goods include magnets made out of ferrite, neodymium, or alnico, depending on a given speaker's use case and specifications; a voice coil



Clifford Digre (left) and his business partners outside the first MISCO location in Minneapolis in the 1950s.

consisting of copper wire wrapped around aluminum or fiberglass; a cone with varying amounts of felted paper, carbon fiber, and plastic; and numerous other raw materials.

“Now I have to pay 25 percent more than my competitors who build speakers in other places in the world. I’ve got to ship it to America with a 25 percent tax on it. My European competitors and my Japanese competitors and other competitors—they don’t have that,” Digre said. “It immediately put us at a cost disadvantage. Now all of a sudden, an American-made product is not as competitive, and we don’t have a supply chain here to turn back to, and many of the parts that we put into a loudspeaker were actually never made here.”

Ironically, tariffs on final loudspeakers manufactured overseas were set at only 15 percent and then lowered to 7.5 percent, meaning that MISCO and other speaker manufacturers face higher taxes when importing raw materials for production in the United States than they do when importing a final product that was wholly manufactured overseas. This economic phenomenon, known as tariff inversion, can incentivize manufacturers to move all production out of the United States to take advantage of the lower tariff rate on final goods.

“We will keep building a lot of products here in America—we introduced a couple lines of products that have the ability to bear that extra cost and still be competitive,”



LEFT: Clifford Digre identified a gap in the market for speaker repairs after spending weeks trying to find someone to fix his wife's broken radio.



RIGHT: Dan Digre took over MISCO in 1990 and helped expand the company's reach to an array of industries, including medical, military, transportation, and aerospace.

Digre said. "But a lot of our new products are just being built in China. No American labor, no American factory."

A Web of Unintended Consequences

MISCO is not alone in shouldering the unintended consequences of protectionism. Barry Vogel, executive director of the trade association Audio and Loudspeaker Technologies International, told *Free Society* that tariffs have resulted in "higher consumer prices while doing absolutely nothing to increase competitiveness of US manufacturers."

Another US manufacturer, South Carolina-based TV producer Element Electronics, faces a total tariff of 12 percent on the main input in its manufacturing process, imported glass LCD panels from China. But the tariff on finished LCD TVs is only 3.9 percent, meaning that it is more cost-effective to produce TVs overseas and import them than it is to manufacture them in the United States.

"Although Element continues to produce to meet its ever-increasing demand from

its customers, it is impossible to remain competitive in the face of an overnight 12 percent tariff disadvantage to our competition, most of whom are using Chinese materials assembled in Mexico," Element Electronics COO David Baer testified to Congress in 2021, noting that the firm's exclusions under the Miscellaneous Tariff Bill (MTB) and China Section 301 tariffs had recently lapsed. "Without a restoration of the MTB and the 301 exclusions, Element will be forced to move production out of the USA. This will devastate our workers and our community."

Nearly 1,500 businesses, organizations, and individuals spanning numerous other industries submitted comments to the Office of the US Trade Representative explaining why they need tariff relief. As that public comment period ended, the office released findings in its four-year review of tariffs, concluding that "Chinese exporters generally did not reduce export prices for US buyers after the imposition of tariffs" and the "costs of the tariffs were thus fully absorbed by US importers."

In total, US businesses have paid \$242.07 billion in additional taxes due to tariffs since 2018—costs that are either absorbed by those American businesses or, more likely, passed on to consumers. For example, General Motors and Ford said in 2018 that steel and aluminum tariffs would increase their costs by \$1 billion each, translating to about a \$700 jump in production costs for every vehicle made in North America. Similarly, tariffs on washing machines caused a 12 percent increase in consumer prices, which equates to an \$86 increase per machine.

The New Protectionism Consensus

Digre originally spoke to NPR in 2019 about MISCO's struggles adjusting to the tariffs, expressing frustration that millions of dollars he could be reinvesting in his company would instead go to the federal government.

Since then, despite criticizing tariffs ahead of the 2020 election, President Biden has maintained and even expanded on Trump's protectionist agenda, issuing a new round of tariffs on Chinese goods earlier

this year. Vice President Kamala Harris, the Democratic nominee for president, said in 2019 that she "is not a protectionist Democrat" but also hasn't indicated that she would meaningfully change the Biden administration's course on trade.

Trump, meanwhile, has doubled down on protectionism, promising to put a "ring around the country" in the form of a 10 percent tariff on all imports and a 60 percent tariff on Chinese imports. His running mate, Sen. JD Vance (R-OH), represents a clean break from the GOP's free-market tradition, embracing tariffs, higher minimum-wage laws, and industrial policy.

The unintended consequences of this new protectionism consensus will surely lead to calls for more state intervention, as when Trump handed billions in subsidies to farmers affected by his trade war. But as both the left and the right erect new barriers to trade, many Americans are rightfully skeptical about how tariffs affect their lives, businesses, and well-being. Three-fourths of Americans, 75 percent, said they were concerned about tariffs raising the prices of goods, according to a recent Cato Institute survey. When asked about global trade, 58 percent said it has helped increase their standard of living; 63 percent said they favored increased exchange with other nations.

Elected officials may be able to point to a specific group helped by tariffs, but they hurt most Americans and create unintended consequences that reverberate throughout the economy. Policymakers should pause and weigh these facts before ratcheting up new self-defeating barriers to trade. ♦

ABOUT THE AUTHOR

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