



Tariffs: Who Wins, Who Loses and Why It Matters

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What Is a Tariff?

- **A tariff is a tax on imports.**
 - Paid to the government by the importer.
- **A 10% tariff on all imports would mean that:**
 - Whatever the foreign exporter charges for a product,
 - US buyers will pay an extra 10% to the US government.
- **Domestic suppliers can also charge 10% more.**
 - And that's kind of the whole point.



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Outline

- US Tariff History
- Current Tariff Policy
- Tariff Effects in General
- Trump I Tariffs and the Trade War
- Trump II Tariff Actions
- Effects of Trump II Tariffs
- Summary



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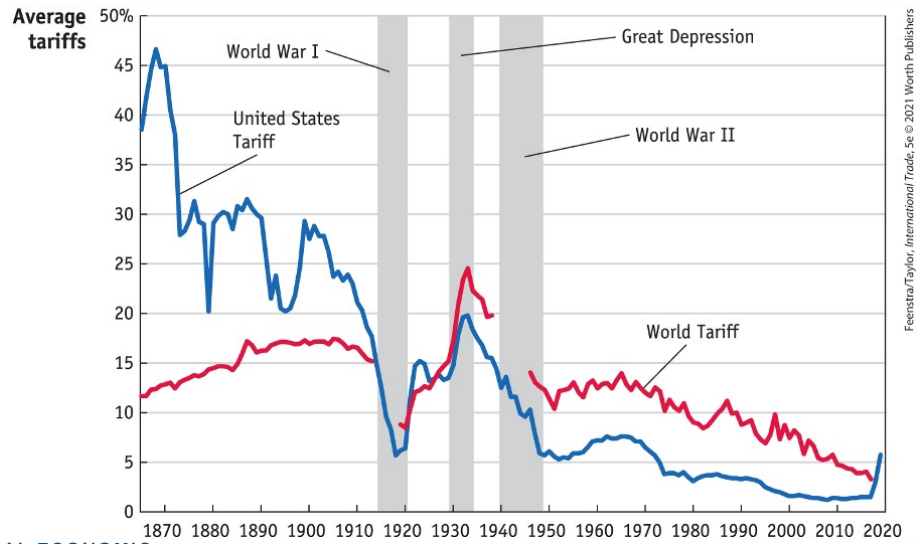
US Tariff History



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US Tariff History, 1860-2020



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Source: Feenstra/Taylor, International Trade, 5e

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Current Tariff Policy



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Trump II Tariff Actions and Plans

- “To me the most beautiful word in the dictionary is ‘tariff’”
- Fentanyl and Immigration (action on China, Canada, and Mexico)
- Steel and Aluminum (action on all countries)
- Copper (national security investigation)
- Lumber (national security investigation, biggest exporter is Canada)
- Reciprocal Trade and Tariffs (all countries)
- Tariffs on countries that impose digital services tax on American companies (targets EU countries, Turkey, UK, Canada)
- Autos and auto parts
- Pharmaceuticals, Semiconductors, Critical minerals, Trucks, Aircraft (national security investigations)



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Fentanyl and Immigration

Use of International Emergency Economic Powers Act

Feb 1: Announced tariffs of 25% on Canada and Mexico and 10% on China if they didn't stop flows of illegal people and drugs across the borders

- After talks with leaders, he postponed the tariffs on Canada and Mexico for one month
 - On Feb 24 “he said he is ‘going forward’ with the tariffs next week.
- The 10% additional tariff on China
 - Went into effect Feb 4
 - China retaliated with more tariffs, export controls on US (took effect on Feb.10)

Feb 1: Announced repeal of “de minimis” tariff-free policy on imports from China

- For years, imports under \$800 have entered US tariff free
- Feb 5: Paused the repeal as packages piled up at customs
- May 2: Reinstated.

Mar 4: US tariffs go into effect on Mexico and Canada and are raised on Chinese imports to 20%

Mar 6: US exempts imports from Canada and Mexico under USMCA.



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Steel and Aluminum

Section 232 tariffs (National Security)

Feb 10: Trump announced new 25% tariffs on steel and aluminum from all countries, to take effect on March 12.

Mar. 12: The tariff on steel and aluminum goes into effect.

Mar. 12: Canada announces plans to retaliate on Mar. 13 by imposing 25% tariffs on C\$29.8 bn of US goods such as steel and aluminum products, tools, computer, display monitors, sport equipment, and cast-iron products.

Mar. 12: EU also announces plans to retaliate on \$28bn worth of US goods such as whiskey, motorcycles, motorboats in the first phase and beer, poultry, beef, soybeans and produce in the second phase. Delayed to mid-April.

Apr. 9: EU member states agree on retaliatory tariffs but put on hold for 90 days.

Reciprocal Trade and Tariffs

Apr. 2: US announces to impose baseline 10% tariff on all countries and additional “reciprocal” tariffs on countries that contribute to large, persistent US trade deficits.

Apr. 4: China announces a 34% retaliatory tariff and other measures.

Apr. 5: US imposes 10% tariffs on imports from nearly all countries.

Apr. 8: US announces an additional 50% tariffs on Chinese imports (84% + 20%)

Apr. 9:

- US imposes the additional country-specific tariffs (1-74%)
- China announces additional 50% tariff
- US pauses the country-specific tariffs for 90 days, increased tariffs on Chinese imports to 125%

Apr 11: Semiconductors, smartphones and consumer electronics are exempted.

Apr. 12: China increases its tariffs on American imports to 125%.

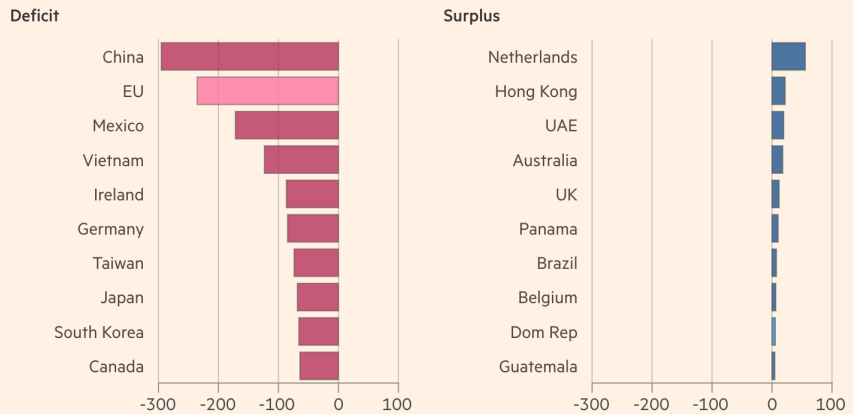
May 8 & 12: US-UK trade deal and a reduction of Chinese tariffs announced

Reciprocal Trade and Tariffs

Formula:

$$\text{Tariff} = \frac{\text{Exports} - \text{Imports}}{\text{Exports}}$$

Top 10 US deficits and surpluses, trade in goods, 2024 (\$bn)



© FT Source: US Census Bureau



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Example, Lesotho (2022 data)



“Reciprocal” Tariff = 50%

Total trade: \$243 Million

Facts about Lesotho:

GDP per capita = \$1,073;

Population = 2.1 million

Trade balance = -\$349 million

Average tariff rate against US = 10%



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<https://wits.worldbank.org/CountryProfile/en/USA>

<https://www.imf.org/en/Publications/WEO/weo-database/2024/October>

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Tariffs on Individual Countries?

New tariff rates for dozens of countries were introduced in August, after delays to allow for trade talks. They include:

- 50% tariffs on Indian goods - including a 25% penalty for trade with Russia
- 50% tariffs on Brazilian goods
- 30% tariffs on South African goods
- 20% tariffs on Vietnamese goods
- 15% tariffs on Japanese goods
- 15% tariffs on S. Korean goods

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Tariffs on Specific Goods

Some taxes announced by Trump are on particular products, wherever they are made.

These include:

- 50% tariff on steel and aluminum imports (except for those from the UK)
- 50% tariff on copper imports
- 25% tariff on most foreign-made cars, engines, and other auto parts

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Negotiations

- **Continue with a number of countries:**
 - China, Mexico, Canada
- **Concluded with UK and EU**
 - UK: 10% across the board, with exceptions:
 - Cars over 100,000 at 25%
 - Beef, 0% both ways
 - US Ethanol, 10% instead of 19%
 - 25% instead of 50% on steel and aluminum
 - EU: 15% instead of the threatened 30%
 - EU block MIGHT zero out tariffs on some goods



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Tariff Effects



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Economic Effects of a Tariff

- **A tariff is a tax on imports. It causes:**
 - A rise in the price of the imported good in the importing country
 - A fall in the price of the imported good in the exporting country
 - The quantity imported to fall
 - Revenue for the tariff-levying government
- **Almost always: the rise at home is much larger than the fall abroad.**
 - That's especially true if importing country is small.
 - But it's also true if importing country is as large as the U.S.
 - We learned this from Trump's tariffs in 2018.
 - Example: Trump's tariffs caused US prices to rise, with hardly any perceptible fall in prices abroad.



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Effects of a Tariff

- **The rise in price in the importing country causes:**
 - A rise in the price of import competing goods.
 - Benefits to those producers.
 - Harm to buyers of both the imported and domestic goods.
 - Including producers that use the higher-priced goods as inputs.
 - Their prices also rise, hurting their buyers.
 - Employment changes:
 - Increase in the protected industry.
 - Decreases in industries that use the protected product as inputs.



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Possible Economic Arguments for Tariffs

- **Possible arguments for tariffs:**

- National Defense – strategic resource
 - Do we need the capacity to make our own computer chips, just in case?
- “Infant” Industry
- Unfair trade practices of exporting countries

Other effects of a Tariff

- **Income distribution**

- Tariffs, especially on China, raise prices of the products disproportionately bought by low-income consumers, hurting them more than high-income consumers

- **Retaliation**

- Other countries place tariffs on US exports
- Trade war that started in 2018 continues and gets worse

- **Corruption**

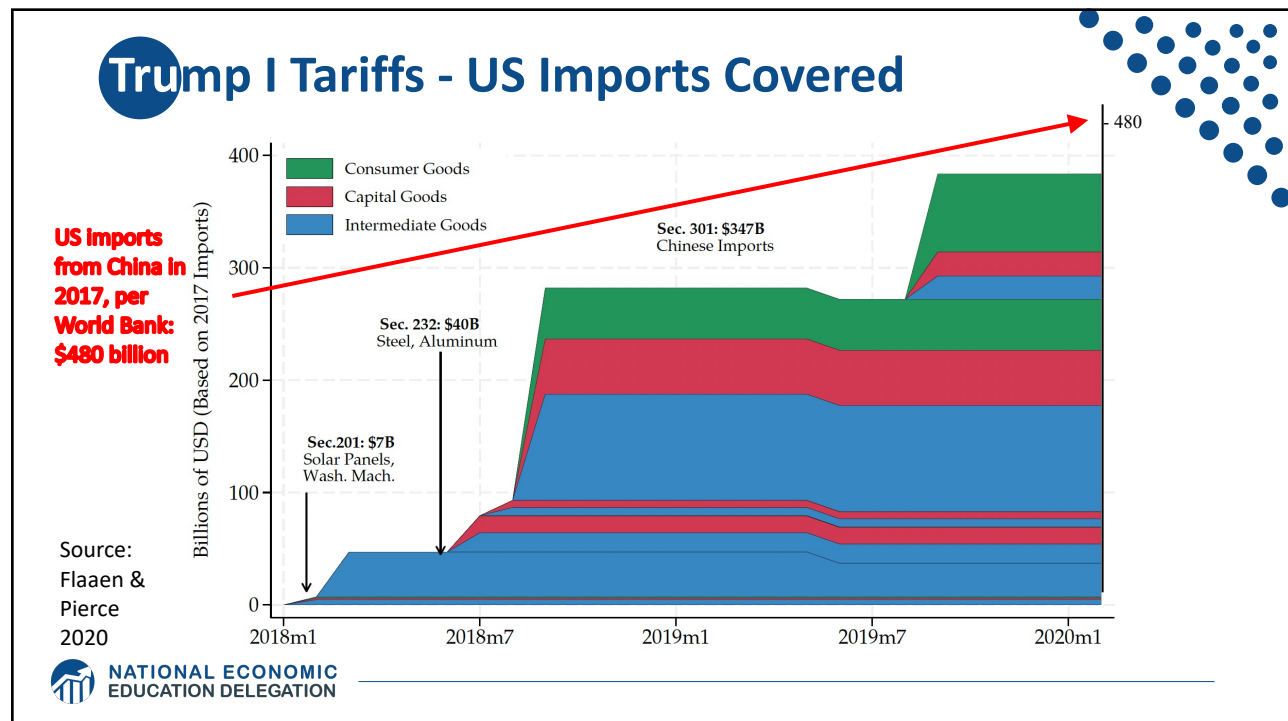
- Historically, tariffs prompted both smuggling and bribes to customs officers.
- Today, in the US, those are less likely.
- But requests for exemptions from tariffs may be accompanied by favors or political contributions.

Trump I Tariffs and the Trade War

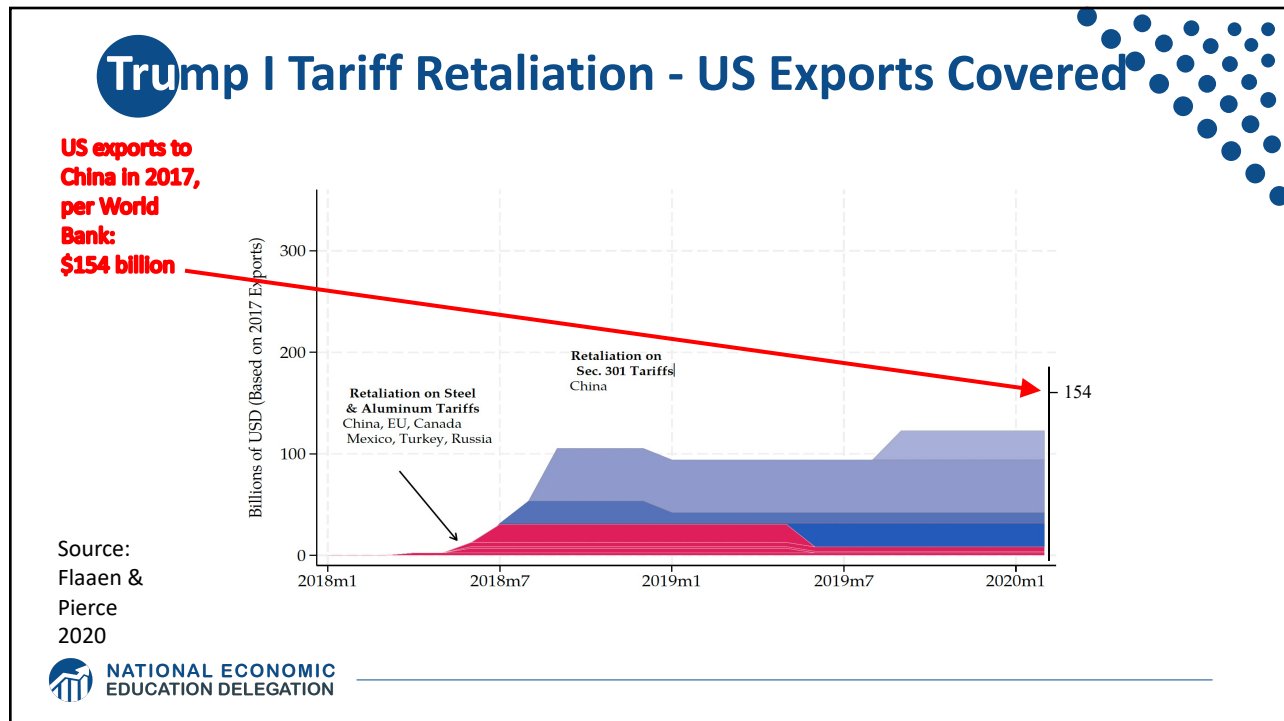


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Tariffs on Washing Machines

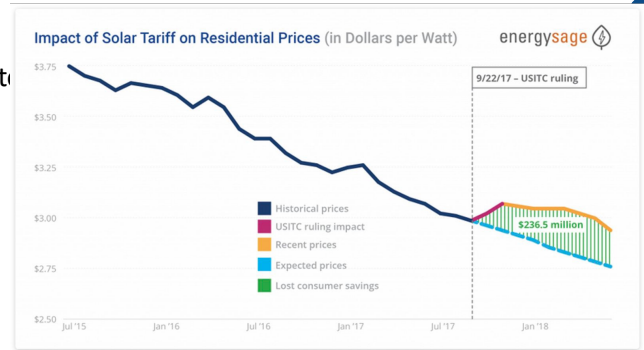
- The **price of washing machines** increased in the U.S. by 12% the next month.
- The **price of dryers** (bundled with washing machines) also increased by 12%, even though they were not subjected to tariffs.
- Consumers lost \$1.5 billion annually.
- Annual **tariff revenue** increased by about \$82 million.
- 1,800 **new jobs** reported.
- The consumer cost per job “created” was about \$817,000 per year.
- Coincides with LG and Samsung opening plants in the U.S.
 - LG: Clarksville, Tennessee in 2019: 600 new jobs
 - Samsung: Newberry, South Carolina, 2018: 1,500 new jobs

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Tariffs on Solar Panels

- Consumers were hurt by higher **prices of solar panels**:
 - Solar prices increased by 43-57% compared to the global average.
- According to the Solar Energy Industries Association:
 - 62,000 workers were laid off or never hired,
 - 10.5 gigawatts of solar capacity lost, and
 - \$19 billion in private sector investment lost.
- Foreign companies build factories in the U.S.:
 - Hanwha (South Korea) in Whitfield County, GA
 - JinkoSolar (China) in Jacksonville, FL



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Tariffs on Metals

- The **prices of steel and aluminum increased shortly after the tariff was implemented.**
- The **domestic production** increased (steel production increased by 6 million metric tons and aluminum by 350,000 metric tons in 2019 compared to 2017).
- The **number of jobs** in iron, steel, and aluminum mills rose temporarily by 6% and 5%, respectively, from 2017 to 2019.
- **Downstream industries** (e.g., auto) faced higher input costs.
 - Several studies estimated that the increased costs driven by tariffs may have resulted in 75,000 fewer manufacturing jobs.



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Tariffs on Metals - Retaliation

- The EU, Canada, Mexico, and China retaliated with tariffs proportionate to their U.S. exports of steel & aluminum.
- US industries targeted by foreign retaliation:

Industry	Countries
Pork (reliant on foreign markets)	China, Mexico
Apples	China, Mexico, India
Fruits and Nuts	China, India
Whiskies (e.g. KY bourbon)	EU, Canada, Mexico
Mineral water, coffee, ketchup	Canada
Motorboats, yachts, motorcycles (Harley-Davidson)	EU



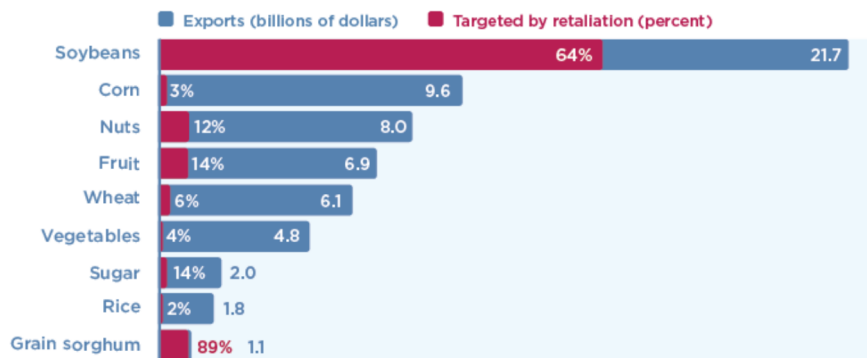
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Subsidies to American Farmers

US exports of major crops, 2017



- \$12 billion subsidy to help American farmers for their lost export sales.



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Trump Tariff Exemptions

- **Both the metals tariffs and the China tariffs permitted certain products and product categories to be exempted, through an application process to Commerce (metals) and USTR (China), if certain criteria are satisfied.**
 - Whether tariffs would impose significant harm on American business interests.
 - Whether substitute products were available outside China.
 - Whether the products were “strategically important” to China”.



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Trump Tariff Exemptions

- **Trump administration’s decisions on exclusions were mysterious and arbitrary.**
 - “Tariff exemptions were given
 - to Bibles but not to textbooks,
 - to salmon but not to pollock,
 - to children’s car seats but not to baby cribs.
 - The decisions were not subject to appeal.”



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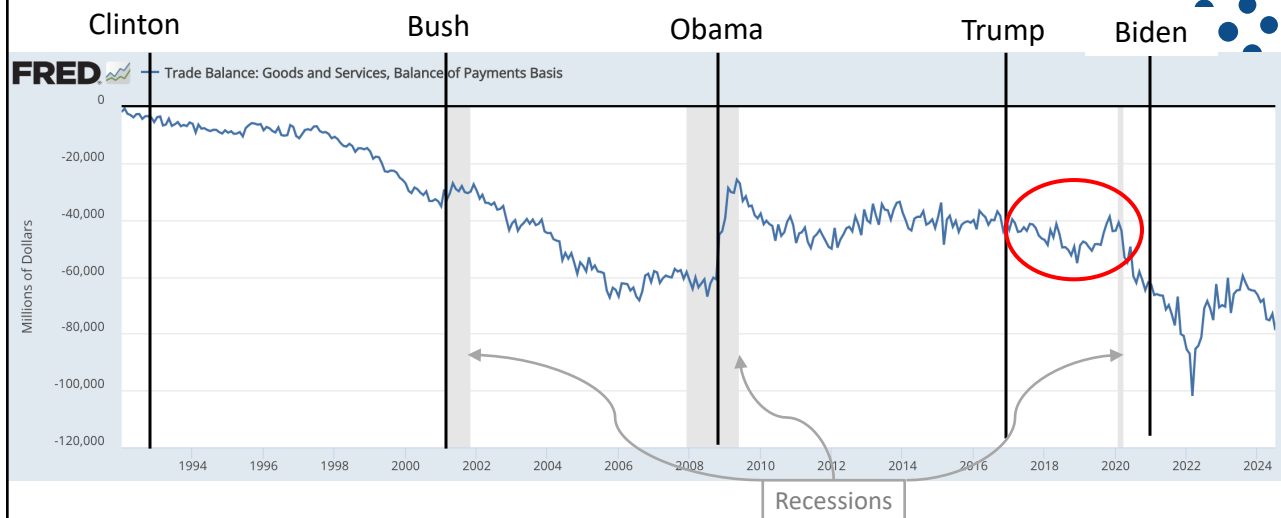
Trump Tariff Exemptions (Spoils System?)

• Issues with the exemptions

- “Firms hiring lobbyists were less likely to have steel tariff exemptions approved.”
- Study found:
 - Contributions to Republicans made China exemptions more likely
 - Contributions to Democrats made China exemptions less likely
 - Author quoted as saying the exclusion process was “*a very effective spoils system*”
- Renewal of exemptions were uncertain and came late enough to create uncertainty.

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US Trade Balance = Exports minus Imports



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US Trade Balance with China and the World

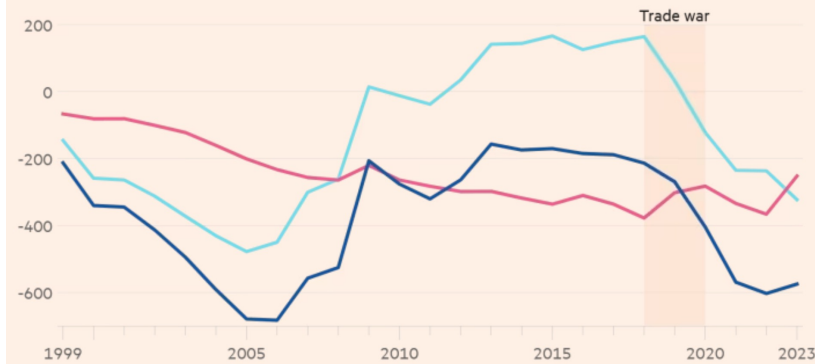
Trump's trade war reduced the US deficit with China, but not the overall deficit

US trade balances (goods and services, \$bn)

— Total — China — Total excl China

Deficit

Source:
FT 1/4/25



Sources: BEA, Richard Baldwin



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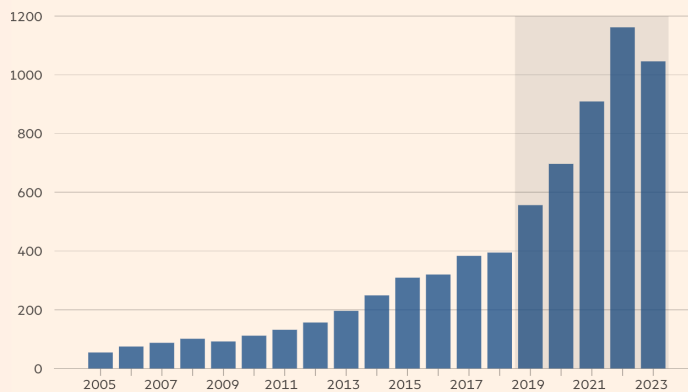
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US Trade Balance with Vietnam

The US trade deficit with Vietnam has soared since the US-China trade war

\$bn



FINANCIAL TIMES

Source: US Census Bureau



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Trump I Tariffs & Trade War

• Summary

- Trump placed tariffs of 25% on steel and 10% on aluminum.
- Trump placed multiple tariffs on China exports, covering at least 75% of their exports to US.
- On request, he exempted some products and firms.
- Imports from China fell while imports from others rose.
- US trade deficit did not shrink.
- Data show no fall in foreign export prices, so tariffs were paid by US buyers.



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Trump II Tariffs



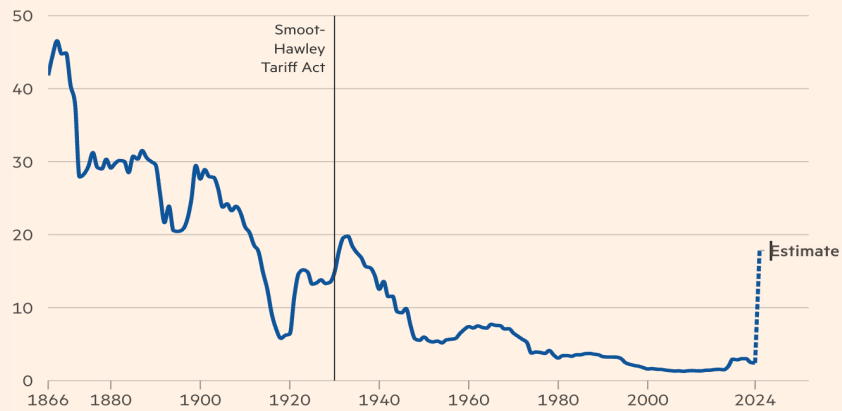
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US Tariff Level

Effective tariff rate* (%), historic and estimated

Dotted line indicates estimate



© FT Source: [Yale Budget Lab](#) • *effective tariff rate = customs duty revenue as a proportion of goods imports. Tariff schedule as of May 12



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Average Tariffs: Jan 1, 2025-Aug 31, 2025

Percent of goods import

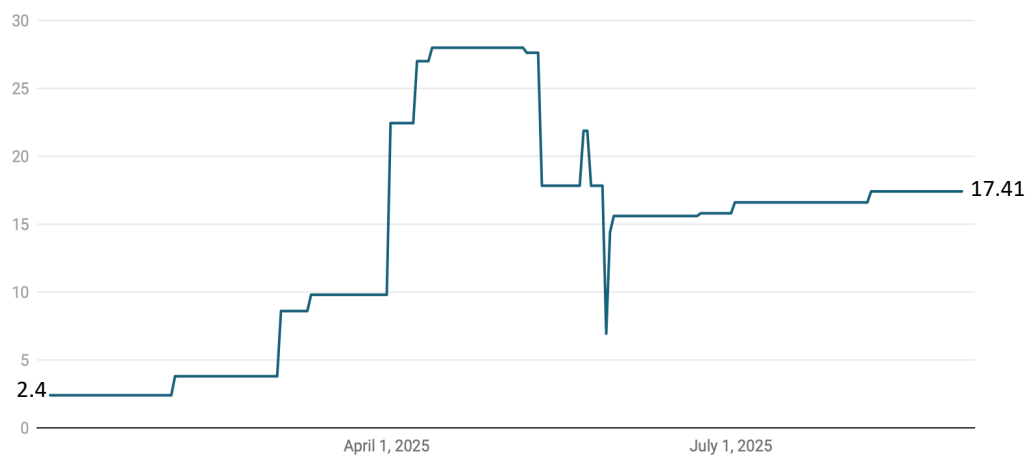


Chart: The Budget Lab • Source: The Budget Lab analysis. • Created with [Datawrapper](#)



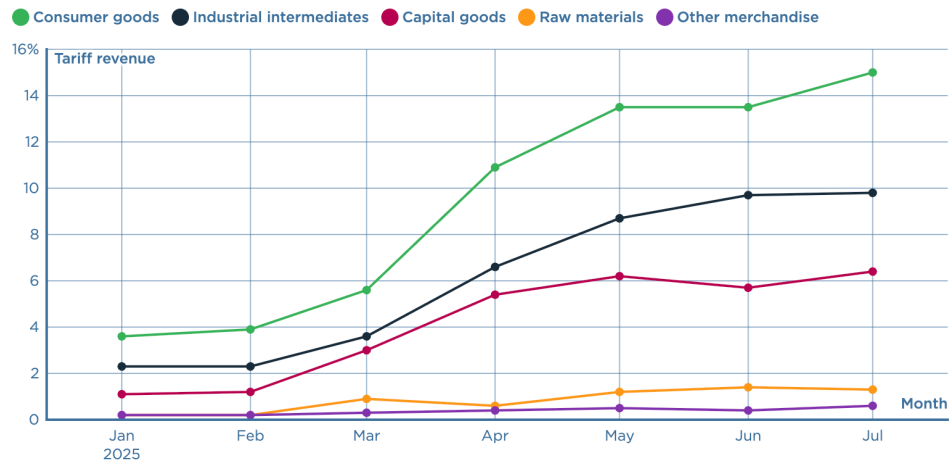
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Effective Tariff Rates

Monthly tariff revenue as percent of monthly total import value (CIF), by major product categories, January 2025–July 2025



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Why?

• Varies:

- Immigration and Fentanyl
- Raise revenues
- Reduce the trade deficit
- Bring back manufacturing
- Punish unfair trading countries ("reciprocal" tariffs)



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Raising Revenues?

Can Trump's tariff revenues help pay for the federal budget deficit?

Cumulative tariff revenue, Jan-Jul 2025 **\$122,011,297,817**

Federal budget deficit in fiscal year 2025 **\$1,865,000,000,000**

- That's 7 year's worth of tariff revenue.
- Eliminate the income tax?
 - \$2.4 Trillion in 2024 = 10 years of tariff revenues

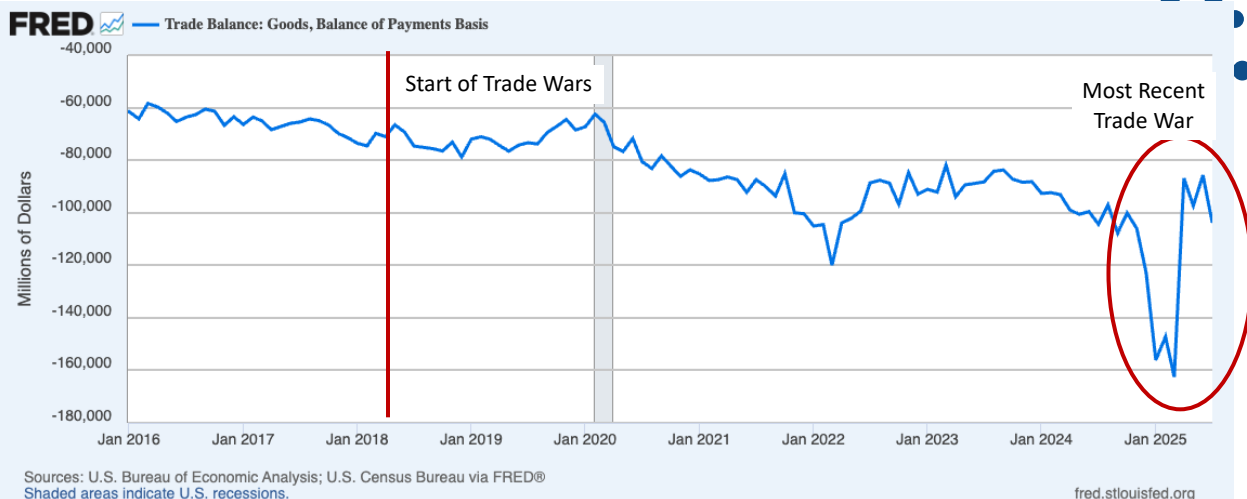


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US Trade Deficit – Not Looking Good, So Far



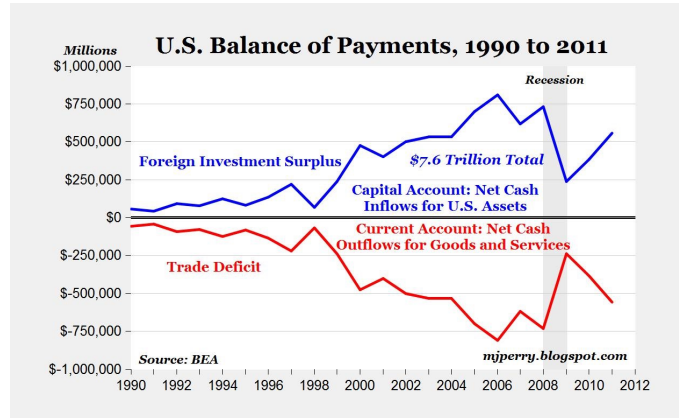
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Trade Deficits are Driven by Investment Flows and Tariffs Can NOT “Fix” Them

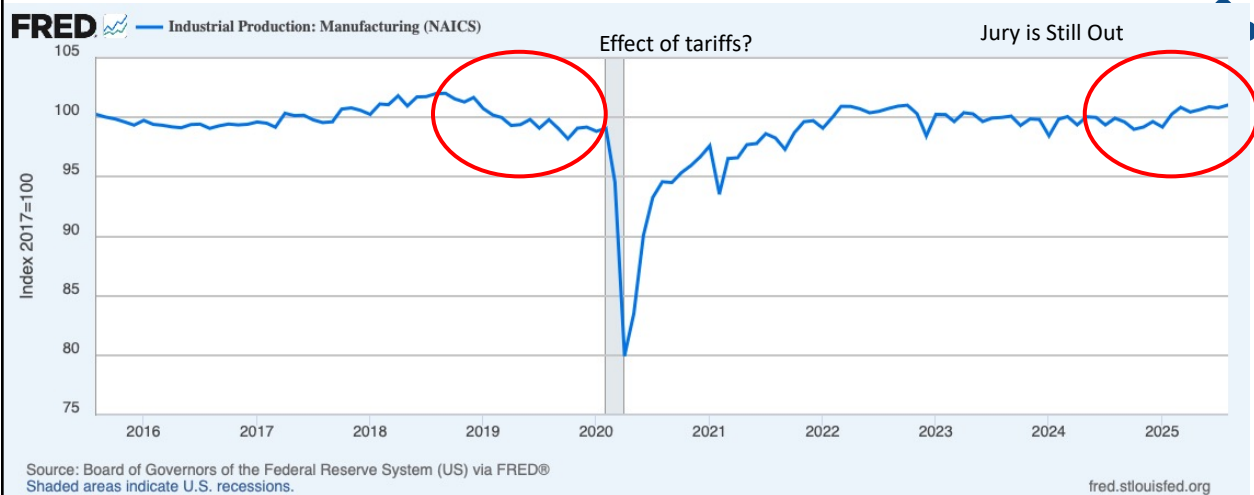
- Trade deficits are driven by imbalances in the **capital account**, which is the amount we borrow from other countries.
- Since 1960, the U.S. trade deficit has followed the growth of the U.S. federal debt.
- That is, U.S. borrowing from other countries drives our trade deficit.
- Tariffs can NOT solve this problem!



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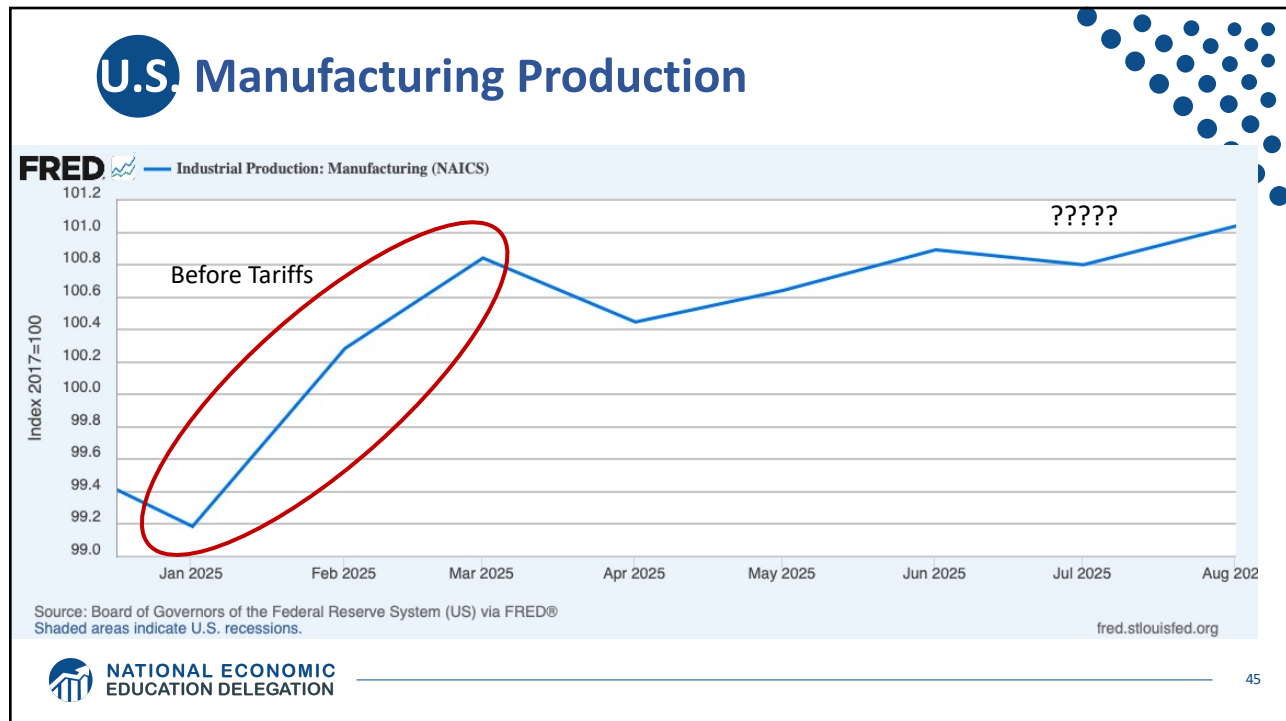
U.S. Manufacturing Production



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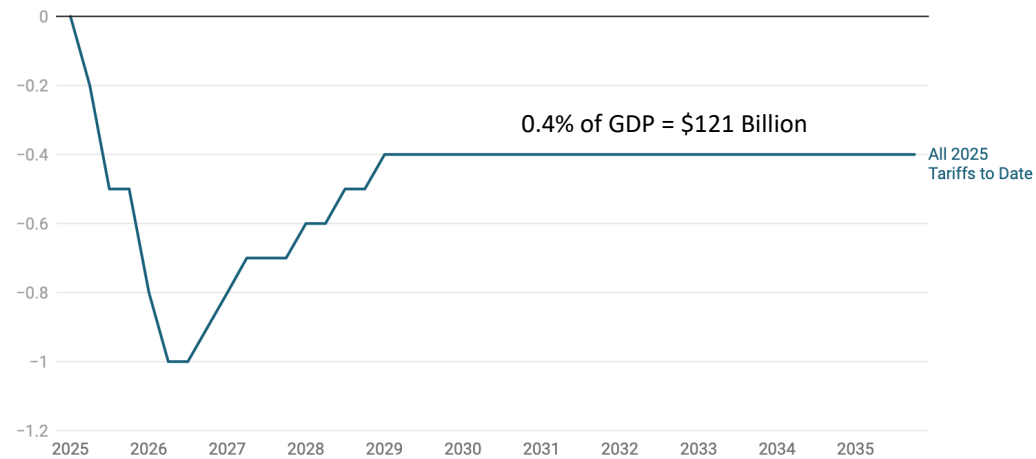
Projected Effects

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Effects on U.S. GDP from Tariffs as of 9/3

U.S. tariffs implemented as of September 3
Percentage point change against baseline



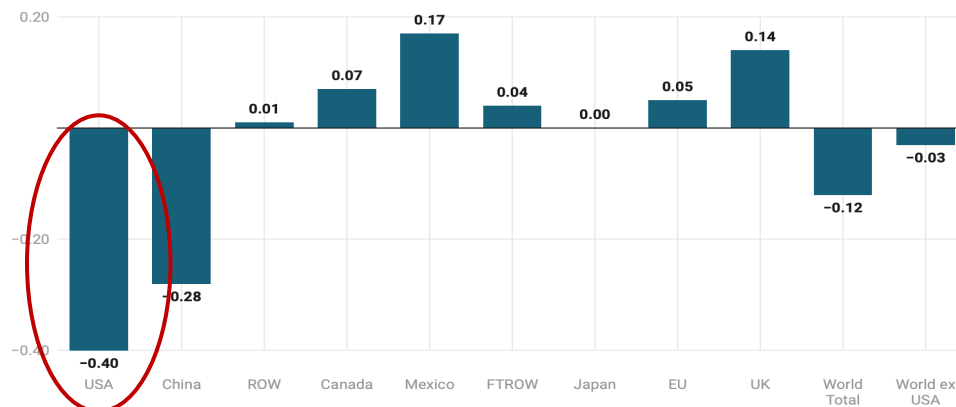
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Long Run Change in GDP from 9/3 Tariff Levels

U.S. tariffs implemented as of September 3
Percentage point change



FTROW = countries with a comprehensive free trade agreement with the US
ROW = all other countries

Chart: The Budget Lab • Source: GTAP v7 [Corong et al (2017)], The Budget Lab analysis. • [Get the data](#) • Created with [Datawrapper](#)

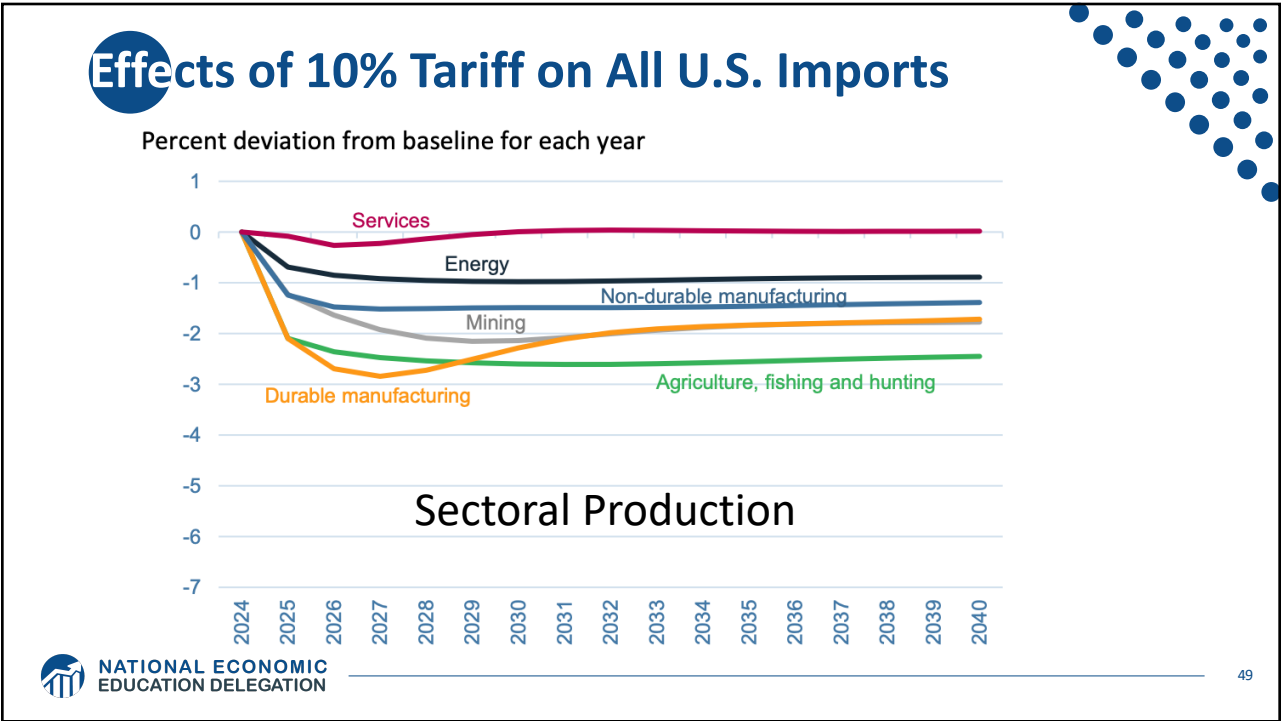


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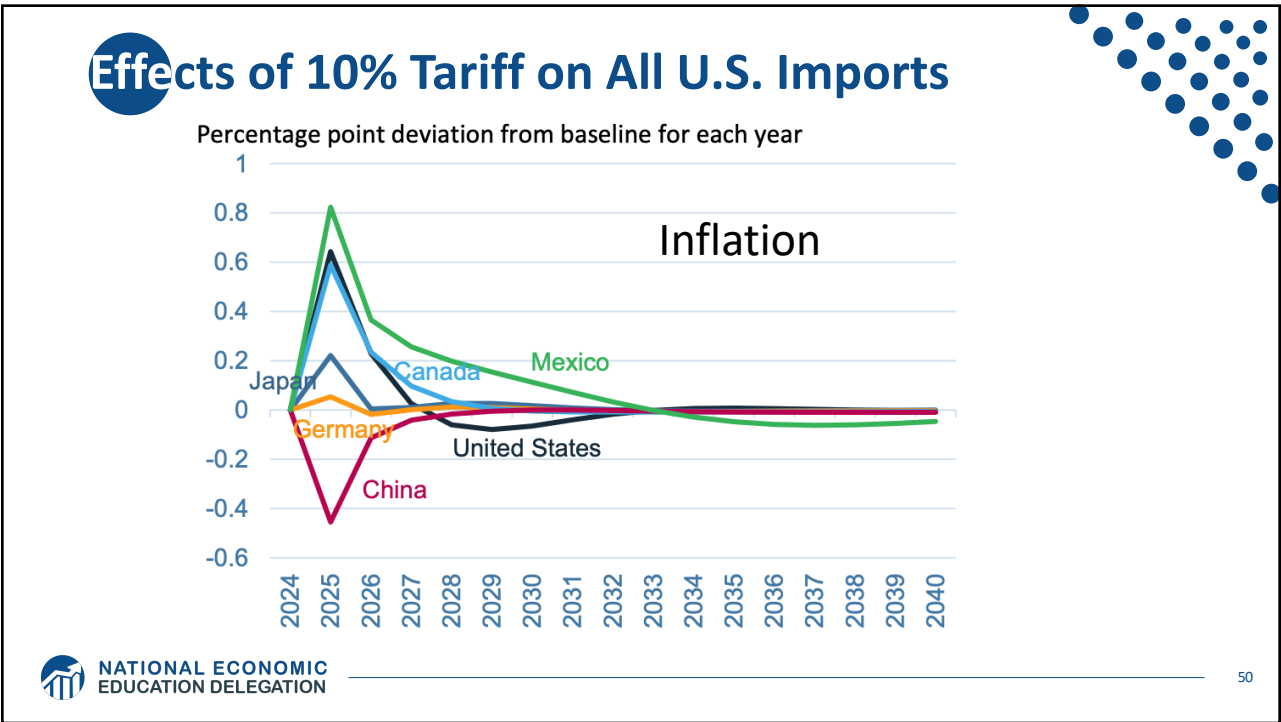
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Source: <https://budgetlab.yale.edu/research/state-us-tariffs-september-4-2025>

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What We Know About the Tariffs So Far

- **Prices are going up, but more slowly than expected.**
 - It seems that sellers are currently still absorbing much of the tariff.
 - It is expected that this can't last and, at some point, will show up in the inflation numbers, more strongly.
 - Foreign producers are NOT paying for the tariffs!
- **Tariffs are a regressive form of taxation and are hurting low-income households more than high-income households.**
- **U.S. soybean exports to China have been eliminated.**



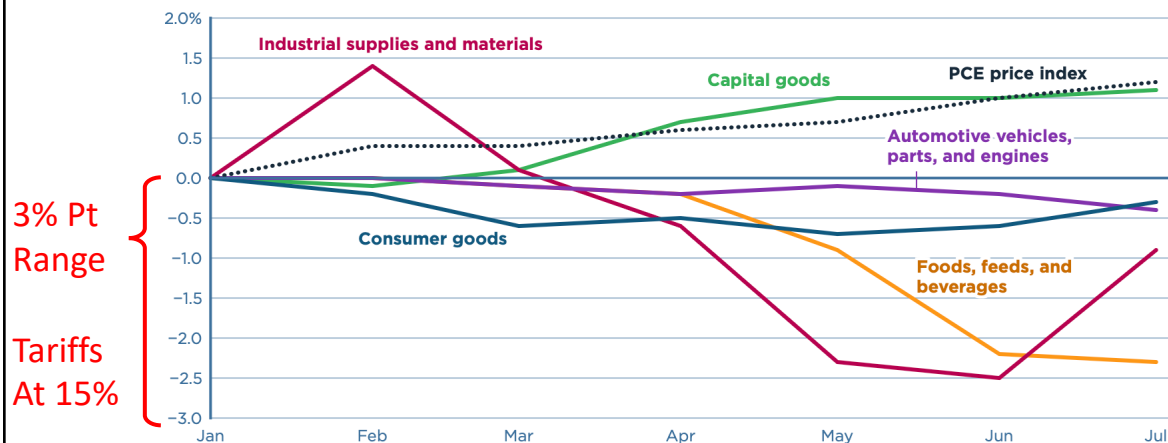
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Prices paid to foreign sellers for five categories of imported goods and US consumer prices overall have not changed much through July

Cumulative CIF import price changes for broad product categories and cumulative percentage change of personal consumption expenditures (PCE) price index, January 2025–July 2025



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Effects of Tariffs on Households, As of 9/3

Constant 2025\$ of Average Disposable Income per Household

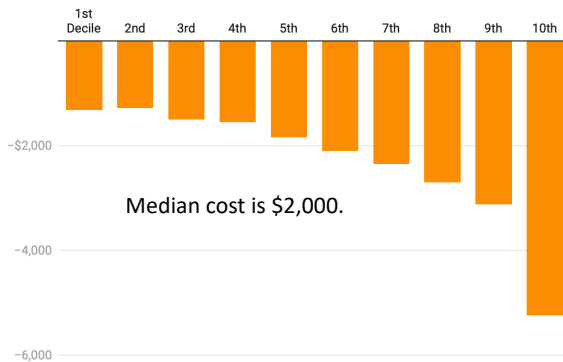


Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis. • Created with Datawrapper

Percentage points of disposable income by household income decile

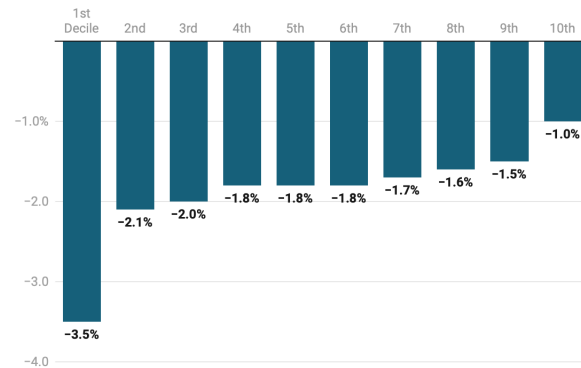


Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis. • Created with Datawrapper



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CHINESE SOYBEAN PURCHASES FROM U.S.

SOURCE: AMERICAN SOYBEAN ASSOCIATION

Q2 2024

**\$3.16
BILLION**

Q2 2025

\$0

DOW ▲ 24.04
45,858.26

NEWS
NATION

U.S. LOSES OUT ON BILLIONS IN SOYBEAN SALES



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Summary

• Tariffs will:

- Not eliminate the U.S. trade deficit (in the long run).
 - Increase in national savings could reduce the trade deficit.
- Decrease U.S. manufacturing production and employment.
- Increase prices for households, hurting the poor relatively the most.
- Increase U.S. government revenues, but not enough to offset other tax cuts.
- Negatively impact U.S. economic growth.



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Thank you!

Any Questions?

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