

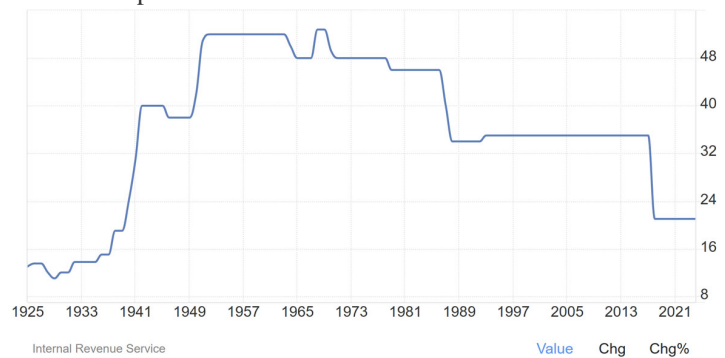
Why tariffs will raise prices without increasing US manufacturing

I normally steer clear of public discussions of politics, since it can be so polarizing that it's bad for business. Instead of giving people something to think about, political discussions these days tend to just reinforce what "side" someone is on, and there's not much to be gained from that. Especially when the two "sides" are split so closely, whether it's 52/48 or 48/52 percent.

But the Tariffs and US manufacturing rhetoric is just nuts and needs to be something more than a political soundbite.

Steep tariffs, by themselves, will not increase domestic manufacturing by any significant amount (if at all, and could even be negative). Steep tariffs will increase pricing for consumer goods, including bicycles. That is inevitable, as there are no competing domestic companies to pick up the slack.

We all want to get back to the heyday of US manufacturing right? But nobody wants to look back at those days and see what was different, what programs and policies favored US corporations building product here instead of over there. Such decisions, at the corporate level, are assuredly not based on a feel-good or America First belief. Simply put, production decisions are based upon bottom line profit and little else.



So what was different back in the 50s/60s/70s? Corporate tax rates were in the 48-52% range. Incredibly high! Presently, they are at 21%. How did businesses survive back then? Why wasn't manufacturing choked off? Because the higher the tax rate, the greater the incentive to take advantage of the investment tax credit. The "punishment" (higher taxes for earnings) was significantly offset by incentives to reinvest in US equipment and factories. President Trump made further decreases in the corporate tax rate from the present 21% to 15% part of his platform. The lower that absolute maximum amount of tax levied on a corporation, the less likely they are to be swayed by incentives to build product here.

For the bicycle business, tariffs will assuredly increase pricing on bicycle (as soon as the present overstock is cleared out of the system), with little, if any, impact on domestic manufacturing. Tariffs will affect which country bicycles are built though; we've already seen a trend of moving manufacturing away from China and into countries like Cambodia and Vietnam, which have dramatically lower tariffs than China.

I am not against targeting specific countries for dumping and doing things unfavorable for US interests. But we need to be realistic about the effects, and recognize that our present tax structure favors businesses making money where they find it, without preference to creating jobs in the US.