



U.S. Trade and Trade Wars

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NEED, Executive Director

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National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



Who Are We?

- **Honorary Board: 44 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 364 members**

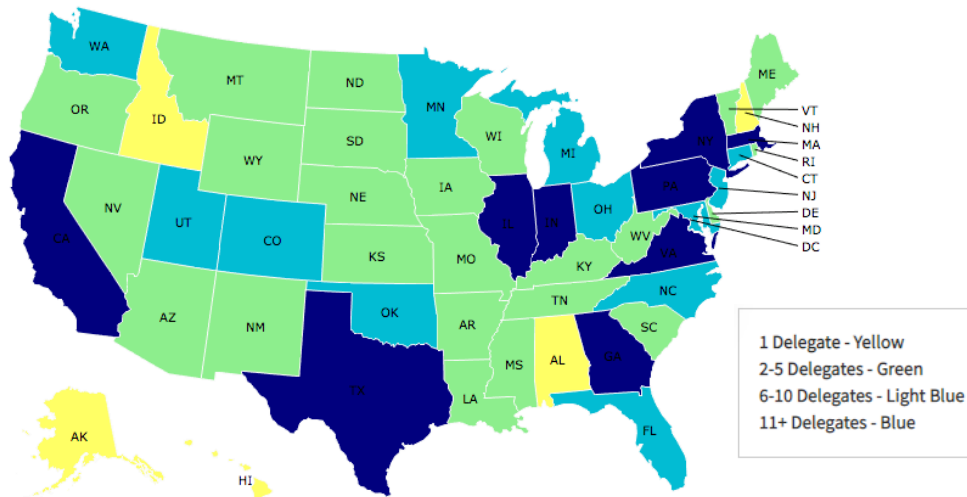
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 42 Ph.D. Economists**

- Aid in slide deck development



Where Are We?



Credits and Disclaimer

- **This slide deck was authored by:**
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 - Kadee Russ, University of California-Davis
- **This slide deck was reviewed by:**
 - Jon Haveman, NEED
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 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

Outline

- **U.S. Trade**
- **President Trump's 2018 Trade Actions**
 - Trade War
 - Solar Panels and Washing Machines
 - Steel and Aluminum
 - Cars (threat)
 - China
 - Mexico (threat)
 - Free Trade Agreements
 - Korea-US Trade Agreement Amended
 - NAFTA → USMCA

U.S. Trade

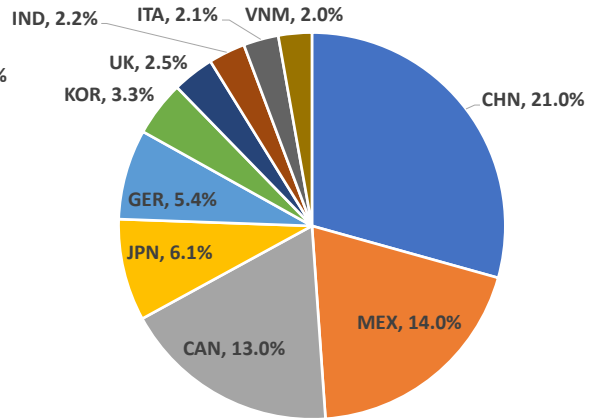
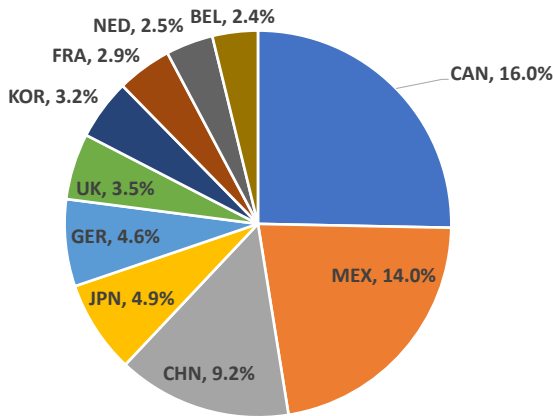


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Top US Trade Partners (Goods, 2016)

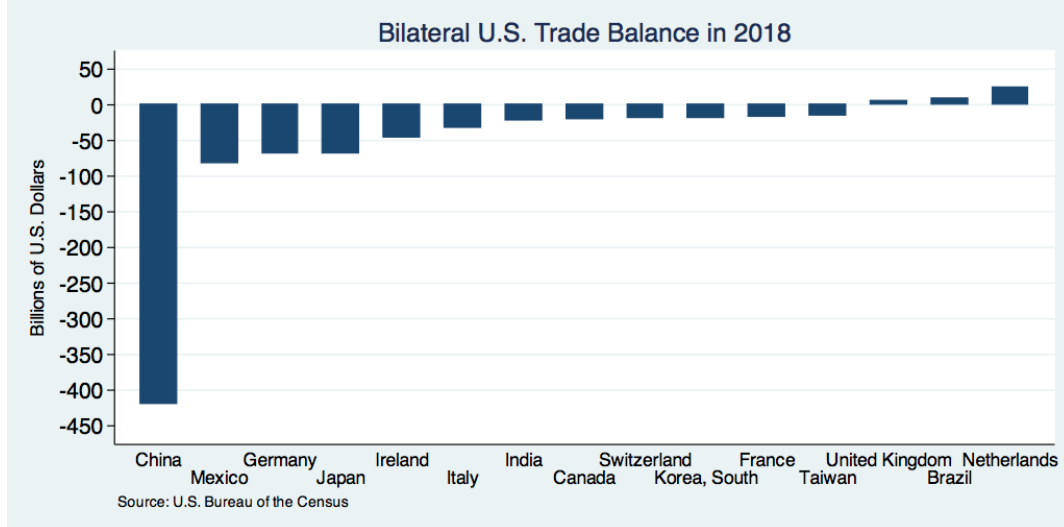
• Top 10 US export destinations

• Top 10 US import sources



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Bilateral trading relationships



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Recent applications of established barriers against import surges and imports of unfairly traded products

- **Trade Act of 1974**

- Section 201 (surges): solar cells, washing machines
- Section 301 (non-market activity): China forced technology transfer

- **Trade Expansion Act of 1962**

- Section 232 (national security): steel and aluminum

- **Trade Act of 1930**

- Anti-dumping and countervailing duties (cover about 80% of steel from China)



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“What will be the effect of tariffs on the U.S. economy, workers, and households?”

- Consumer impact
- Higher costs for US businesses that rely on imported inputs may put these firms and their workers at risk
- Risk of recession-- investment is a particularly import-intensive type of demand
- Retaliatory tariffs will put firms and jobs in U.S. export industries at risk
- “Won’t tariffs start an investment and output boom, since companies that serve the U.S. market will want to produce in the U.S.?”
- “Won’t tariffs bring back jobs?”
- “Won’t tariffs help raise wages for U.S. workers and reduce inequality?”

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Trump’s 2018 Trade Actions



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Trump's 2018 Trade Actions

- **Most were tariffs on imports**

- Taxes levied by US on imports from others
- Taxes levied by others (in retaliation) on US exports

- **Normal effects of tariffs**

- Raise prices for importers
- Lower prices for exporters
- Cause substitution
 - o To other products
 - o To other countries (if not on all)

Net economic effect
is always negative



Trump's 2018 Trade Actions

These slides will list only actions actually taken.

Most had plans and threats announced in the days and weeks beforehand.



Trump's 2018 Trade Actions

- **Jan 22, 2018: Safeguard tariffs**
 - 30% on solar panels
 - 50% on washing machines



Safeguards

- **WTO permits tariffs on imports that cause serious injury**
- **Trump used the following:**
 - 30% on solar panels
 - 50% on washing machines
(both declining over 3 or 4 years)
- **Both were on exports of all countries**
 - Reason: previous China-only tariffs had been evaded by moving production elsewhere



Tariffs on Solar Panels

• Why?

- Increased imports from China had driven US companies out
- Anti-dumping duties had failed to help, as companies moved production to other non-China and non-US locations

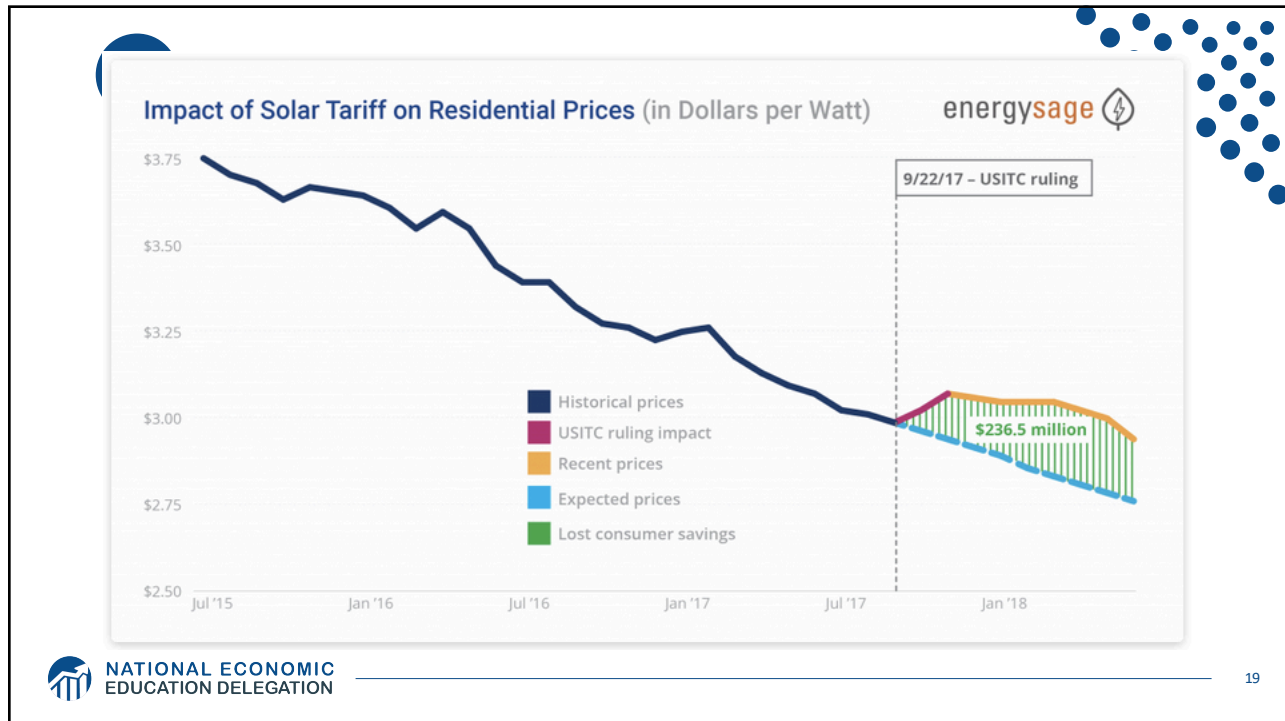


Tariffs on Solar Panels

• Who benefits?

- Who requested
 - Suniva, Chinese owned, manufactures in Georgia and in Saginaw, MI
 - SolarWorld, was German owned but now French,
- 14 US manufacturers, including
 - CBS Solar, Copemish, MI





Tariffs on Solar Panels

• Who is hurt?

- Consumers
- Solar panel installers, led by Solar Energy Industry Association
 - They estimate that the 30% tariff “would cause the loss of 23,000 in 2018, as well as the delay or cancellation of billions of dollars of investments in solar energy.”



Tariffs on Washing Machines



Tariffs on Washing Machines

•Why?

- From 2012 to 2016, imports increased dramatically from two Korean firms LG and Samsung
- Anti-dumping duties failed to stop this, as production moved to Thailand and Vietnam



Tariffs on Washing Machines

• Who benefits?

- Whirlpool, Benton Harbor, MI, which requested the tariffs
 - Whirlpool brands include Amana, Maytag, & more
- Other US manufacturers, such as GE, Electrolux and Frigidaire (Swedish), Equator, Speed Queen
- In 2017, Samsung and LG announced plans to build factories in South Carolina and Tennessee



Tariffs on Washing Machines

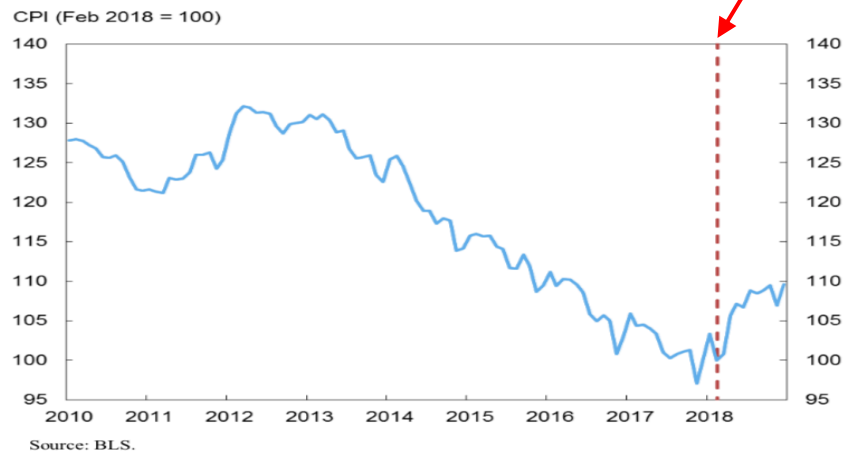
• Who is hurt?

- Consumers
 - Washers (and dryers!) both increased in price by about 12% (per Flaaen et al. 2019)
 - Note that the tariff was levied on washers only, not dryers]
 - "consumers bore between 125 percent and 225 percent of the costs" (NYT 4/21/19)
 - US appliance prices (I don't have graph for washing machines alone) rose 8.1% over the 12 months to Nov 2018



Tariffs on Washing Machines

Figure 2: Major Appliance CPI



Source: Amiti, Redding, and Weinstein, "The Impact of the 2018 Trade War on U.S. Prices and Welfare," CEPR Discussion Paper DP13564, March 1, 2019.



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Trump's 2018 Trade Actions

- Jan 22, 2018: Safeguard tariffs
- **Mar 1, 2018: Announces "national-security" tariffs on steel and aluminum**
 - 25% on steel, 10% on aluminum
 - Announced for all countries
 - Some delayed (EU, Canada Mexico)
 - Others later exempted (S. Korea)



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National Security

- **Trump used Section 232 of US trade law to levy tariffs on imports of metals, based on national security**
 - “Economic security is national security”
 - (Trump Dec 18, 2017)
 - 25% on steel, 10% on aluminum
 - Mar 23: Tariffs start with some exemptions
 - Mar 28: Korea exemption permanent in return for a quota cutting its exports to ~80% of 2017
 - Jun 1: Tariffs extended to EU, Canada, Mexico



Tariffs on Steel and Aluminum



Tariffs on Steel and Aluminum

• Responses to metals tariffs

- Retaliation by China, EU, Canada, & others
- WTO disputes

- May-Aug: Complaints filed AGAINST U.S.

- July: Complaints filed BY U.S.



Tariffs on Steel and Aluminum

• Who benefits?

- US producers of steel and aluminum
 - Steel: AISI lists 12 producers in Michigan
 - Aluminum: Thomas lists 76 suppliers in Michigan



Tariffs on Steel and Aluminum

•Who is hurt?

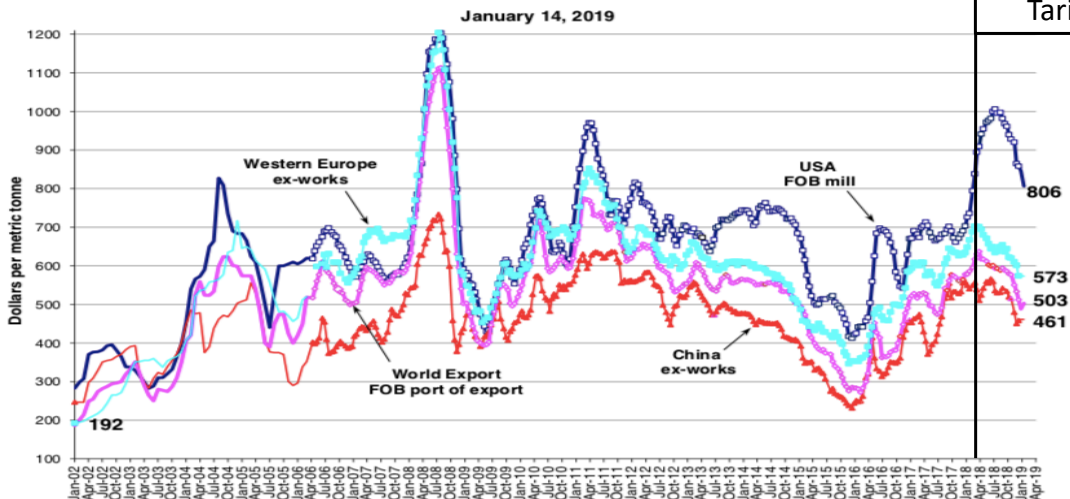
- US users of steel and aluminum pay higher prices
 - o Most obviously the car companies but many others

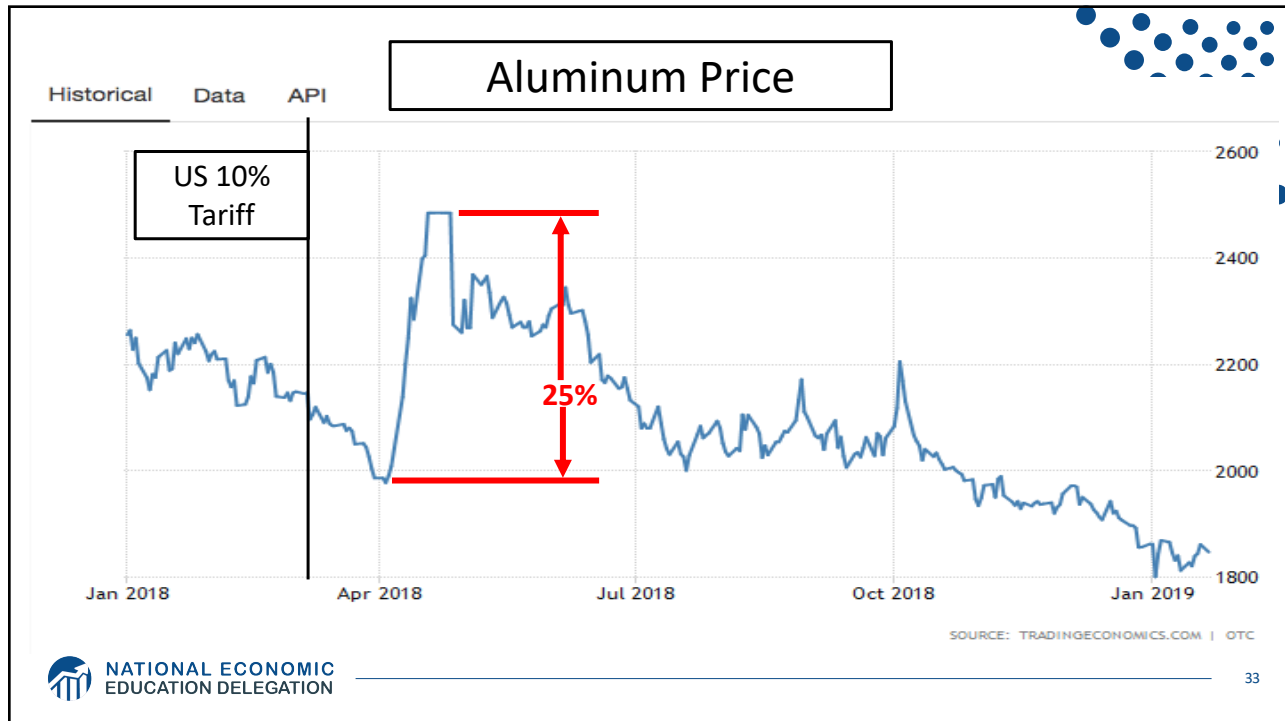
SteelBenchmarker™

Steel Prices

SteelBenchmarker™ HRB Price

USA, China, Western Europe and World Export
Track data, Jan. 2002 - March 2006; SteelBenchmarker data begins April 2006





Trump's Trade Actions

- Jan 22, 2018: Safeguard tariffs
- Mar 1, 2018: Announces tariffs on steel and aluminum
- **May 23, 2018: Initiates Commerce Dept investigation of car and car part imports**

National Security

• Cars

- Trump initiated another national security investigation: on imported cars
- Trump said he's considering a 25% tariff on cars and car parts
- This would be bigger than on metals:
 - Tariffs on \$48 billion of steel and aluminum imports
 - Tariffs on \$351 billion of car and car part imports (per NYT)



Tariff on Cars and Car Parts



Tariff on Cars and Car Parts

• Who would benefit?

- US car companies?
 - Most (e.g., GM) are opposed
 - I can't find objection from Ford, but others list Ford among those who object
- US auto workers?
 - UAW has spoken in favor of "target measures" with with understanding that broad tariffs or quotas "could cause harm" including "mass lay-offs for American workers."

Tariff on Cars and Car Parts

• Who would be hurt?

- Most car companies, including GM
- US car buyers

Tariff on Cars and Car Parts

Estimated Effects on Car Sales and Prices of 25% Tariff

Tariff on:	Sales impact (units)	Average Price Increases (\$/unit) on vehicles sold in US		
		All	US-assembled	Imported
All imports	-2.0 M	\$4,400	\$2,270	\$6,875
Canada & Mexico exempted	-1.2 M	2,450	1,135	3,980

Source: Center for Automotive Research



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Tariff on Cars and Car Parts

• Where we stand:

- Commerce Dept. sent report to Trump Feb 17
 - Not public, but said to include several options for tariffs
 - Trump has 90 days to decide
- FT Jan 22: “president was leaning towards slapping tariffs on automotive imports, in the hope of forcing Brussels to further open the EU market to American farm products.”



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Trump's Trade Actions

- Mar 1, 2018: Announces tariffs on steel and aluminum
- May 23, 2018: Initiates Commerce Dept investigation of car and car part imports
- **Jul 6, 2018: First tariffs on China, \$34 billion**
 - On \$34 billion of China exports to US
 - Based on unfair trade practices in intellectual property (IP)

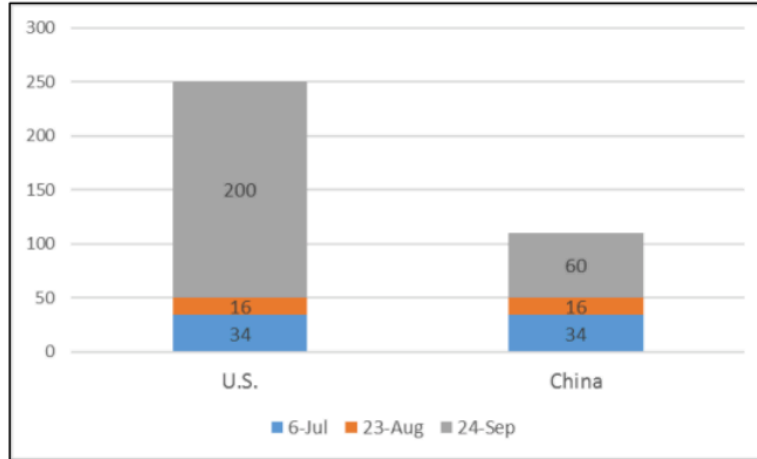


China



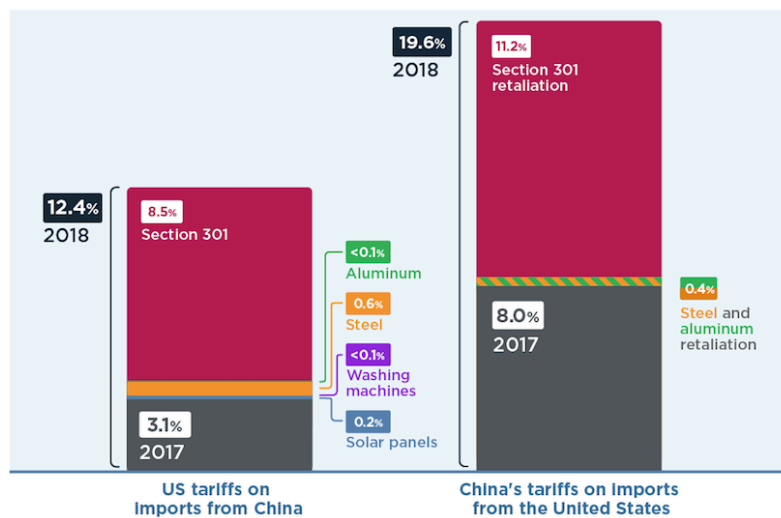
Three Rounds of Tariff Hikes in 2018

Total Products Affected (\$ in billions) and Effective Dates



Source: USTR and Chinese Ministry of Commerce.

Average U.S. and China Tariffs: Before and After



Trump's Trade Actions

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China

- **Concerns about China's IP practices pre-existed Trump**
 - Theft of technology secrets
 - Forcing investors in China into joint ventures and sharing technology
- **Prior to Trump, complaints had been voiced by US and EU, but nothing had been done**
- **US initiated investigation under Section 301 of US trade law (unfair trade practices)**
 - Aug 18, 2017: Investigation initiated
 - Mar 22, 2018: Report finds unfair trade and recommends tariffs
- **Since then, Trump has announced and then implemented multiple rounds of tariffs**

Trump's Trade Actions

- Mar 1, 2018: Announces tariffs on steel and aluminum
- May 23, 2018: Initiates Commerce Dept investigation of car and car part imports
- Jul 6, 2018: First tariffs on China , \$34 billion
- **Aug 23, 2018: Second tariffs on China, \$16 billion**
- **Sep 24, 2018: Third tariffs on China, \$200 billion**

China

- **This is a “Trade War”:** Tariffs and retaliation
 - US tariffs on \$34 billion Jul 6 were matched that day by China tariffs on \$34 billion of US exports
 - US tariffs on \$16 billion Aug 23 were matched that day by China tariffs on \$16 billion of US exports
 - US tariffs on \$200 billion Sep 24 were less-than-matched by China on \$60 billion of US exports
 - Trump said he'd use tariffs on still more (\$267 billion), approaching all of China's exports to US
 - Did not do that; delayed for China-US trade talks

China

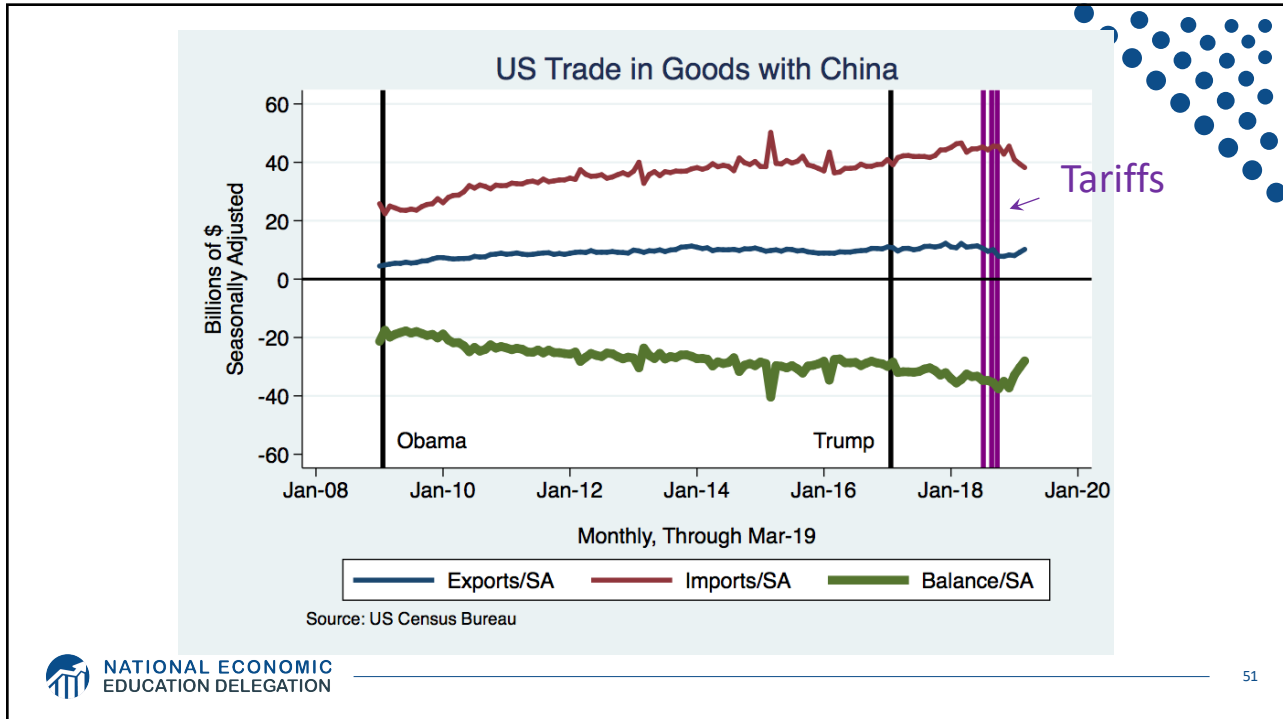
• What's the point?

- To get China to stop its IP practices?
- To reduce the US bilateral trade deficit with China?
- To stop China's rise as an economy and as a world power?

• Who will "win"?

- Nobody! Everybody loses from tariffs
- Trump says it's "easy to win" because he measures success from trade deficit





Trade War

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Trade War

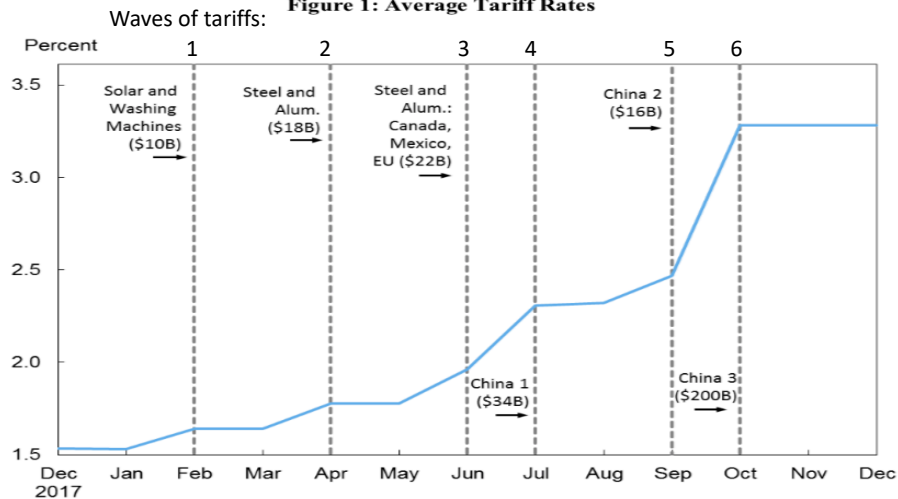
• Effects of the 2018 Trade War

- US average tariffs rose, in 6 waves
- Prices of imports in US rose
- Quantity of imports fell
- Number of imported varieties fell

Source: Amiti, Redding, and Weinstein, "The Impact of the 2018 Trade War on U.S. Prices and Welfare," CEPR Discussion Paper DP13564, March 1, 2019.

Trade War

Figure 1: Average Tariff Rates

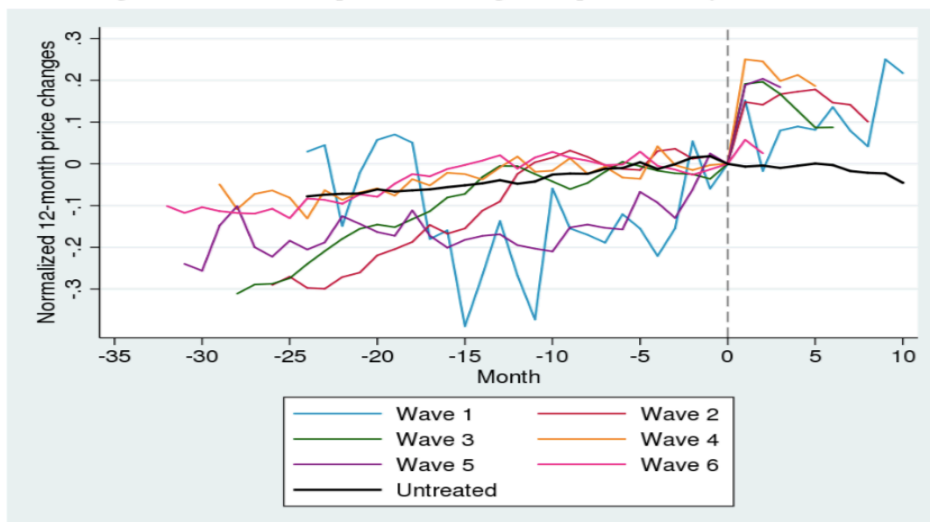


Source: US Census Bureau; USTR; USITC; authors' calculations.

Source: Amiti, et al. 2019.

Trade War

Figure 3: 12-month Proportional Change in Import Prices by Tariff Wave



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Source: Amiti, et al. 2019.

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Trade War

• Effects of the 2018 Trade War

- Effects varied across US
 - US tariffs hit Michigan, hard
 - Foreign tariffs did not hit Michigan hard
 - Real wages fell most in states other than Michigan

Source: Fajgelbaum, Goldberg, Kennedy, and Khandelwal,
"The Return to Protectionism," March 3, 2019.



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Trade Talks

Trade Talks

• China-US Trade Talks, I

- Talks began in May 2018, in response to Trump's threat of tariffs
 - China promised to import more from US and allow more foreign investment
 - Said to have "averted trade war"
 - But then talks broke off in early June
- Trade war with China Jul, Aug, Sep 2018

Trade Talks

• China-US Trade Talks II

- Oct 2018: US and China postured about renewing trade talks
- Nov 1, 2018: New round of talks began with phone call from Trump to Xi
- Dec 2, 2018: G20 Summit dinner agrees truce: No more tariffs while talks continue
- Talks are still underway, but said to be approaching a deal



Trade Talks

• China-US Trade Talks II: Calendar

- Nov 9: He & Mnuchin talk by phone
- Jan 7-9: Talks in Beijing
- Jan 30-31: Talks in DC
- Feb 11-15: Talks in Beijing
- Feb 21-24: Talks in DC
- Mar 28-29: Talks in Beijing
- Apr 3-5: Talks in DC
- Apr 23-?: Talks in Beijing
- May 8-?: Talks in DC

Source:



Trade Talks

• China-US Trade Talks II: Headlines

- Nov 29, WSJ: U.S., China Exploring Deal to Ease Trade Tensions
- Dec 4, WSJ: Trump Names Lighthizer to Run U.S.-China Negotiations
- Dec 30, FT: China and US hail 'positive progress' on trade talks
- Jan 7, WP: Trade talks open in Beijing amid optimism about an end to U.S.-China dispute
- Jan 9, FT: China and US strike upbeat tone after talks but offer few details
- Jan 22, FT: US turns down China offer of preparatory trade talks
- Jan 24, FT: US commerce secretary Ross says US 'miles' from a trade deal with China
- Jan 29, WSJ: Big Divides Remain as U.S.-China Trade Talks Resume
- Jan 31, FT: Donald Trump says US-China trade talks 'going well'
- Feb 6, WSJ: Agriculture Execs Say U.S.-China Trade Deal Nearing
- Feb 13, WSJ: China, U.S. Seek Broad Outline of a Trade Pact This Week
- Feb 15, FT: US-China trade talks end with little sign of progress
- Feb 16, WSJ: Chinese, U.S. Trade Negotiators Inch Toward a Broad Agreement
- Feb 21, FT: A potential new snag in the US-China trade talks
- Feb 23, WSJ: China Trade Talks Extended as Trump Pushes to Close the Deal
- Feb 28, WSJ: U.S. Drops Threat of 25% Tariffs on Chinese Goods in Sign That Accord Is Near
- Mar 4, WSJ: U.S., China Close In on Trade Deal
- Mar 8, FT: Trump prepared to walk away from 'bad' China trade deal
- Mar 8, NYT: Chinese Officials Becoming Wary of a Quick Trade Deal
- Mar 18, NYT: Trade Fight With China Enters Overtime, With Tariffs a Costly Sticking Point
- Mar 28, FT: US-China trade talks could stretch for 'months' — Kudlow
- Apr 3, FT: US and China draw closer to final trade agreement
- Apr 4, FT: US and China push back timing of possible trade deal
- Apr 14, NYT: Mnuchin Says China Trade Talks Are Nearing Final Round
- Apr 26, NYT: Trump Says Xi Jinping of China Will Visit Soon, Stirring Anticipation of a Completed Trade Deal



Trade Talks

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China-US Trade Talks II: Headlines

Trade talks open

Exploring deal

'Miles' from a trade deal

Trade deal nearing

Little sign of progress

Accord is near

Closer to final trade agreement

Talks could stretch for 'months'

Anticipation of a completed trade deal

- Nov 29, WSJ: U.S., China Exploring Trade Deal
- Dec 4, WSJ: Trump Names Lighthizer as Trade Representative
- Dec 30, FT: China and US hail 'positive' start to trade talks
- Jan 7, WP: Trade talks open in Beijing as U.S.-China dispute deepens
- Jan 9, FT: China and US still seem to be far from a trade deal
- Jan 22, FT: US and China start preparatory trade talks
- Jan 24, FT: US says US 'miles' from a trade deal with China
- Jan 29, WSJ: Big Divides Remain as US-China Trade Talks Resume
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Trade Talks

- **China-US Trade: Issues of Negotiation**
 - Government subsidies to state-owned companies
 - Chinese purchases of U.S. farm and energy products and services
 - China's market-opening efforts in sectors such as financial services and manufacturing
 - Improving its protection of U.S. intellectual-property rights
 - Pressure on U.S. companies to share technology
 - Industrial policies that favor state-controlled companies
 - Currency stability
 - Regulatory relief for foreign companies in China
 - How to enforce any agreements on the above
 - o Reimpose tariffs, or
 - o Leave them in place

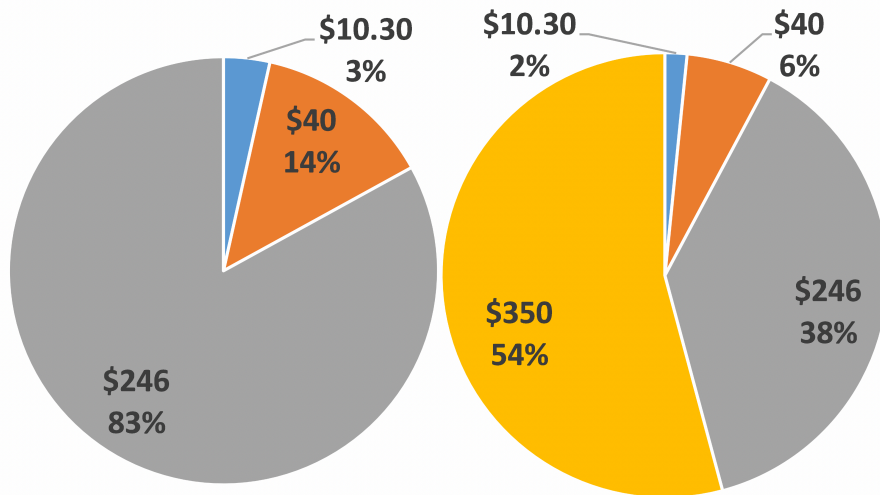
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Trade Talks

• What Might a China-US Trade Deal Include?

- US wants (per FT, 3/25/19):
 - Huge Chinese purchases of US exports, to reduce US trade deficit
 - Liberalization of market access for US goods and services
 - Reform of Chinese industrial policy, especially “forced transfers” of IP
 - US permitted to use punitive tariffs if these are violated, without China retaliating or complaining to WTO
- China wants:
 - Removal of US tariffs

Overview of Trump’s Tariffs



■ Safeguards ■ National Security (Steel/Alum) ■ China IP ■ National Security (Cars)

Trade Talks

• Latest News

- On Sunday May 4, Trump tweeted that he would
 - Raise tariffs on Friday from 10% to 25% on the \$200 billion from last year
 - Impose 25% tariffs on the rest of China exports if China does not accept his demands
 - Reason: China backtracking on promise to reduce subsidies
- China's negotiators are coming to DC anyway



Trump's Trade Actions

- Jul 6, 2018: First tariffs on China , \$34 billion
- Aug 23, 2018: Second tariffs on China, \$16 billion
- Sep 24, 2018: Third tariffs on China, \$200 billion
- **Sep 24, 2018: Amended KORUS signed**
 - Raises Korea quota for US-certified cars
 - Extends years of US 25% tariff on light trucks





Conclusion

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Conclusion

- **Trump's trade actions in 2018**
 - Raise prices to consumers
 - Raise costs to producers
 - Alienate other countries

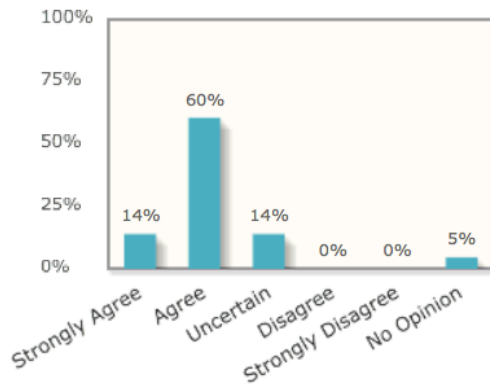
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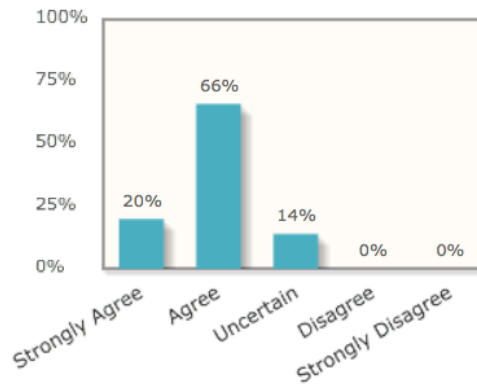
Agreement on Incidence

Question A: The incidence of the latest round of US import tariffs is likely to fall primarily on American households.

Responses



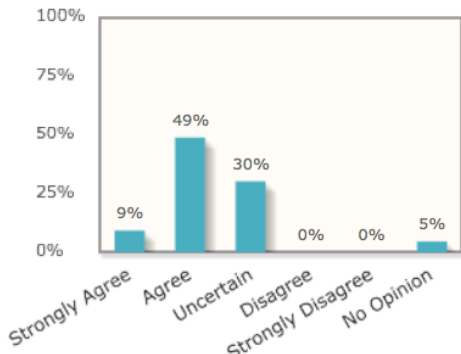
Responses weighted by each expert's confidence



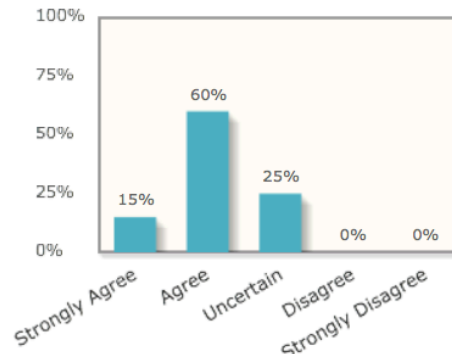
Likely to Impact Low Income Groups Heavily

Question B: The impact of the tariffs – and any Chinese countermeasures – on US prices and employment is likely to be felt most heavily by lower income groups and regions.

Responses



Responses weighted by each expert's confidence



Conclusion

• May they serve any purpose?

- Not to reduce trade deficit(s)
 - Tariffs may reduce both exports and imports
 - They do not change overall trade balance
 - Mar 6, 2019, NYT:
 - “The United States trade deficit in goods ballooned to its largest level in history, reaching \$891.3 billion in 2018, despite President Trump’s repeated promise to reduce that figure.”



Conclusion

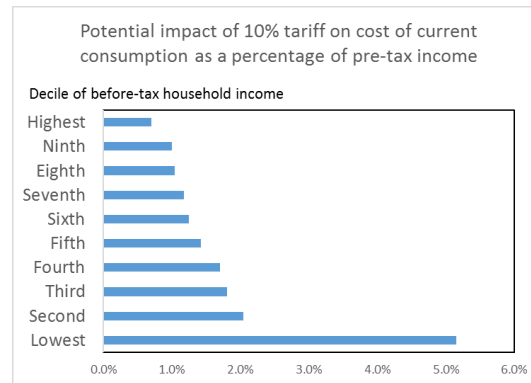
• May they serve any purpose?

- Perhaps to motivate other countries to change policies for the better
 - US is negotiating with
 - China, to change their IP policies and increase imports from US
 - EU and Japan to open to more imports of agricultural goods from US



Risks from all-out trade war

- Moody's Mark Zandi estimated an all-out trade war would cost 4 million U.S. jobs.
- Observed import share in U.S. consumption deceptively low due to unobserved competitive effects of rival suppliers.
- Across-the-board increase in tariffs may fall heavily on the poor and families with children (Furman, Russ, and Shambaugh; USITC).



Source: Furman, Russ, and Shambaugh



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Thank you!

Any Questions?

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