

The Tariff Doomsday Scenario

David: [00:00:00] I kind of feel like we're in a moment where those of us who read a little bit of the business press, we are imbued with a super knowledge that, uh, mere mortals don't have. And it's just by being a little bit. Aware. So if you walk into a store right now, it'll look pretty normal. There will be the cereal on a shelf, and then next to it there'll be other condiments and et cetera, et cetera.

But those of us who've been reading the business press know that in a few weeks. That might not be the case anymore, that there are going to be empty shelves in Walmarts and Targets and Costcos all over the country,

News: retailers are warning of empty shelves, reminiscent of the pandemic with the 145% tariff on nearly all Chinese in ports in place.

Meantime, major ports like the Port of Los Angeles are seeing a steep drop in imports from China,

David: and it's this weird kind of stasis where we have this super knowledge, but we. [00:01:00] We, we can't explain it to people and we don't know what to do with it.

Matt: It's a little bit similar to the kind of early covid moments when we were like, everything seems to be shutting down.

But before people understood that Covid was a very serious problem. Yeah. And we don't know how bad the supply chains are. I mean, maybe we'll get serial and condiments, we don't know, but there are. Questions about random components that go into utility system that keeps the lights on. We might not be able to get any more of that.

Like we don't, it could be like an ification or it could be like real doomsday prepper stuff,

David: but something bad's coming and let's explain why that is. So we had Liberation Day on April 2nd and we had these huge tariffs that were placed on all countries and then a lot of them were, were taken off temporarily.

To a 10% tariff on most countries in the world. But on China, there are these 145% tariffs right now. And China has put residual tariffs on the US and as a result, this has become really an embargo on goods [00:02:00] between the US and China. And we're starting to see that in the shipments that are coming over from Asia to the us, uh, in much lower frequency.

And as a result, it takes time for these goods to actually get here to the US and takes time to, to, to feel the effects of, uh, simply a lower frequency on store shelves. You know, they have to get to the ports and now to the trucks and to the warehouses and then the stores. But there are going to be fewer things coming from China, and some of those things, as you said, are really, really important.

And some of those things may be more trivial, but they fill shelves in stores all over the country, and neither of them are going to be coming at all. Or if they are coming in in very small numbers,

Matt: we have someone to talk to about this. There's like a whole group of people who have become kind of logistics manufacturing gurus that talk online.

A lot of them actually came [00:03:00] outta the Covid moment, and they find that there's a big hunger for information about how to make things and how to move things. And we've got one of them on the show. His name is Molson Hart, and he is the founder of a company. Called Via Heart and it is a toy company, but that, that's actually, he's had a, a, a number of other companies.

One of them was, uh, Edison, which is a legal tech business that he sold and via Heart makes stuffed animals. It also makes a kind of educational toy called Brain Flakes. They manufacture overseas. But, uh, Molson is also a politically engaged person that talks about business. So he has testified before Congress about Amazon years ago.

He, uh, does done a lot of litigation. He's just somebody who thinks hard about the relationship between policy and business and making things and society, and also is a practitioner. And so we are very excited to have him on the show today.

David: All right, let's get it going. Let's organized money. I.[00:04:00]

I am David Day. I run the American

Matt: Prospect Magazine. And I'm Matt Stoller. I write about monopolies in a newsletter called big, and I'm the research director for a think tank called the American Economic Liberties Project

David: on Organized Money. We're gonna go beyond supply and demand curves and OS to visionary entrepreneurs and tell you how the business world really works.

Matt: We'll talk to business leaders, journalists, policy makers, people on the front lines who are dealing with monopoly power, competing with it, winning, losing, but ultimately.

David: Fighting back. It's a podcast about all the money and power in the world,

Theme: and we know now that government, by organized money is just as dangerous as government by organized.

Mom, mom, mom, mom.[00:05:00]

Matt: Molson, you're a storyteller and an entrepreneur, so thanks for joining us. Tell us about your company Via Heart.

Molson: Uh, via heart makes educational toys like Brain Flakes, which are interlocking construction toys. Uh, we also make stuffed animals and, uh, we sell them in stores and on websites and, uh, on amazon.com.

David: And take us through how you, uh, create your products. Just take us through the beginning, the idea into how they get distributed to consumers. So it starts

Molson: with an idea. We have designers on our team. Some are based in the United States, some are based outside the United States, and we come up with a design for a new product, whether it's a stuffed animal or it's a building toy like our Brain Flakes brand.

We basically send it to a factory. We have factories in China that we work with. We have factories in Indonesia that we work with, and [00:06:00] we have factories in Vietnam, which we work with. We will send 'em to design, get some pricing. We'll reach an agreement, and then we'll sign a contract to make the product.

The product is made. After 60 to 90 days, we will send a third party inspector to the factory to ensure that the product is safe and it's made to our specifications. Somewhere in that process, we also have to test the product for safety. So we send it to a lab to make sure that there are no chemicals, that there are no choking hazards, depending on what the product is.

And then it basically goes in a shipping container, which is one of those metal boxes that you see on ships or you, you see on. The road that are being pulled by trucks and it goes on a boat and then it makes its way through the Panama, Panama Canal to Houston. And then it goes to our warehouse, which uh, is in Austin, Texas.

And from there we ship it to customers like you.

Matt: How does it get to consumers?

Molson: Right? So it gets to con consumers a bunch of different ways we sell on the Amazon [00:07:00] marketplace. So when we're selling on the Amazon marketplace, you can buy it and Amazon will ship it directly to you. From their warehouses or you can buy it and we will ship it from our warehouse directly to you.

That's where the majority of our sales happen. We also have our own website, like brain flakes.com and tiger hart toys.com. And so you can buy it directly from us and you can also buy it on walmart.com, target.com, uh ebay.com, uh e even tmu.com and and sheen sheen.com. You can buy it on all those marketplaces as well.

Then finally, we also sell our products, particularly the stuffed animals and blush toys to hundreds, maybe thousands of brick and mortar retailers all across the country. Predominantly kind of like in tourist areas. So like imagine you go to like Yellowstone Park, you might be able to find our Moose Martin in the gift shop.

I hope they're moose [00:08:00] and Yeah. Uh, we have a bison. They're definitely bison in Yellowstone Park. We have a lot of stuffed animals. Sometimes it's hard to track for animals. I live, I live in a suburb outside

Matt: of dc. I have no idea. Just keep animals away from me. That's my general attitude. All the stuffed animals are fine.

We sell rats. I saw, I'm just kidding. That would be good. I saw that, I saw that on your website. I was like a stuffed rat, which was kind of cute, but I was like, I, I, I was like, that's bold. Move right there. One of the reasons I, I've really enjoyed listening to you, and you have an appreciation for what it's actually like to make physical things.

When you first went to China, you met with your supplier. You asked your supplier if you could work in their factory. So tell us why you did that, what it was like, like what, what you learned from it.

Molson: Yeah. Okay. So I was 22 years old and I decided I wanted to be an entrepreneur, and the first idea I had.

Was making something. And it turned out that for that particular product, and this is going back to like 2010 or something like that, there [00:09:00] was this place called China that I had heard of, but I didn't know too much about. I asked the richest person I knew, I was like, look, I wanna make something. What do I do?

You told me to go to China. It turned out that the place where this particular product should be made. Let me explain what I mean by that. Should be made so. If you go back like hundreds of years ago, Boston and maybe even going up to Maine was like the capital of shoemaking in the United States. Kind of the way that finance is dominated by New York City or government is dominated, dominated by Washington DC and movie making is dominated by Hollywood, California, so in China and in manufacturing.

The production of particular products works the same way. So there's a city in China that there are multiple cities, but there's a city that is like really good at making socks. And there's a city that's really good at making brass. And there's, there are cities that are really good at making TVs. And so if you want to make a [00:10:00] particular product, if you wanna make electronics, for example, you go to Shenzhen in China, it turns out that the thing I wanted to make was in a city in Northern China.

The factory was less than a kilometer away from North Korea, and I didn't know anything about China, but the, this rich guy whose advice I trusted told me that I needed to go to China and I needed to work with this factory face-to-face. So I just got on a plane and I did that and I didn't speak any Chinese and there were no English speakers there, so it was pretty rough.

I got to the factory and I didn't know anything about China and I had heard that China was a, was a communist country and I thought that they would appreciate it if I worked in the factory for a day. That was I, and I'm very young. I don't really have any experience and so it wasn't like totally unreasonable.

And so I did that. I was like, Hey, I'll work in your factory. They thought it was, I'm sure, insane, ridiculous. And uh, I lasted about four hours. Because it was [00:11:00] really intense. I was in a, like a rough factory, and I mean, I don't know, I think it would've lasted a little bit longer if it was like moving boxes from one side of the factory to another.

But instead it was like this fine motor assembly thing that I had to do with my hands, and it was me and like four women to the right of me. And we're all on these short little plastic stools and I'm kind of like crouching with my legs up and I'm just. Assembling one after another, and it was brutal.

It was brutally hard. I think what that moment gave me appreciation for is just like how hard these jobs are.

David: It feels like the, uh, I love Lucy episode with the conveyor belt, with the chocolates and she can't catch up. Can't catch up. Only this is far more precision oriented and uh, also in, uh, a factory that's not quite as well lit or being filmed.

Molson: You didn't want to eat anything we were making, that's for sure.[00:12:00]

David: One of the reasons I wanted to have you on is 'cause you've been pretty outspoken about these tariffs, and not just how they're gonna hit your business, but also how they're going to hit the US economy as a whole. What is the real world impact gonna

Molson: be? Trade between the United States and China has.

Effectively shut down. Why has trade between the United States and China shut down? It? Shut down because there's a 145% tariff. I think basically going in both directions between the two countries and generally people and companies are not willing to absorb that kind of cost increase. Kind of like if your rent is a thousand dollars a month and then suddenly became \$2,450 a month, like you might be looking for an alternative place to live.

You may not even have the money necessary to [00:13:00] pay your rent. Basically what's happened is that companies on both sides have canceled or paused their shipments. So starting around let's say April 10th, which is roughly when the 145% tariff was implemented, starting April 10th, shipments stopped leaving China.

It takes about 30 days to have a shipment go from a Chinese factory. To a warehouse in Los Angeles, it takes 45 days roughly for a shipment to leave a Chinese factory and reach the Port of Houston and Texas. It takes longer because it's farther away, and because that boat needs to transit through the Panama Canal, which is kind of like out of the way, it takes, let's say 55 days to go from China to New York.

So on April 10th, those orders. Get [00:14:00] frozen. So stuff stops shipping out of China on April 10th. That means around May 10th. There are, let's say 50% fewer boats and 50% fewer containers and 50% fewer goods arriving at the Port of Los Angeles. And so there are. I don't know how many, but there are lots of people who work in that port who operate the cranes and who move the goods in that port.

And then there are truckers who move the goods from the port to the warehouse. And then there are people who unload the goods in the warehouses in Los Angeles, and they're gonna have, let's say, 50% less work. And so before there are like shortages on the shelves. And problems around that. What you're gonna see is lots of layoffs in trucking and in warehousing you'll see layoffs.

And the reason why it'll take a little time before we potentially see shortages on the shelves, shortages that stores, is [00:15:00] that all companies kind of have some inventory. Maybe it's three, maybe it's six months, maybe it's 12 months worth of inventory. And so it can take a little time for that inventory to be depleted.

So that's the first effect. Of the trade war that people will see. You will at some point see layoffs in trucking and in warehousing, and you'll see layoffs in brands. The companies that are ordering these goods from, let's say China,

David: UBS, has already announced like 20,000 layoffs. So you're saying 30 days is when?

When the chaos kind of begins from April 10th, which is May 10th, which is the day I go on vacation. So I feel very, very good about my choice.

Molson: Yeah, I mean it, it'll get rough a little bit before that and it's starting to, but. May 10th is roughly when it really starts to hit Los Angeles.

Matt: I think you're starting to see advertising and branding spending tailing off because you don't have to generate any demand.

Now if you don't have the products,

Molson: that does make sense, right? So if you do have [00:16:00] a certain amount of inventory and you can't so easily restock that inventory, you're not gonna want to pay additional money to advertise it. Because you think that you don't have enough anyways.

Matt: Like are you doing a lot of marketing spend?

Right. I would assume you're not.

Molson: Well, we, we've taken like a, a different approach, uh, versus a lot of the other companies in our industry. So we didn't reduce marketing.

Mm.

Molson: And we have not yet raised prices. A lot of other companies have raised prices, some companies have not. I've seen some companies in our space actually go under, but what we have done is a little bit different.

Most of the companies in our space. It's changing, maybe now assumed that a deal would come. And so all they needed to do was wait a week, wait two weeks out of the deal, whatever, and that tariff would go from 145% to something more manageable, maybe 30%, something like that. But then the deal didn't come, so now they're in a difficult situation for us.

We decided [00:17:00] to shift our production outside of China. Rather than paying 145% tariff, we're gonna shift our production to Vietnam and Indonesia so we can pay a 10, 10% tariff. So while I'm working every night and every morning to coordinate with suppliers in Asia on Asian time, and it's difficult, we should be able to maintain our inventory levels if we pull

David: this off.

The reason you were able to pull that off is 'cause you had existing relationships in Vietnam and Indonesia. There are a lot of smaller businesses that, A, they don't have those relationships and therefore, uh, when, when the Chinese tariffs come down, they're locked into manufacturing and China, they don't have, you know, everybody's trying to do the same thing, move their inventory, and there are only so many, uh, actual manufacturers that can do it.

That's number one. Number two, would you say that there are some goods. That are kind of unique to Chinese production at this point, where it would be, it would take [00:18:00] years maybe to get the, the, the, the actual skills or, uh, you know, whatever necessary build the factories to actually produce some of those goods.

Molson: Yeah, that, that's exactly right. So, years ago, even before there was a trade war, even before there were the 2018 Trump tariffs, I went to Vietnam. I visited Indonesia, and so we already had some production there and I had literally a lay of the land. So I had some concept of how, I mean this isn't necessarily gonna be successful, but I had some concept of how we could move production.

That's correct. You're also right when you say that some products are only made in China and some products, maybe they're not only made in China, but some China has something like 60% of the supply. And for those products there will likely be shortages. Unless there are exclusions on the tariffs for those products, or unless we turn a blind eye to some of the [00:19:00] cheating options that exist, uh.

To get those products into the United States without the 145% tariff.

Matt: One of the interesting things about the initial tariff announcement is that there were big tariffs on Vietnam as well, and then Trump ratcheted them back. I think it was 46% and now it's pulled, been pulled back to 10, which is still significant.

But one of the reasons that was, I think, a real shock to the Vietnamese government, but also to a lot of producers here, is that, uh, in 2017, the first round of tariffs. That Trump put forward and then that Biden continued. They were, that was actually intended to shift production to Vietnam. Right. To get supply chains out outta China and then to put the tariff up against Vietnam, I think shocked a lot of people.

But that got ratcheted back. So it's, it, there has been some movement into Vietnam. There's been a lot of movement into Vietnam, and that kind of mitigated some of the. Some of the shock, but I think there's a lot of uncertainty around what tariffs are gonna be hit and when. And [00:20:00] that 90 like Viet, that, that 46% on Vietnam, I mean there's a 90 day clock ostensibly that where there was a pause and you know, and so nobody knows if that tariff is gonna come back.

And you know, I mean one of the things you've talked about is uncertainty. And I'm guessing that that is playing in a strange way in your business. Like nobody knows what. What's gonna happen? So how's that changing investment patterns and what people are trying to do?

Molson: Well, so we have two warehouses in Austin, Texas.

They're next to each other. We built both of them. One has been vacant for the past five months, despite being perfect for manufacturing. So no one has decided to open a factory. In that building, and everyone I know has made a similar decision not to open their own factory. And a lot of people aren't even moving their, their manufacturing to the United States for a whole host of reasons.

So the uncertainty, which you described is a. Reducing investment as [00:21:00] far as I can tell.

Matt: Wait, so you were gonna open a factory? Is that why you built a warehouse?

Molson: No, I, I was intending on renting it out to somebody, but no one's, no one wants to sign a lease right now because they don't know. Right. So that's why it's

David: basically empty for the last five months because, you know, this whole idea that that.

Manufacturing come flooding back as a result of these has not yet, uh, taken root. Um, I heard, uh, the Treasury Secretary Scott Besson, uh, he was asked about, you know, the prospect of what we're kind of leading to, which is empty store shelves, potentially, uh, potentially in May. And he, he said something to the effect of, I assume that retailers pre-ordered.

This is what he said. You, you talked about this, this attempt to try to game it. Uh, maybe there was some, some, some inventories that were built up. Maybe there are people just waiting to make the shipment, but it seems like we've gone down somewhat of an irreversible path. [00:22:00] So could you talk about like how irreversible some of this pain is at this point?

If you canceled your

Molson: order? With a factory on April 15th or something like that, you have already done massive damage to their business because they now know that they will not be paid for the work that they do to finish your order, and so they have to lay off their workers. And also when you cancel your orders with a factory, it doesn't matter whether it's a factory in China, factory in the United States, people are people and they're relying on you to kind of like to keep your word and, Hey, I'm gonna order this.

And once you're done, you're gonna, it's gonna be paid for, right? And so it creates a lot of distrust in the relationship. And it's not as simple as just like pressing a button on an electronic and just restarting that relationship and saying, Hey, restart the order. The factory might have already closed down.

They already laid off their workers. [00:23:00] It's not trivial to just restart the order. On top of that, it takes time to finish the order. If the factory didn't close, they've probably put all their orders for Europe and other countries ahead of yours. So you're gonna have to wait for those orders to finish for them to finish your order.

And then on top of that, remember that there's that 30 days in the best case to ship those goods from China. To Los Angeles. So today, let's say today's May 1st, if everything works perfectly and the factory's like, yeah, sure, okay. We'll ship it tomorrow. It'll still be another 30 days before those goods arrive in the United States.

Yeah, so the port in Los Angeles. And all the truckers and all the people who work in warehouses for the next 30 days, even if we reverse these policies, they will have considerably less work, and those people will stay effectively, stay laid off because they won't have anything to do until those shipments restart, which takes 30 days for Los Angeles to 55 [00:24:00] for more.

Matt: Is this situation the same as covid? The covid shock? Is it worse? Is it better? Like, can you compare it? Covid was horrible in a whole bunch of

Molson: different ways, right? So people were dying. People were sad because they were getting locked down and stuff like that. And so people aren't dying. People aren't really sad yet.

But we also haven't seen any of the economic effects of this really hit. For companies in our business, COVID was actually great if you take the narrow economic profit oriented view, only because people didn't have anything to do and the government was giving people money. You like couldn't go to a restaurant, but you got a check for, I forget what the amount was, like \$1,500 or something like that.

And so you're like, well, I'm gonna go buy something online.

David: I'm gonna

Molson: buy stuffed

David: [00:25:00] animals.

Molson: That's what I'm gonna do. Exactly. And to this day, I still recommend that. But, uh, now there's, there are no stimulus checks. There's. There currently are not any PPP

Matt: paycheck protection program. Yeah, yeah,

Molson: yeah. And there were employment retention credits and there were idle loans.

And so there was just like all this free money both at the corporate and business level and at the consumer level, that actually led to a massive boom in sales and profits in companies like our own. Yeah. And so when I talk to you guys and what I'm doing these podcasts. I care tremendously about my business.

The work that I've put in my employees, but like at the end of the day, what's a lot more important is that our country remains functional and that we don't have massive job loss and we just like, oh, don't let

Matt: you romantic. Yeah. I mean, basic sewage.

Molson: [00:26:00] Yeah, we should, I, I would like to have clean drinking water more than I'd like to have stuffed animals.

Matt: Okay. So let's go full doomsday prepper. Okay? Mm-hmm. So, so you've talked about some of the really serious, some of the things that, you know, you don't have stuffed animals. You don't have stuffed animals. Uh, you know, and Molson is sad, but, but yeah. Uh, but, so there's stuff that, like clean water, like what are we, what are you really worried about?

Molson: It's actually the shortages of goods that. China either only makes or dominates that can cause the kind of worst effects in the United States. So like electrical transformers, right? So you need this thing at the top of the telephone pole to get power to your house and. You don't just need them for new construction.

Every now and again they blow up. And so you need to be able to replace those and the transformer blows in your neighborhood and there isn't a replacement transformer. Your neighborhood just doesn't get power and you can't just snap your fingers and just like call up your local [00:27:00] auto mechanic and be like, Hey bud, can you just make me a transformer?

You need to have the raw materials, you need to have the components and you need to have the know-how. Stuff like that is actually the, the biggest problem. And then you, you kind of need to like layer all of this onto what American society is like right now. Like what is the vibe? Like, I don't wanna talk about how bad things can get, but I guess like a couple of days ago, right, Spain like didn't have power.

I forget for, I don't know for how many hours, but like, it seems like people were like pretty orderly in Spain when they didn't have power during. In June during the, like, in June of 2020, like things were not very orderly.

David: Right. And

Molson: so

David: are you saying Americans are a little hyper, perhaps?

Molson: I mean, I'm for espressos deep today, so I'm pretty hyper and I'm American.

But

Matt: yeah, I mean, like, you just, I'm ready to riot what's happen.

David: I got, I've had plenty of espressos. If I, if I can't get [00:28:00] my, my Wheaties off the shelf, I'm, I'm ready to go. No, this moment feels. It, it's in a different context, but it feels like February of 2020. And I remember Matt and I talking mm-hmm. At that time, yeah.

About the public health crisis that was coming. It was on, you know, it was largely in China and uh, you know, it started to come over to parts of Europe and we weren't there yet. We knew it was coming. Like I remember talking to you, Matt, about a congressional hearing and I think it was about Covid and everyone, all the congress members on the panel were like rubbing their eyes.

I know.

Matt: Yeah. I went, 'cause I was, I was trying to be like, guys this huge pandemic is coming here and also our supply chains are fucked. And then everybody was like, huh. And they didn't care until the stock market went down and they were like, oh, it must be real. Um, and then the NBA. Season ended, but at, at the time there were these hearing, there were a bunch of hearings and, yeah, and like when I just like, these guys were like, rum their eyes and rum

David: their nose.

I remember us talking to each [00:29:00] other like, we're so dead. They're all gonna get, we're all gonna get it all, we're all gonna get it. It was, and but it, but it, it feels like the, we're all gonna get it is this supply chain issue that's, that's it's happening right now. We just don't physically see it. Yet manifest it.

It's

Matt: the Wiley coyote. Like where we haven't looked down. Right? We're

David: off. Yes, we're off the cliff. And we haven't looked down yet. That's exactly right. Is

Matt: that fair? Is that a fair way to characterize it? Or are we overstating? Uh, no,

Molson: that's exactly right. Like, whoops. Um, that sucks. We don't, that's bad. Uh oh.

For the most part. Um, you know, our economy has, has changed, right? Like, how many people do you know, working in manufacturing? Right. How many people do you know working in logistics? Like many of the people you know are lawyers, they work in finance or they work in software and stuff like that, and finance law and software.

It's like instantaneous, right? Like I press enter on the button and yeah, the [00:30:00] software has changed, or I upload the legal document, pacer the, the, the legal software we have for our courts or.

David: Why, why can't I create a hammer the way I create a credit default swap? I mean, why, why can't just be instantaneous like that?

No. And, but I think the ostensible reason for this policy, if you would ask Trump and, and, and his allies and supporters, is to reverse that relationship to a degree, to, to increase manufacturing in America. Um, that's the, that's the stated goal here. And so. Given that I want to ask you, you know, why is it so hard to make things in America, and why does it seem like these tariffs, at least in the short term, have not led to this renaissance in manufacturing?

Molson: One, there's no certainty. So Trump can change his mind. If you open the factory, he can change his mind. He [00:31:00] does a deal. The factory can no longer make products profitably in the United States, uh, the White House didn't just put tariffs on finished products. So if we go back to your, your laptop, let's say, right?

So Trump didn't just say, Hey, there's gonna be a 145% tariff on all laptops imported from China. He also said that there's going to be a 145% tariff on all the components. So you can't, if you open a factory in the United States to, to assemble laptops. The components are not in the United States. You have to get them from overseas, but there's also 145% tariff on that.

So where's your incentive?

David: He just, he just changed that for, for autos. Um, oh, did he? For that reason? Yeah. Okay. Um, uh, that the components, they wouldn't double up the tariffs and they wouldn't count the steel and the aluminum within, uh, within that and everything. Yeah.

Matt: They're sort of backing into [00:32:00] the thing they should have done originally, which is inter, you know, input goods, especially when you're re-export them.

Shouldn't. Be tariffed the way, the same way, right? Yeah,

Molson: that, that's exactly right. And then on to add to that, you, you don't wanna have a tariff on the machine. You need to assemble. These products, right? Because if you wanna open that factory, you need an injection molding machine to make brain flakes discs.

Uh, but that, that machine was a hundred thousand dollars before the tariffs. Now it's \$245,000. So now it costs a lot more to open up the factory. So these are some of the reasons why manufacturing is not. Coming, rushing

back, and I don't really understand what the goal of this is because we say that it's about making America great again and making things in the United States, but then repeatedly both in 2018 and today in 2025.

It seems like we're just making Vietnam great again because we slap high tariffs on [00:33:00] China and then we don't apply the same tariffs to Vietnam. And like people earn \$300 a month in Vietnam. People like earn in a month what many Americans earn in a day. And so it, it's just, and Vietnam is right next to China, so the supply chain is right there.

And so Vietnam has all these advantages in manufacturing and so. The, the manufacturing just moves to another country, moves to Vietnam, and moves to Indonesia. So the policies need to be set up in the right way, and the tariffs need to go up slowly and there needs to be certainty. That's what you need to do in order to bring manufacturing back to the United States.

And then you need to be specific like about what products you actually wanna make in the United States, right? You don't wanna just make t-shirts. You wanna be making like drones and high tech things and things that are important to. To our economy and to the strength of our country. So like a lot of the things like China doesn't wanna be making t-shirts.

China wants to be doing [00:34:00] these, these high-end things where the money is and the IP is, and the United States should be doing the same thing. Yet that's

David: an important point. Like they've shifted there. There, there has been a shift there. And you know now that now we're seeing this massive amount of subsidies put into EVs in China, for example.

'cause they see that as a market, they can dominate an infant industry. And we were on the road to that in some ways with, uh, our, you know, subsidizing batteries and subsidizing EV factories and things like that. Uh, critical industries, uh, where maybe there are tariffs so that we can get them up and running.

Um, and the other, another good example was. The duties we put on solar components, uh, that were being transshipped through Vietnam and other countries from China and into the United States. And because of those duties, uh, right now, uh, US solar capacity for components is actually equal to the amount that we're installing.

And, [00:35:00] uh, that has never before happened in history. And so there, there's kind of the good way and bad way to get this done.

You, you've talked about how, uh, US infrastructure isn't set up very well for the kinds of manufacturing that we might need. Like what are the obstacles? Even in a perfect world, if we did this perfectly, what are the things that would have to change in the US to make manufacturing more attractive? We don't have the

Molson: know-how.

In a lot of these industries, so going back to Transformers, a lot of the people who are listening to this, I don't really totally know how a transformer works, and as such, I wouldn't be the best person to make a thousand of them. For you, if you wanna start making transformers in the United States, you need to find one of those people.

It's like a question of knowhow. It's having the right skills. It's having the desire, and then. You know, when you're doing [00:36:00] all this manufacturing in the United States, there's actually gonna be a lot more trucks on the road. So you need to expand your ports, you need to widen your roads. People need to get used to those things.

You're gonna wanna move a lot more things on trains. You need a lot more electricity generation. 'cause to manufacture things requires a lot of, uh, electric inputs. You need certain processes, you need more water. So the infrastructure needs to be built for all these things. You need fast permits to get the factories built.

Manufacturing is just not something you can snatch up your fingers and just start doing. It just requires a lot of things, even when the policies are perfect and that's why China. Many other countries in East Asia and countries, like every country that has gone from being, you know, a farming country to being a country that's good at manufacturing it, it took decades.

It wasn't something that you could do in a presidential term.

Matt: So here's a question about that, right? So all the things you just mentioned [00:37:00] require being able to invest not for, you know, super low returns or negative returns, but for returns that are. Reasonable, but much less than American investors are used to.

Right? So one of the reasons that you invest in, like, you know, I think Jack Welch said this, he's like, it's way better to invest in credit cards than bending metal. It, it just generates a much better return on investment. And I think that's what we see with our, you know, the, what stock marketed. And people are, they're obsessed with the Mag seven, like because they have just massive returns on equity and they wanna invest in capital light stuff, monopolization, and various other mechanisms to just.

Put, you put in a dollar of capital and you get 40 per 40 cents on it. Something like really high versus the 5% or six or 7% that you would get for expanding, you know, roads or trucks or something like that. You know, bending metal. Um, what is the, what do we have to do to our investment, uh, climate to just make us.

Be willing to invest in stuff that has like a lower, [00:38:00] lower return on, uh, lower return on equity. And like, how does China do that? How do these other countries do that? Like is Wall Street just gonna have to become a lot less appealing as a place to go work? Or Silicon Valley or, or these other IP heavy places?

Molson: There is a brain drain in our country towards the things that make the most money. Like why would you work in manufacturing when you could work in finance or even like finance adjacent activities like corporate law and stuff like that, like formation of new companies. When a private equity firm wants to buy another or something like that, why would you do that?

Why would you work in manufacturing when you could earn a lot more money doing something else? It is possible that having reserve currency. And an efficient manufacturing economy are sort of incompatible. And so that's like a really complicated question and I'm not exactly [00:39:00] sure what the answer is, but maybe what I would do if I were the president of the United States is not try to make everything right, so just give up the t-shirts and the.

Simple stuff that doesn't need to be made in the United States that we don't even have the labor for and just focus on manufacturing of like high tech goods and necessities. So pumps for water is just something we need. Certain medical equipment is just something we need. And then we should also be kind of like on the forefront of technological change and we should be playing to our strengths.

So rather than having tariffs on everything from like coffee to t-shirts to. Low value goods. We should be applying tariffs to agricultural drones. We should be applying tariffs to transformers. We should possibly even be subsidizing some of those industries and just focusing on that. And that alone probably isn't incompatible with whatever we do [00:40:00] in finance.

Well,

Matt: let, let, let me push back on that for a second because one of the things about that was I found interesting during the covid period when everybody was like, we, everybody needs to have masks. And it's like. The people that produced the masks were the people who made t-shirts. And we do have some people who make t-shirts here, but it's like we wouldn't have considered them essential.

Right. Just like I think, you know, this is probably an unfair historical comparison, but the Wright Brothers, they were making bicycles and then they made. Airplanes, and we wouldn't have necessarily guessed that bicycle manufacturing would be such a strategic industry, although probably in the, when they were doing that 1890s, it might've been more important.

But it's like, how do you determine, you know, it's, it's easy to say agricultural drones in all this fancy stuff is like that. That's what really matters. But how do we know what is essential and what isn't?

Molson: Yeah, that's a, that's a great counterpoint. So the first thing I would say is that the people who were sewing t-shirts [00:41:00] probably didn't make the most effective covid masks to begin with, right?

Like the N95 stuff that wasn't really made by the people who were sewing t-shirts. So people who were sewing t-shirts were like making cloth masks and stuff like that. That is without like waiting into the territory of what is an effective mask or not, right? Which is everyone has an opinion on kind of an question.

Danger, danger.

Matt: Don't undermine that. My logic. That's rude.

Molson: Sorry. This is your podcast. You are right. Yeah. Yeah. It's, um, and I was wrong. Um, thank you. No, but I, I, I think you raised sincerely like a really good point. So I don't think you can have perfect knowledge of what is going to be. Essential at all times.

Right? If aliens invade and it turns out that aliens are allergic to garlics, they're like, dang, we need garlic grown in the United States. Whatever, right? But it's kind of unforeseen, but certain things do recur as disasters like over and over again, right? So like you need to have. Excess food supply [00:42:00] pandemics are not something that just happens one time and never again.

And it's totally unexpected. Like these things happen regularly. And so you could be like, all right, we need to have like some man mask production, not just for the purpose of filling all the, of fulfilling all the demand for masks when a pandemic occurs, but also maintaining the know-how in the country so that.

People can make good masks if the masks need to be purchased overseas. And then, yeah, I mean from bikes to planes, you're totally right, like that was kind of unforeseen. However, we do know that. Vehicles. I'm not advocating for war. I really don't want war, but we do know that vehicle manufacturing is like really useful in times of war.

And so any country that wants to be independent and powerful and not get invaded by another country needs to maintain some level of vehicle manufacturing within it. Because those vehicles can be, those factories convert somewhat well into planes and tanks. And to your point, maybe [00:43:00] that that's no longer the case because all warfare is gonna be drone based.

But I guess you just kind of have to say, you know what? Based on what I can tell, we probably need to have some, to con some level of manufacturing and motors and. I mean, it's just hard and I'm not sure there's an easy answer to that.

David: I want to go back to this sort of looming supply chain crunch and what it means, uh, for retailers.

'cause you said that, that one of the places that you sell is on the Amazon marketplace. Mm-hmm. And I'm curious if you think that larger retailers. Are going to do better in this environment. That's what we saw during the pandemic, that they had a more ability to get better prices from suppliers and then, you know, give those goods to customers at a better price.

So, uh, do you think that this moment when everyone's gonna have a real crunch that that. That ability to dictate to [00:44:00] suppliers is gonna be a real advantage.

Molson: Yes. But it's really complicated to answer that question. Okay. Holistically and in a fair way. When we buy a product, let's say for a dollar, right? We buy it for a dollar, we sell it for \$2 and to a store, and then the store sells it.

For \$4 because the store also needs to have profit. Mm-hmm. So it starts the a dollar, and then we buy for a dollar, we sell it for two, and then the store sells it for four to regular customers, consumers. Right? So if there's a hundred percent tariff, instead of paying \$1, we're now paying \$2. Okay? So we're risking \$2 instead of one.

So now instead of charging \$2 to our store customers, we're charging four. Instead of them paying \$2, they're paying \$4. So then the price becomes \$8 to the customer rather than four. Right. When Walmart is buying [00:45:00] products directly from a Chinese manufacturer, there isn't that kind of chain in goods being passed from one to another.

Mm-hmm. And so maybe Walmart. Was buying it for one and selling it for three, and now they're buying it for two and selling it for five. So it's just not quite as bad.

Matt: I think there's probably gonna be a moment when I. Uh, the stores shelves are empty and there's gonna be like, oh shit, what do we do now? At that moment, Molson Donald Trump resigns and says, I can't do this anymore.

I need Molson. He's gotta do this. He's gotta fix it. And Congress says, Molson, we need you. And they give you dictatorial power to fix this situation. Uh, what do you do?

Molson: The logistics influencer to dictator pipeline, correct. Well, let's just go there. Um, uh, look, it's, we're [00:46:00] in a really tough position because I, I feel that the vibes are bad.

And you raised earlier that there's a tension kind of between manufacturing and let's say finance, and that tension needs to be resolved. And so what I would try to do is just focus on bringing manufacturing back to the United States for the products where we have competitive advantage for the products that we need to make and for the products that we want to make, we probably need to temporarily roll back all the tariffs.

Okay, temporarily roll them all back and then what we need to say is, say these are the industries that we're gonna try to target for manufacturing, and we are going to have tariffs in these industries that will go up slowly over the over time. So for agricultural drones, for the second half of 2025, there will be a 20% tariff.

Once you get to 2026, it will be [00:47:00] 40%. Once you get to 2027, it will be 60%. Once you get to 2028, it'll be 80%. So that gives people time to build factories and kind of adjust. Then this thing needs to be a law. So it's hard to undo rather than just an executive action, which as far as I understand, are quite easy to change over time, right?

You don't wanna have a situation where one president says, Hey, we're gonna do manufacturing. Then you get a new president come in, and then they undo that whole policy because then people, if people think that that's possible, they're not gonna build factories. As far as I know, no one in, in kind of literally global history has managed to go from having reserve currency to becoming a manufacturing powerhouse once again. So there are many examples of countries that were like agrarian and farmer oriented that we could follow for how to like redevelop the country. So like Japan, South Korea, Taiwan, China, Vietnam. There's a path [00:48:00] there where you subsidize certain things.

You put import tariffs on other things, you cut certain types. I mean, that's the US

Matt: development model too.

Molson: Yeah, I like, we did it I think in like the 18 hundreds and stuff like that, right? So there was a time where we didn't enforce intellectual property and there was a time when we had tariffs and there was a time when those type of tariffs made a ton of sense.

But now we have this like really difficult situation where we have reserve currency and. So, uh, I would do those things. Another thing that I would do is I would level the playing field between American companies that are selling in the United States and companies that are based outside the United States, which are selling in the United States.

So I'll give you a concrete example. So if we wanna sell our products in China, we have to form a company there. We have to register capital with the Chinese government, we have to file taxes. It's very challenging. If we wanna sell in Europe, we have to register for the VAT tax [00:49:00] and we have to nominate a person who's gonna be responsible for what we sell there.

When companies based in China, or even companies based in Europe sell in the United States, they don't need a file. Uh, they don't need to form a company. They don't need to nominate a responsible person, and they don't need to file taxes there. So we disadvantage our own. Companies. And what I would do, because the the government is quite hungry for revenue, is I would set things up such that these companies, which are outside the United States, could form, uh, would be forced to form companies in the United States and actually file taxes if they wanna set, sell here.

To level the playing field and maintain that product development, wholesale, industrial base, and also raise government revenues. And I think that's actually like a really smart, practical thing to do because it raises government revenues and those companies, by and large, like they, they're outside the United States, so they don't vote.

And so it, it should actually be bipartisan and politically popular. [00:50:00] But it's a really tough situation, uh, that we're in right now.

David: It took us an hour, but. We solved the problem, uh, and uh, our listeners can rest assured now that uh, everything's gonna be fixed. Thank you Molson for doing that, for fixing everything for us.

Uh, thank you actually for being here on Organized Money. We really appreciate it.

Molson: Thank you so much. It was a real pleasure to speak to both of you guys.

David: So we did talk to Molson about, uh, his experience with Amazon. He's a seller on Amazon, but also he's been critical of them. Uh, and he talked, uh, it was really great. It didn't totally fit with the tariff conversation we were having, but we wanted to present it to you. So if you go to our website, organized Money dot fm, you can listen to that.

And we thought it was really interesting.[00:51:00]

All right, well, once again, I am extremely happy that I booked a vacation for mid-May when everything is melting down. And, uh, you know, I'd like to think I was, uh, I, I was prescient. In, uh, in, in booking that maybe I won't, won't come back. How about that?

Matt: I have to say I'm really pessimistic. I am not, I like to work hard to find the silver lining, but this,

David: this looks bad.

I mean, this is bad. It looks really bad and it looks, I mean, what's bad about it is in the short term, it looks. Irreversible. Like there is going to be some real disruption here in the short term. In the longer term, there is a another path and it's really interesting that it's a path that is almost happening on a parallel track.

Like, you know, I know that you know a lot about the solar duties that have been put on solar components that are coming. To the US and, and that seems [00:52:00] like sort of an alternative history where, oh, we protect industries that are actually growing in the US and that are critical.

Matt: It's funny that the Biden administration did a bunch of the things that Molson talked about, right?

Like strategic tariffs, some subsidies, picking some critical industries, and it in, in the case of the solar. Industry, which was invented in the US and that was basically all in China. Um, it actually worked. So we have, as you pointed out during the, the podcast, we actually have a soup to nuts solar industry in the us.

We didn't before. And one of the things that the Biden administration did in, I think it was 2022, is they, uh, they gave some exemptions for solar, uh, for solar panels because there was big demand for solar panels. But those exemptions were temporary. And what they also did is they said, like, 'cause China's the big manufacturer, we were also, we were importing a bunch of solar panels from places like, I don't know, like Vietnam or, or Malaysia or other places that don't actually.

Make them apparently. And it's because they were [00:53:00] being transshipped, right? They were Chinese solar panels that were being sent to Vietnam and then exported to the US to avoid the Chinese tariffs. And so recently those, um, there was an investigation and then last week they, they applied the same tariffs to, to the Chinese, uh, to those solar panels as they were applied to the Chinese ones.

But the point, the overall point is we actually did reshore an industry. There is a solar panel industry in the United States. Um, and that is the other path that we, you know, we didn't do it enough and we didn't do it fast enough, but that was the other path that, uh, that is kind of not yet, not yet taken.

And I guess it speaks to like, we could do this if we wanted to. And we have like a recent example. I mean, we did it with some other things too, but we could

David: Semiconductors. Sure.

Matt: Semiconductors. Yeah. We, there's other things that we've, we've sort of started to reshore, so it's not impossible. But it does get to the basic problem that we have an administration that is just not [00:54:00] coherent and the Republican party in Congress is also not coherent there any of the Democrats too.

But it, they're not, we're not, they're not in charge. Right there really is, gets to that tension between like a finance dominate society and one that actually makes things and this navigating that. I just don't think we've figured out the politics there.

David: Yeah. I mean, it feels like there needs to be a showdown and everybody wants to avoid it

Matt: and then, you know, and it's not any better in other countries, like, you know, Canada just elected a guy.

From Goldman Sachs. Goldman Sachs, but then Brookfield Asset Management, which is like, Brookfield is the same thing as Apollo or kkr. It's a trillion dollar private equity firm and now he's running Canada and it's, that's not a good, I mean, who knows what he'll do. I'm not saying Mark Carter's gonna do a bad job.

I'm just saying. But that is the, it is, there's something really. Problematic about our focus on finance in this country and, and across the western world that you just don't have in China or East Asia, in these countries that make things right. And

David: I, and I think, I think one of the thing that [00:55:00] is gonna come out of this is you see a lot of this sort of industrial determinants come out of the woodwork saying, see, I told you free trade was great.

Uh, we, we can't build things in America at all. And all you anti-free trade lunatics, uh, this congratulations. Here's what you got with Donald Trump. And, uh, and, and, and in many ways that is a front for Wall Street. I. It was a front for finance.

Matt: Yeah. I don't think it's a front. I think they're just straight up.

I mean, you have a lot of people saying, you know, wall Street was right and um, you know, tariff will become a dirty word and all the rest. I think that might be temporary, but there is really, there is something just profoundly dispiriting demoralizing about this moment. I just, there we're never gonna recover.

Like we can't recover from this, but we can learn from it and maybe. Maybe in a couple of months as, as we see the real disaster unfolding, it will [00:56:00] lead us to actually start to start like. Putting some of the lessons that we have, we know about like from the financial crisis, from like, we know a a lot of how to fix some of this stuff.

We just don't quite have a majority of people who wanna do that. Maybe we will,

David: we'll, we'll certainly find out what happens. We're gonna talk to, uh, another, uh, person who's caught up in this, this tariff situation next week. Uh, and, and his name is Mike Beckham. And, uh, he makes, uh, a thermos, right? I mean, he, he makes

Matt: steel, steel drinkware, so I, right.

I love these. His, it says a company called Simple Modern, and they, they make a bunch of stuff, but they make m mostly. It's like the. The, um, the steel large, uh, cups that people bring everywhere to drink water. I call them adult sippy cups. Um, I love mine, right. Uh, but, uh, you know, very successful. It's a whole, it's a new category, a lot of competition.

And he is, uh, it's gonna be interesting. He has actually reshored a little bit of production, but he can talk about some of the challenges of actually doing that and what tariffs are [00:57:00] doing to his business.

David: Great. And that'll be next week on organized money. Organized Money is a production of Rock Creek Sound Executive producers Ellen Weiss and Ari Saperstein.

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