



Osher Lifelong Learning Institute, Spring 2025

Contemporary Economic Policy

University of Massachusetts Boston

Host: Geoffrey Woglom, Ph.D.
Director, National Economic Education Delegation



Course Outline

- **Contemporary Economic Policy**

- Week 1 (3/18): Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (3/25): Climate Change (Sarah Jacobson Williams College)
- Week 3 (4/1): Autonomous Vehicles (Arkadiusz Mironko, Indiana University)
- Week 4 (4/8): Federal Debt and Deficits (Brian Peterson, LaGrange Colleg)
- **Week 5 (4/15): Tariffs and Their Effects (Alan Deardorff, UMichigan)**

Submitting Questions

- **Submit questions in the chat or by raising your digital hand.**
 - I will try to handle them as they come up.
 - **Handle Questions As you see fit.**
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website tomorrow (https://needelegation.org/delivered_presentations.php).**
I suggest posting this URL in the Chat.

Tariffs and Their Effects

Alan V. Deardorff
University of Michigan

Presentation to University of Massachusetts, Boston
April 15, 2025

What Is a Tariff?

- **A tariff is a tax on imports.**
- **Much like, say, the 6% sales tax in Michigan,**
 - Whatever price the seller charges, the buyer pays an extra 6% that goes to the government.
- **A 10% tariff on all imports (such as Trump has proposed) would mean that**
 - Whatever the foreign exporter charges for a product,
 - US buyers will pay an extra 10% to the US government.
- **Might the seller charge a lower price because of the tariff?**
 - Perhaps, but when Trump used tariffs in 2018 on steel and China, they did not.



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Outline

- **US Tariff History**
- **Trump I Tariffs**
- **Trump II Tariffs**
- **Tariff Effects in General**
- **Effects of Trump II Tariffs**

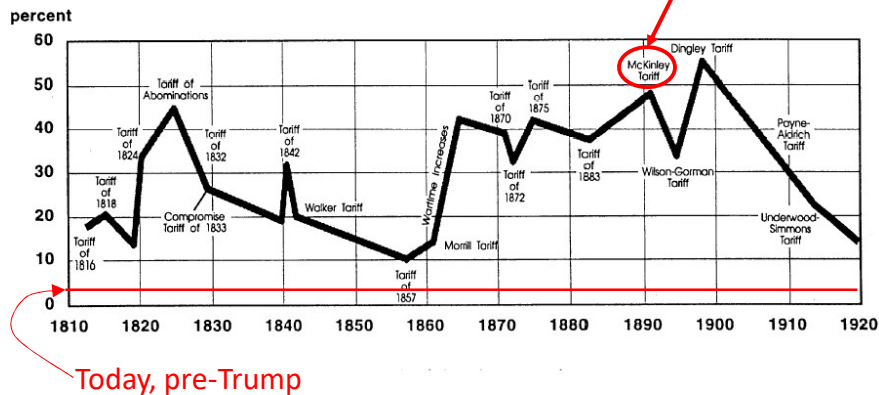


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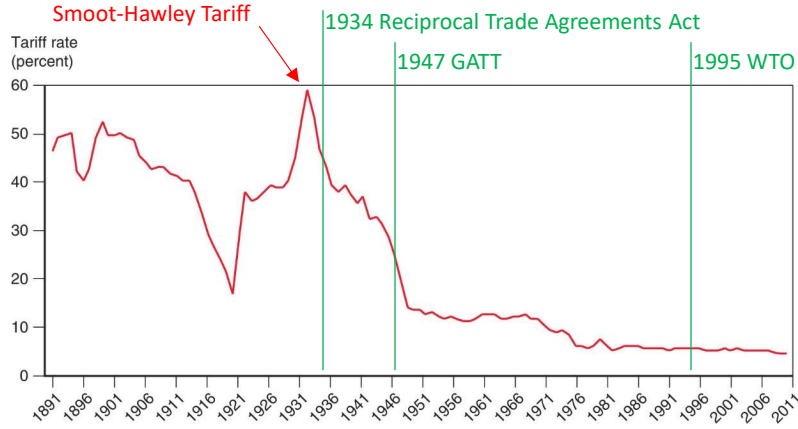
US Tariff History



US Tariff History, 1810-1920

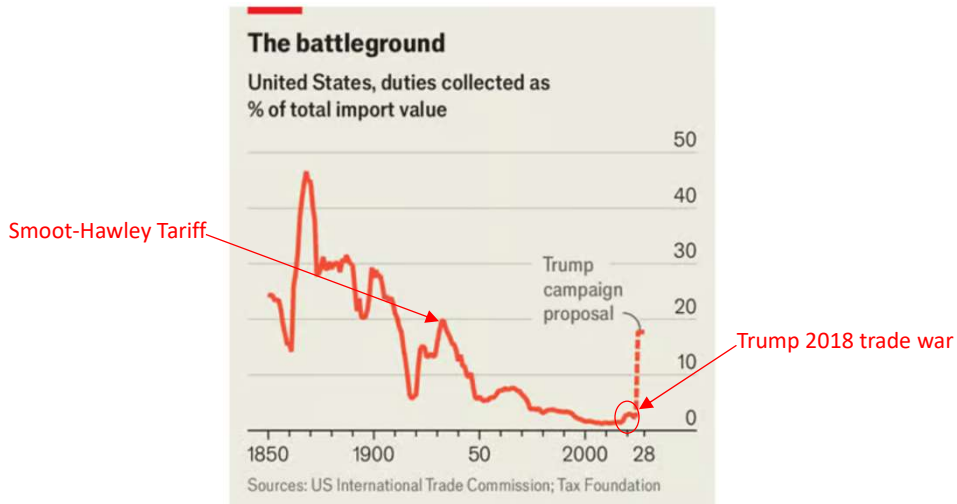


US Tariff History, 1891-2011



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US Tariff History, 1850-2028?



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Trump I Tariffs and the Trade War



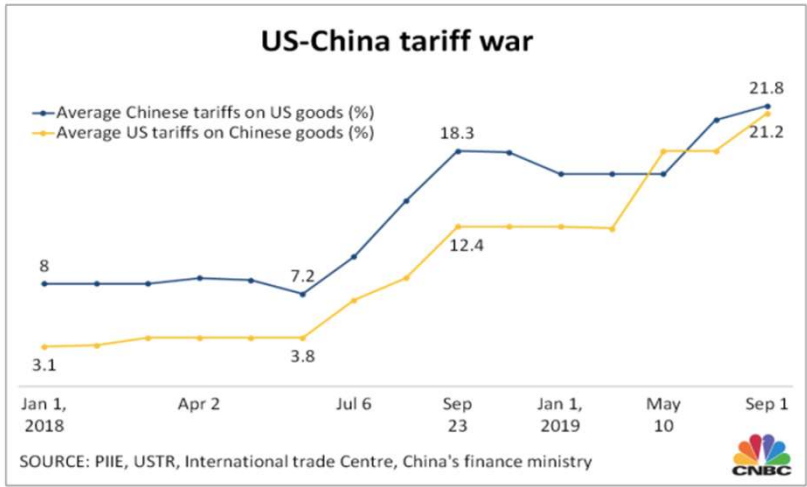
Trump I Tariffs & Trade War

• Summary

- Trump placed tariffs of 25% on steel and 10% on aluminum
- Trump placed multiple tariffs on China exports, covering at least $\frac{3}{4}$ 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



US-China Tariff War – Tariff Rates



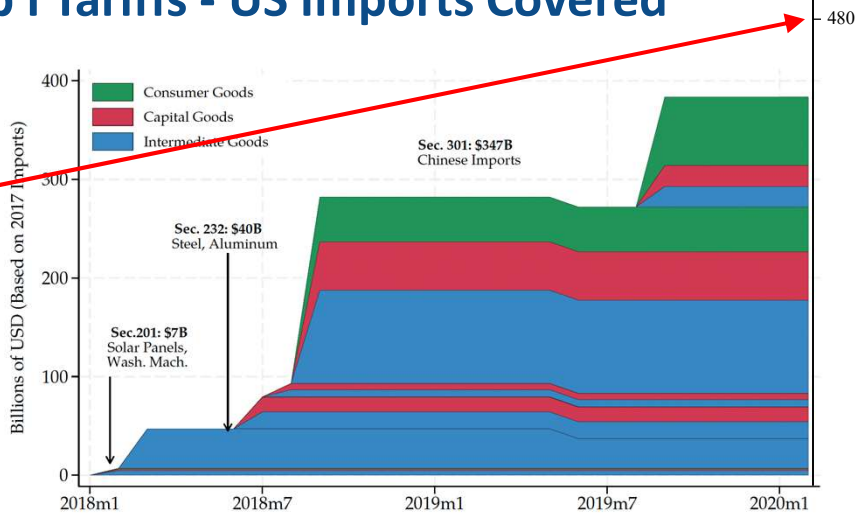
Source: CNBC.com

The first trade salvo was fired by the U.S. in early 2018, but the bilateral trade war between the U.S. and China really kicked into a higher gear in July 2018.



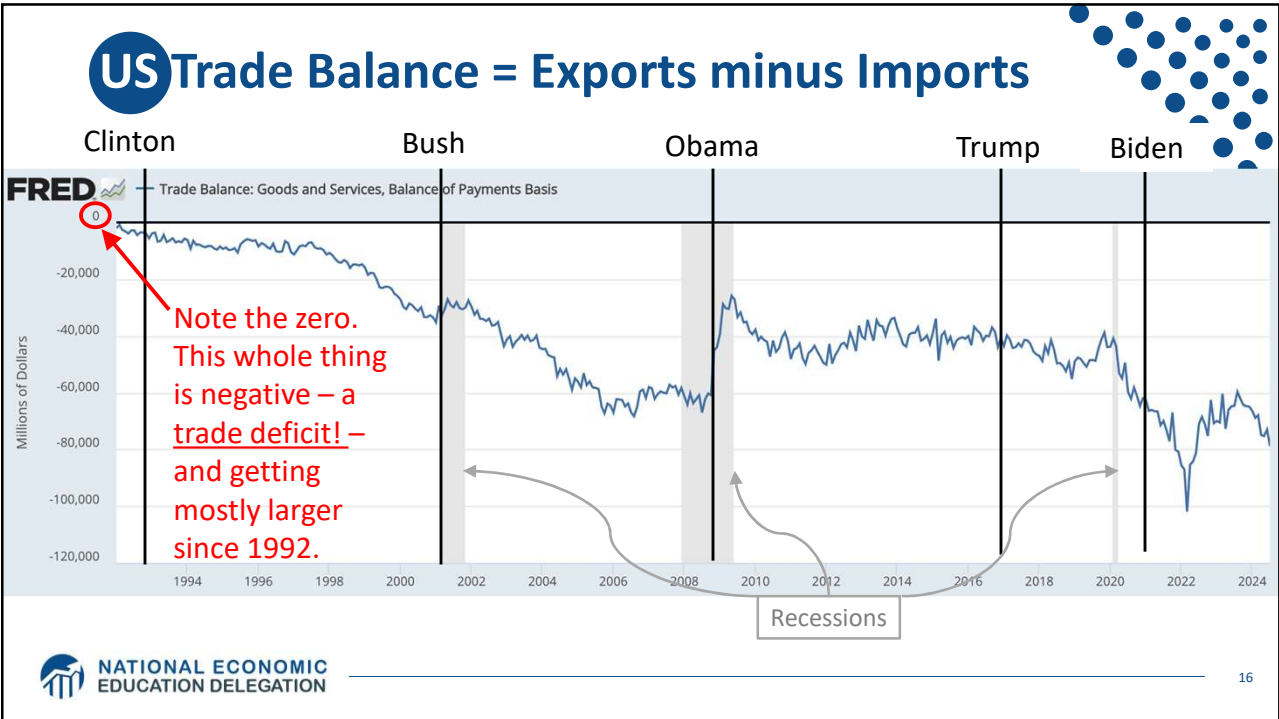
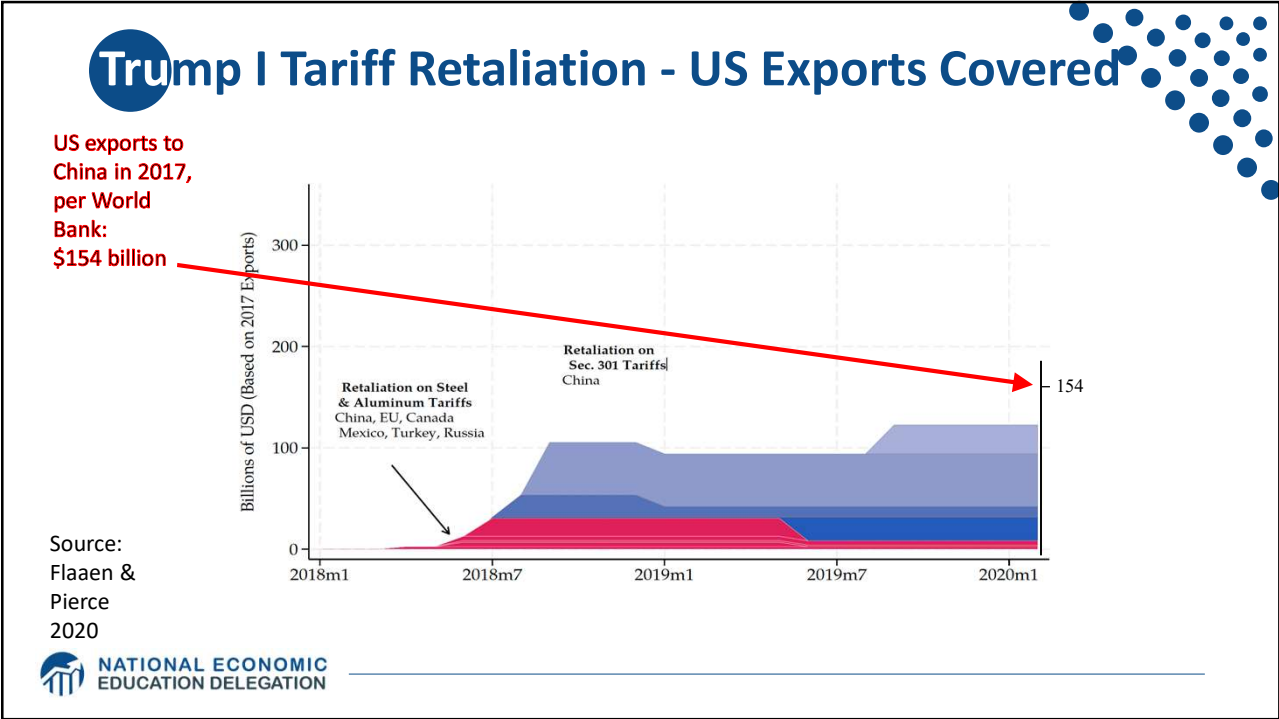
Trump I Tariffs - US Imports Covered

US imports from China in 2017, per World Bank: \$480 billion



Source: Flaaen & Pierce 2020

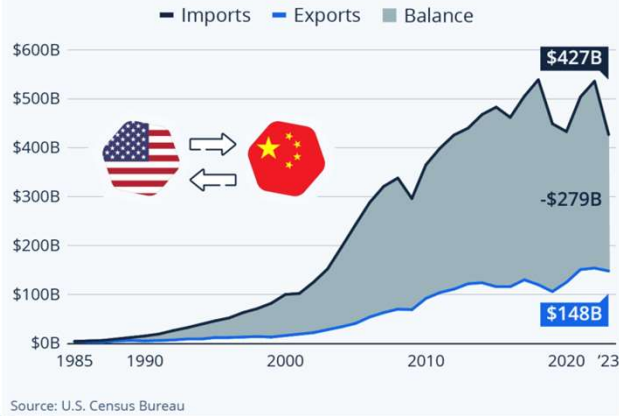




US Trade with China

U.S. Trade Deficit With China Narrows to Lowest Since 2010

U.S. trade in goods with China since 1985



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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)

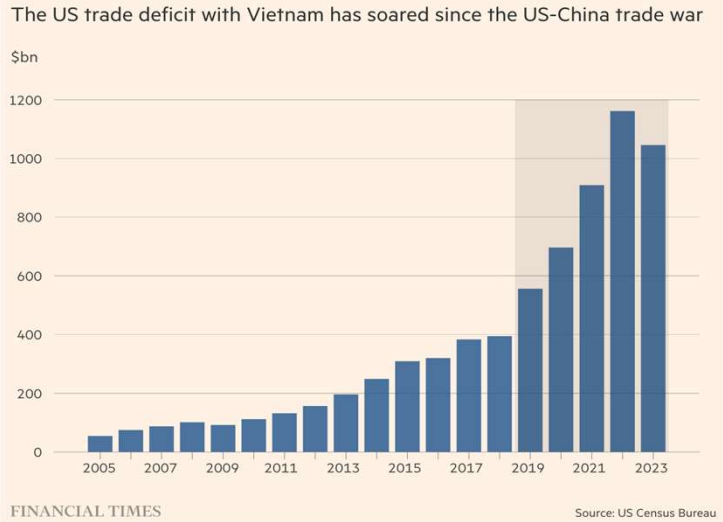


Source: FT 1/4/25

Deficit

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US Trade Balance with Vietnam



Trump Tariff Exemptions

- September 18, 2018:

The Washington Post

Trump's tariffs won't bite Apple, illustrating Tim Cook's political sway

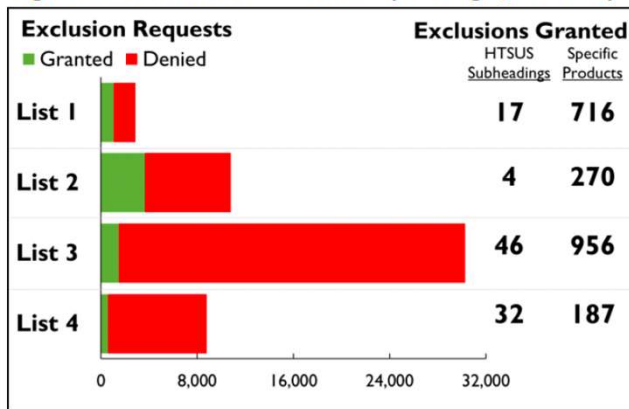
- "Clearly Tim Cook has been effective in his developing a relationship with the current administration, and this is probably one of the best examples of the fruits of that labor."

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”

Trump Tariff Exemptions

Figure I. Section 301 Exclusions (Through Jan. 2020)



Source: CRS with information from the Office of the USTR.

Trump Tariff Exemptions

- **Requests for exemption**
 - Metals tariffs: “Commerce Department received nearly 500,000 exclusion requests”
 - China tariffs: USTR “fielded more than 50,000 requests”
- **“He has also suggested targeting particular companies or industries.”**
- **Lobbying Congress on trade issues increased once Mr. Trump took office**
- **Biden maintained Trump’s tariffs, but it**
 - gradually wound down the exclusions for China tariffs
 - continued to grant them for tariffs on steel and aluminum.



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.”



Trump Tariff Exemptions

- **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.



Trump II Tariffs



Trump II Tariff Plans

- **“To me the most beautiful word in the dictionary is ‘tariff’”**
- **During campaign he said he will**
 - Place a tariff of 10% or 20% on all imports from all countries.
 - Place even higher tariffs (60%) on imports from China.
 - Raise our tariffs on countries to match what they charge on our exports.
 - “Reciprocal Trade Act”
 - (And lower those where they charge less?)
 - Raise tariffs on countries that don’t use the US dollar for international transactions.
 - Place tariffs on Mexico, violating his own USMCA trade agreement
 - 25% on everything if they don’t stop US immigration
 - 100% on cars to get production in US



Trump II Tariff Plans

- **After the election he threatened:**
 - Nov 26: New tariffs unless they stop people and drugs crossing border
 - 25% on Mexico and Canada
 - Extra 10% on China
 - Nov 30: 100% Tariffs on Brics if they undermine the US dollar
 - Brics = Brazil, Russia, India, China and South Africa
 - Expanded to include Iran, United Arab Emirates, Egypt and Ethiopia
 - A proposal for a Brics currency was introduced at last year’s summit in South Africa.
 - Jan 7: Tariffs on Denmark if it doesn’t allow US to buy Greenland



Trump II Tariff Plans

• What will Trump actually do?

- Beattie in FT 11/18/24: “trade policy in his first administration emerged from fierce internal battles like a **victorious but bloodied rat crawling out of a sack of rodent corpses**, with Trump’s caprice determining which idea survived.”
- He will surely do some of the things on this list
- But not on everybody. He’ll use threats to negotiate “deals”
 - o For the benefit of the country (?)
 - o For the benefit of himself (!)

Trump II Tariff Plans

• What will Trump be able do?

- The US Constitution gives power over tariffs only to Congress, not the President
- But Congress has passed laws delegating that power to the President in certain circumstances:
 - o Section 201 of 1974 Trade Act: Safeguards, used for washing machines
 - o Section 232 of 1962 Trade Act: National security, used for steel
 - o Section 301 of 1974 Trade Act: Unfair trade, used for China tariffs
 - o International Emergency Economic Powers Act of 1977,
 - Did not use in his first term
 - But threatened against Mexico in 2018 over migration
 - Did use on Feb 1 for tariffs on Canada, Mexico, and China
- For his tariffs on all imports, he may need to get Congress to act, but Beattie in FT disagrees
- Reciprocal Trade Act would have to be by Congress
 - o But on April 2, he announced “reciprocal tariffs” without that.

Trump II Tariff Plans

- **Use of International Emergency Economic Powers Act**

- Posted by White House Feb 1, 2025:

ADDRESSING AN EMERGENCY SITUATION: The extraordinary threat posed by illegal aliens and drugs, including deadly fentanyl, constitutes a national emergency under the International Emergency Economic Powers Act (IEEPA).

Trump II Tariff Actions

- **After inauguration, as President he:**

- Jan 23: Threatened tariffs on Colombia if it doesn't allow his deportation flights to land
 - o They first threatened retaliatory tariffs, but then permitted flights to land and Trump retracted the threat

Trump II Tariff Actions

- **After inauguration, as President he:**

- 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 "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 on US

Trump II Tariff Actions

- **After inauguration, as President he:**

- 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 7: Paused the repeal as packages piled up at customs
 - Apr 2: Said he was going ahead with repeal

Trump II Tariff Actions

- **After inauguration, as President he:**

- Feb 9: Trump announced new 25% tariffs on steel and aluminum from all countries, to take effect on March 12. [NYT]
 - o Like last time who will actually be covered remains to be seen.

Trump II Tariff Actions

- **After inauguration, as President he:**

- Feb 24: Directed Commerce Department to investigate need for tariffs on copper, as threat to national security

Trump II Tariff Actions

- **After inauguration, as President he:**

- Feb 28: “Ordered a probe into dumping in the US lumber market” similar to his order for copper.
 - o Biggest exporter to US is Canada
 - o Current tariff on lumber is 14.5% (but presumably not from Canada, due to USMCA)

Trump II Tariff Actions

- **After inauguration, as President he:**

- Mar 4: 25% tariffs on everything from Canada and Mexico, plus additional 10% tariff on China, went into effect.
- Mar 5: After request from execs from Big Three US automaker, he announced that the tariffs on Autos (& auto parts?) would be delayed 1 month.
- Mar 6: Expansion of 1-month reprieve to all goods “compliant with USMCA.”
 - o That’s much less than I’d have thought, because USMCA did not apply to goods on which the US already levied zero tariffs. Since they didn’t need to comply with USMCA rules, they now face 25% tariff.
 - o Canada dropped plan for tariffs on \$87 b, but kept in tariffs on \$21 b.
- Ontario plans 25% export tax on Electricity sold to NY, MI, & MN starting Monday, Mar 10
 - o As of Mar 25, Ontario had backed down

Trump II Tariff Actions

- **After inauguration, as President he:**

- Mar 10: Trump announces additional 25% tariff on steel and aluminum from Canada, taking them to 50%.
- Mar 11: Trump backs down on extra 25%, but first 25% take effect.



Trump II Tariff Actions

- **After inauguration, as President he:**

- Mar 24: Trump proposes “million-dollar levies on China-linked ships upon entering a US port.”



Trump II Tariff Actions


- **After inauguration, as President he:**

- Mar 26: “President Donald Trump on Wednesday announced plans to impose a 25 percent tariff on imported automobiles and auto parts, gambling that consumers will accept higher prices on cars today in return for the promise of regaining lost manufacturing jobs in the future.”
 - To go into effect April 2
 - Trump told US automakers not to raise prices (ignoring the fact that the tariff on imported parts will raise their costs).

Trump II Tariff Actions

- **After inauguration, as President he:**

- April 2, 2025: Announced on “Liberation Day”:
 - 10% tariff on all countries as of April 3
 - Much higher “Reciprocal” tariffs on many countries as of April 9
 - Not based on their tariffs, but on their trade surpluses with US
- April 9, 2025, hours after the latter went into effect
 - Postponed the reciprocal tariffs for 90 days, except for China




Reciprocal Tariffs


Country	Tariffs Charged In the U.S.A. Including Country Discrimination and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

Reciprocal Tariffs


Country	Tariffs Charged In the U.S.A. Including Country Discrimination and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	37%
Egypt	10%	10%
Saudi Arabia	10%	10%
El Salvador	10%	10%
Côte d'Ivoire	41%	21%
Laos	95%	48%
Botswana	74%	37%
Trinidad and Tobago	12%	10%
Morocco	10%	10%



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- **After inauguration, as President he:**
 - April 11, 2025: On China he has raised tariffs several times, to their current 145%



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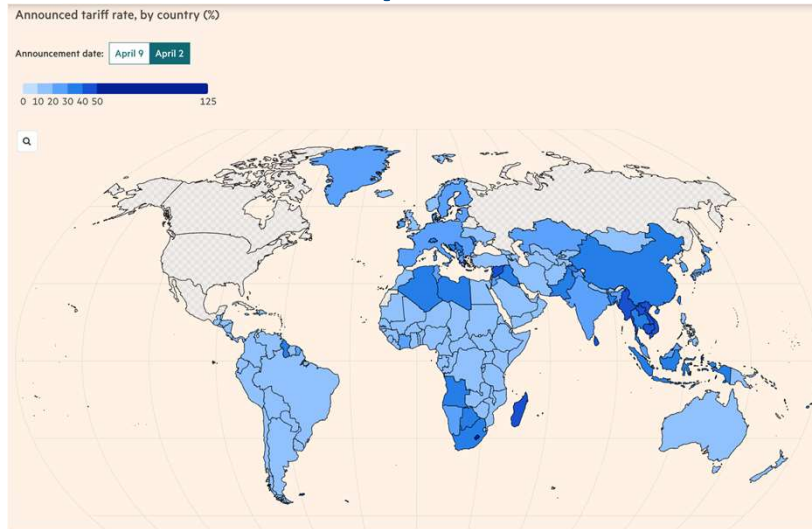
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Trump II Tariff Actions

- **After inauguration, as President he:**

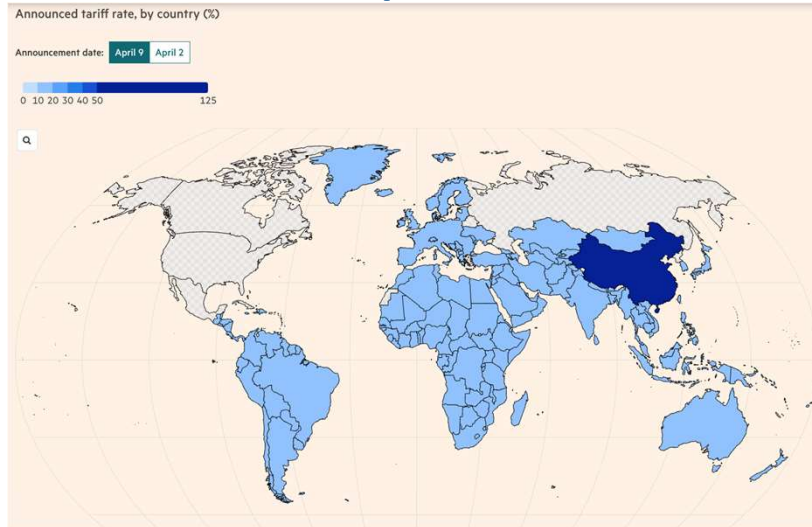
- April 12, 2025: China tariff exempts smartphones and other consumer electronics
- April 13, 2025: Said that these would still have tariffs, but in different “buckets” based on investigations of dumping, national security, etc.

Trump II Tariffs, as of April 14, 2025



Source: FT, 4/14/25

Trump II Tariffs, as of April 14, 2025



Source: FT, 4/14/25

Trump II Tariffs, as of April 14, 2025



Source: FT, 4/14/25

Trump II Tariffs, as of April 14, 2025

Timeline of key tariff-related events

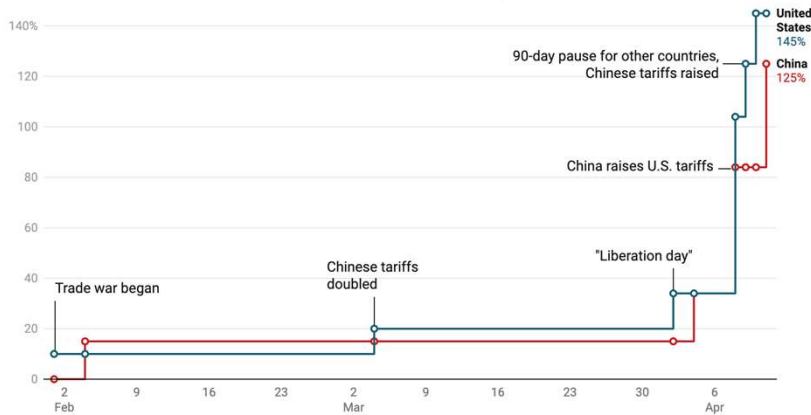
Date	Initiator	Description
Apr 11 2025	US	The Trump administration announces that it will exempt smartphones and other consumer electronics from its steep reciprocal tariffs — but the president later signalled that this reprieve would only be temporary
Apr 11 2025	China	China increases retaliatory tariffs on US imports to 125%
Apr 9 2025	US	Donald Trump announces an increase of the US tariff rate on China to to as high as 145 per cent and a 90-day pause on other countries, during which their tariff rates will be reduced to the baseline 10 per cent
Apr 9 2025	China	An additional retaliatory tariff of 50 per cent on US imports added to the 34 per cent announced on April 4
Apr 8 2025	US	White House confirms plans to proceed with another 50 per cent tariff on Chinese goods with effect from Wednesday April 9
Apr 4 2025	China	34 per cent retaliatory tariffs announced

Source: FT, 4/14/25

Trump II Tariff Actions on China

How the U.S.-China trade war started and where it's going

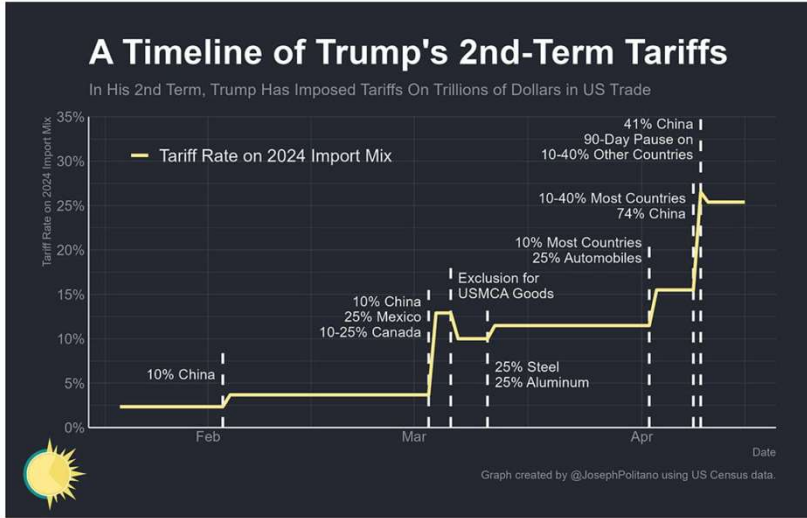
President Donald Trump announced 10% tariffs for Chinese imports on Feb. 1, citing a fentanyl trafficking crisis. Two months later, the U.S. raised tariffs to 145% and China has issued a 125% tariff on U.S. goods.



Source: KCRA News, 4/11/25

Data as of April 11. Chart: Katrina Ventura/Hearst TV • Source: Center for Strategic and International Studies, AP reports

Trump II Tariff Actions



Apricitas Economics

Effects of Tariffs in General

Economic effects of a tariff

- **NOTE:**

- We have a good understanding of effects of **a single** tariff.
- We have much less experience with effects of **multiple** tariffs, especially on
 - o Almost everything and everybody,
 - o By one of the world's biggest countries.
- Expect surprises!
 - o The computer modelling cited below allows for this as best it can (and better than I could), but it too is trying to extrapolate from the known to the unknown.

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.
 - o We learned this from Trump's tariffs in 2018.
 - o Example: Trump's tariffs caused US prices to rise, with hardly any perceptible fall in prices abroad.

Effects of a tariff

- **The rise in price in the importing country causes**
 - A rise in price of competing goods produced there
 - Benefits to those producers
 - Harm to buyers of both the imported and the competing 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
 - Decrease in industries that use the protected product as inputs
 - Example: Trump's 25% tariff on steel
 - Helped US steel firms and their workers
 - Hurt US auto firms and workers
 - and many other industries that use steel
 - Study found it cost more jobs lost outside steel than gained inside



Effects of a tariff

- **Economists' cost-benefit analysis quantifies these and shows that**
 - Unless there are market distortions, the costs of a tariff always exceed the benefits
 - Even when distortions give potential for tariff to be net beneficial
 - It is just as likely to be net harmful
 - And there does exist another policy, not a tariff, that would be better
 - But
 - Costs of tariffs are spread over many buyers, and are small for each
 - Benefits of tariffs are concentrated for domestic producers and are large for each
 - That's often why we
 - Get tariffs
 - Find them very hard to remove



Effects of a tariff

- **Politics of tariffs**

- Political forces favor tariffs
- Tariffs were reduced during 1934-1995 only by very slow reciprocal negotiations among countries, trading tariff cuts for tariff cuts



Effects of a tariff

- **If a tariff is on exports of only one country (e.g., China), then**

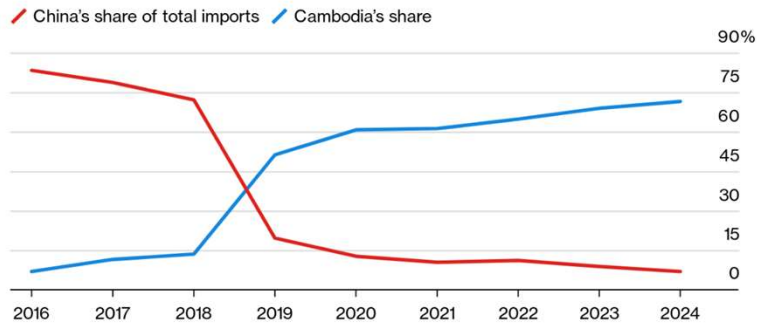
- Some imports shift to another country
- Price rises by less, to that other country's higher cost
- Example: See next slide for Christmas Lights



Effects of Trump I on Christmas Lights

Cambodia Passed China as Top US Supplier of Christmas Lights

After tariffs on China took effect, production move to Cambodia



Source: Xeneta, US Census Bureau

Bloomberg

A few key things are unclear in the case of Christmas lights that Xeneta analyzed, like whether the production actually moved from China or whether the goods were merely diverted and then packaged in Cambodia by Chinese affiliates.



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Effects of a tariff

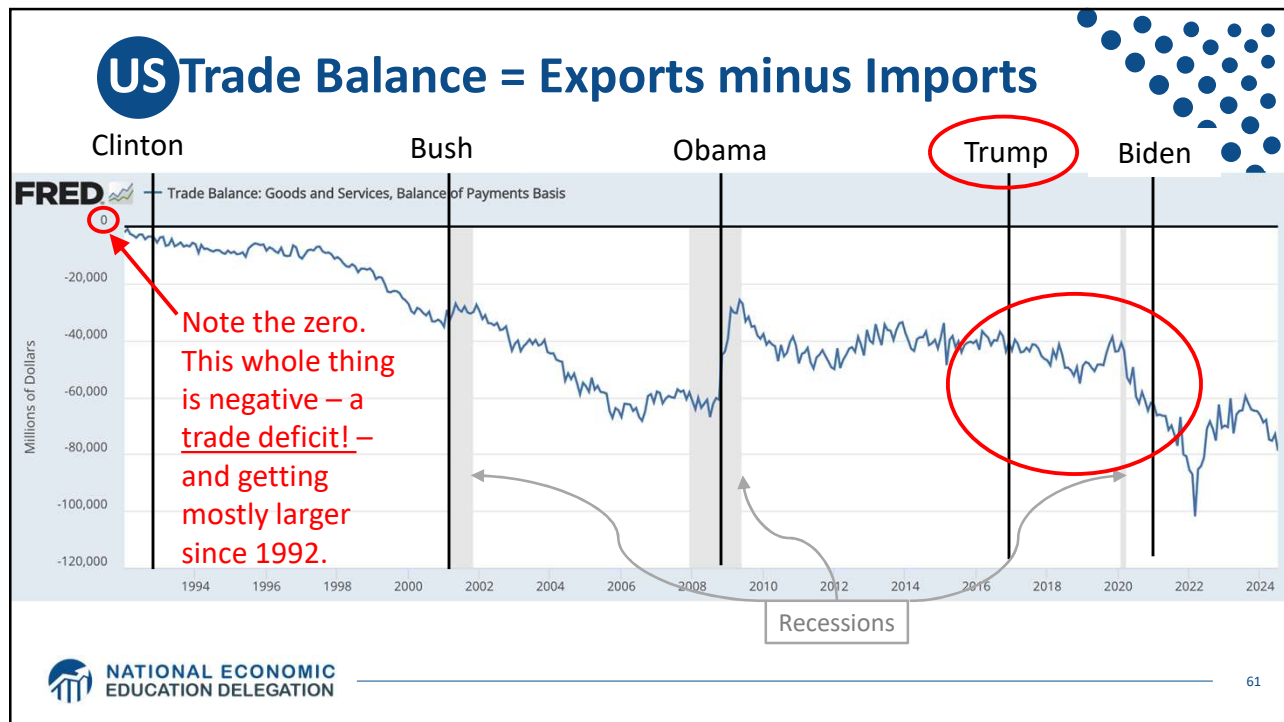
• Do tariffs reduce a trade deficit?

- Trump thinks so, but the US deficit grew under him (see below)
- A trade deficit equals **Expenditure minus Income**
- There is no reason for tariffs to reduce expenditure
- And unless in a recession, also no reason for tariffs to raise income
- So NO!



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Effects of a tariff

- **Government revenue**
 - Could Trump's proposed tariffs replace the US income tax?
 - NO!
 - If imports did not fall (they would!), his tariffs would have collected in 2023:
 - 60% on US goods imports from China, $0.6 \times \$0.43\text{tr} = \0.26tr
 - 20% on US goods imports from non-China, $0.2 \times \$3.40\text{tr} = \0.68tr
 - Total: $\$0.94\text{tr}$
 - US federal income tax revenue in 2023 was $\$2.18\text{tr}$
 - So his tariffs would collect AT MOST less than half of the income tax

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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**

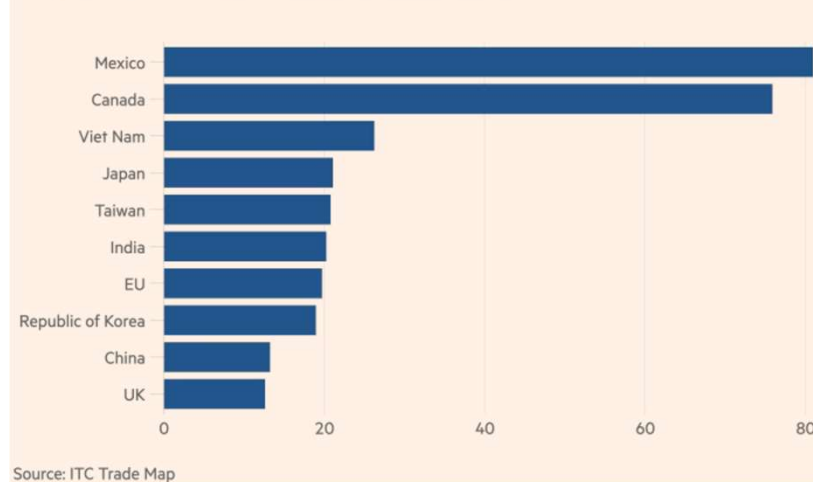
- Historically, tariffs prompted both smuggling and bribes to customs officers
- Today, in the US, those are less likely.
- But requests for exemptions from tariffs may be accompanied by favors or political contributions

Effects of Trump II Tariffs

What Countries will Be Hurt?

Losing America's import demand would hurt

Share of total goods exports flowing to USA in 2023, per cent



Source:
Keynes, FT,
11/15/24

Source: ITC Trade Map



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Effects of Trump II Tariffs

- Source: Warwick McKibbin, Megan Hogan, and Marcus Noland, "The International Economic Implications of a Second Trump Presidency," Working Paper 24-20, Peterson Institute of International Economics, September 2024

- They use a large computer model of both microeconomics and macroeconomics to calculate effects of
 - Deportation of 8.3 million unauthorized immigrant workers
 - Tariffs
 - 10% on all imports
 - 60% on imports from China
 - Erosion of Federal Reserve independence
- Results below only for the 2 sets of tariffs



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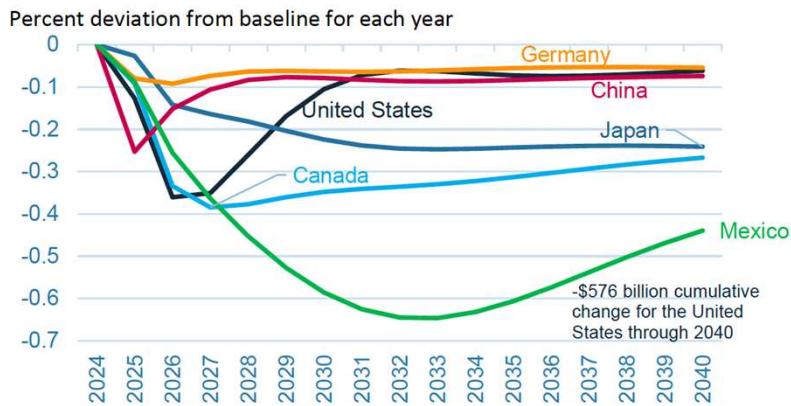
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Effects of Trump Proposed Tariffs

on GDP

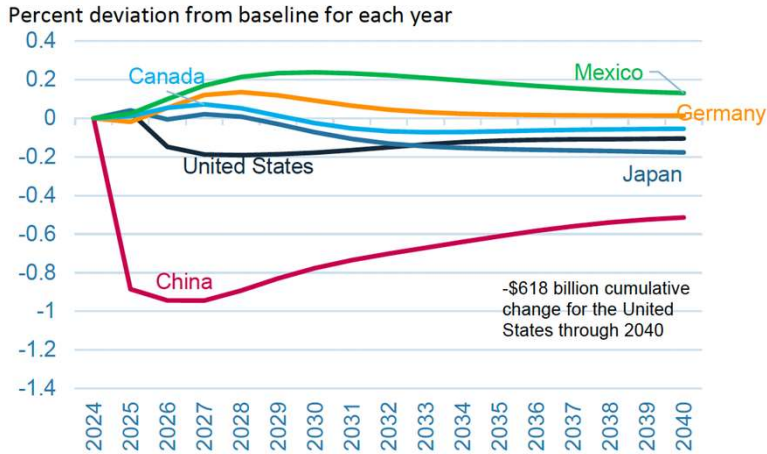
Effects of 10% Tariff on All US Imports

Real GDP



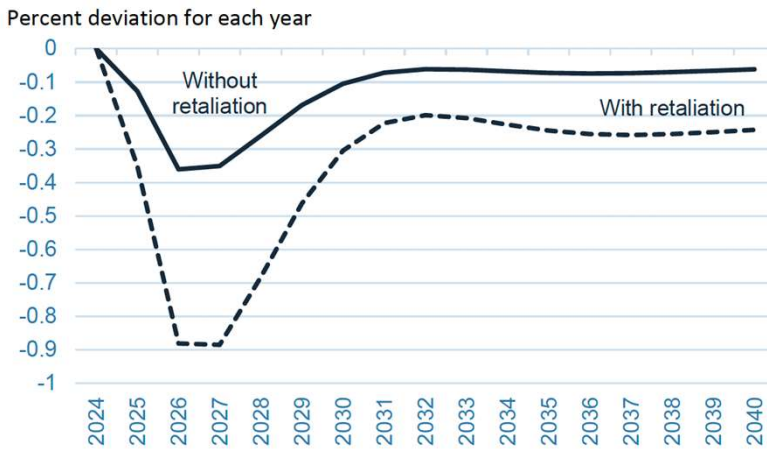
Effects of 60% Tariff on China Exports

Real GDP



Effects of 10% Tariff on All US Imports

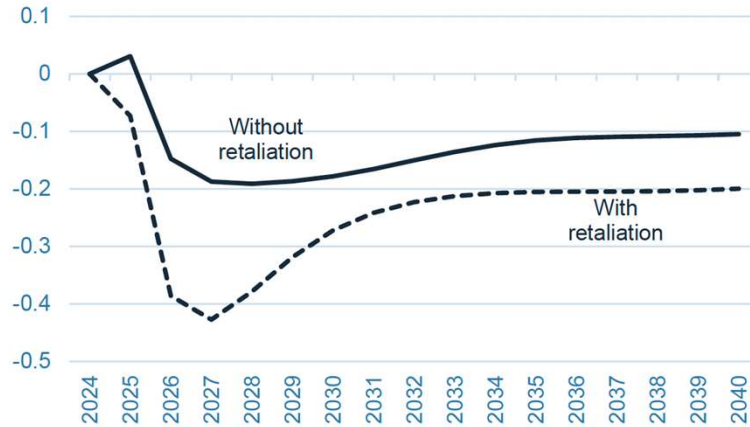
US GDP with and without Retaliation



Effects of 60% Tariff on China Exports

US GDP with and without Retaliation

Percent deviation from baseline for each year



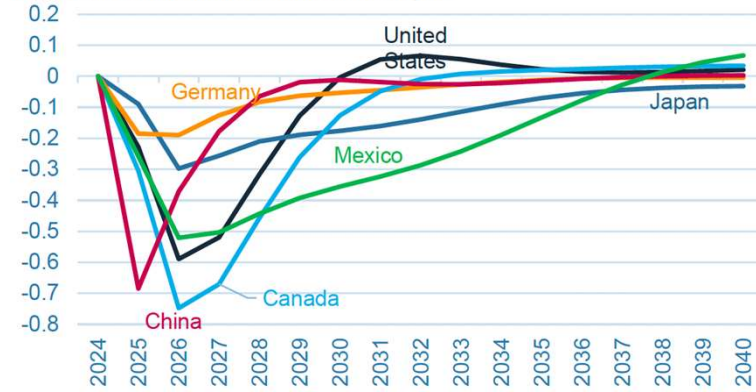
Effects of Trump Proposed Tariffs

on Employment

Effects of 10% Tariff on All US Imports

Employment

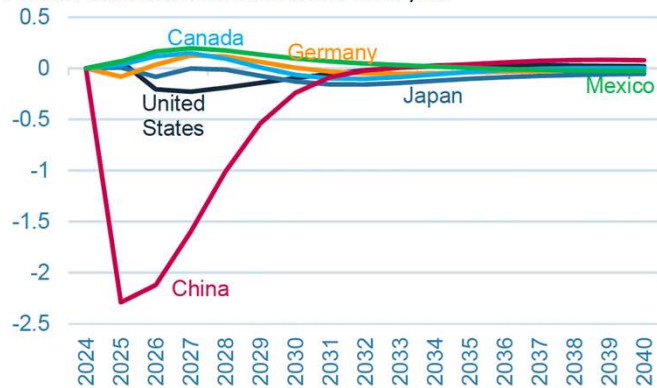
Percent deviation from baseline for each year



Effects of 60% Tariff on China Exports

Employment

Percent deviation from baseline for each year



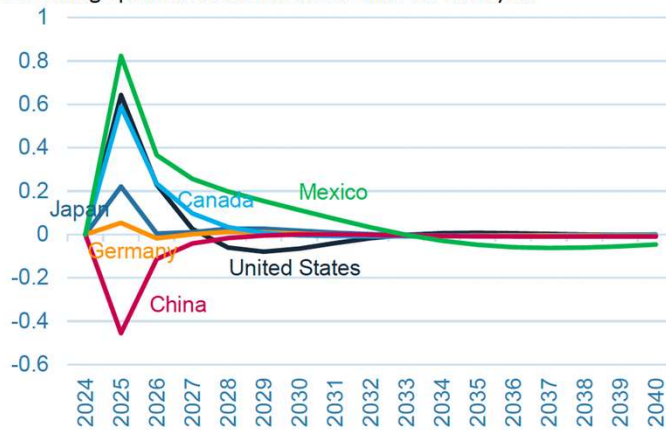
Effects of Trump Proposed Tariffs

on Inflation

Effects of 10% Tariff on All US Imports

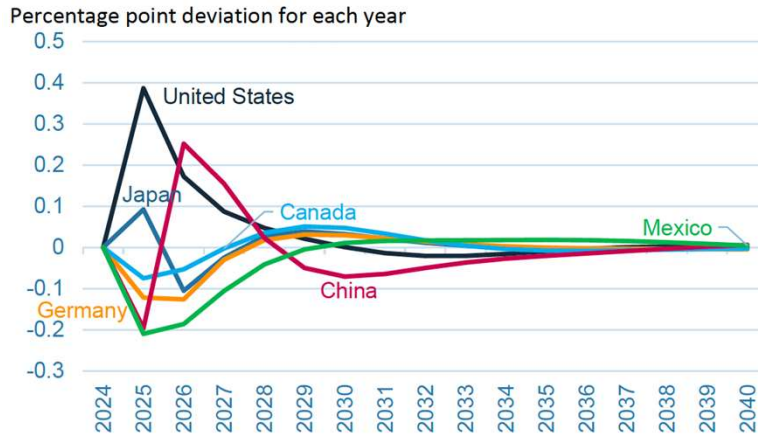
Inflation

Percentage point deviation from baseline for each year



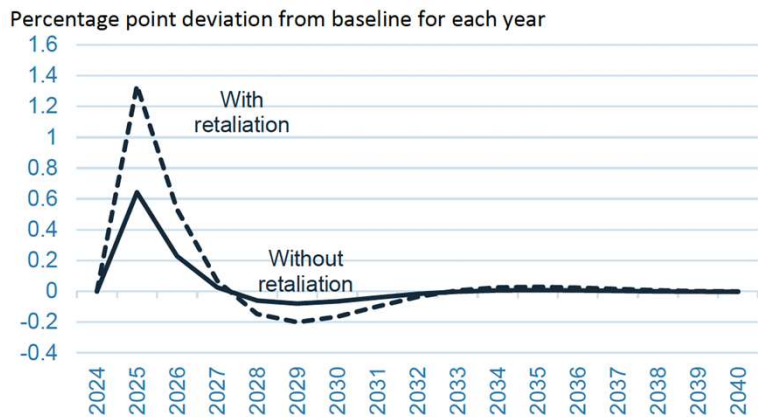
Effects of 60% Tariff on China Exports

Inflation



Effects of 10% Tariff on All US Imports

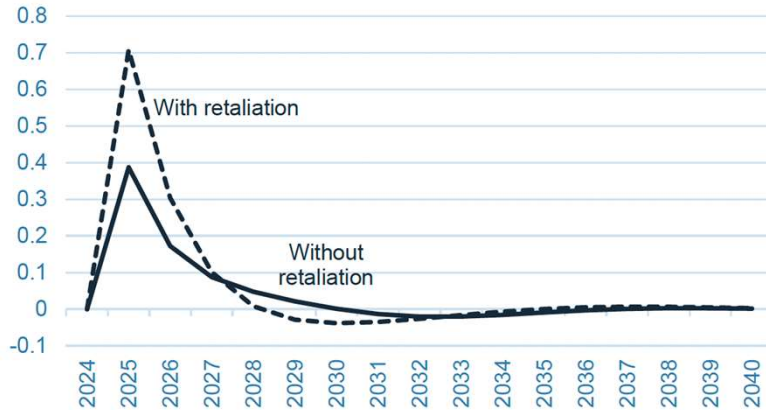
US Inflation with and without Retaliation



Effects of 60% Tariff on China Exports

US Inflation with and without Retaliation

Percentage point deviation from baseline for each year



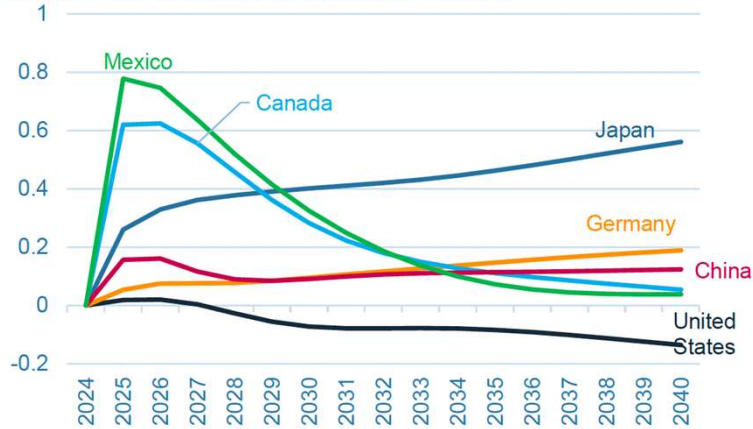
Effects of Trump Proposed Tariffs

on Trade Surplus

Effects of 10% Tariff on All US Imports

Trade Surplus

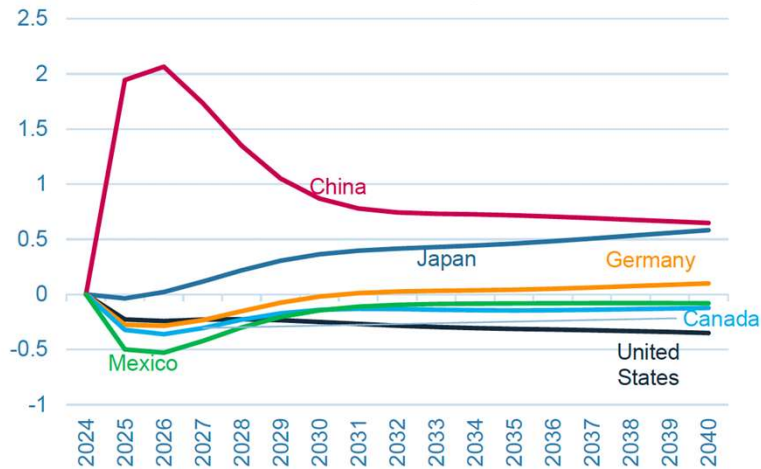
Percent of GDP deviation from baseline for each year



Effects of 60% Tariff on China Exports

Trade Surplus

Percent of GDP deviation from baseline for each year



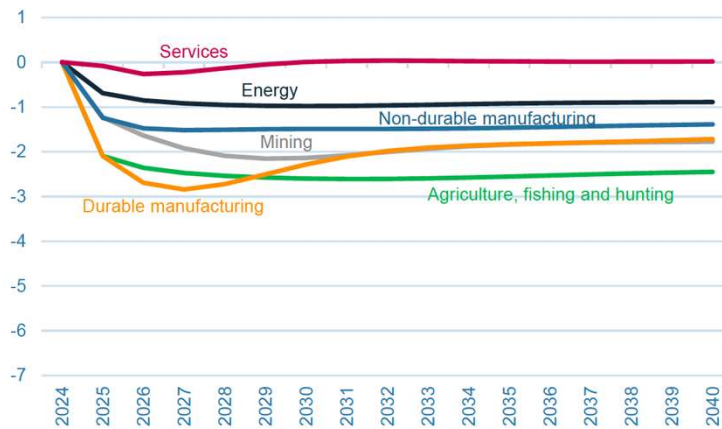
Effects of Trump Proposed Tariffs

on Sectoral Production

Effects of 10% Tariff on All US Imports

US Sectoral Production

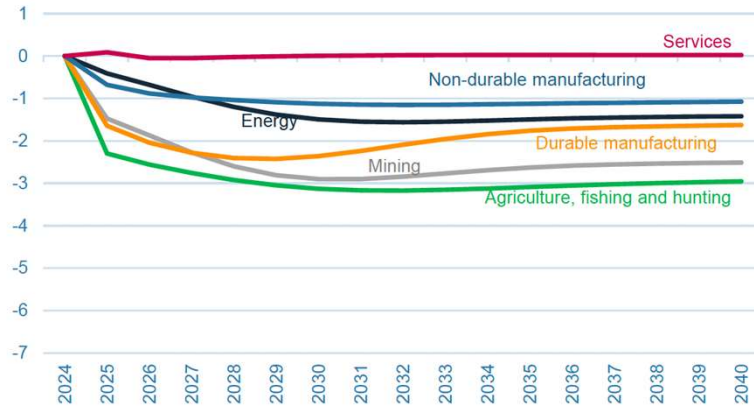
Percent deviation from baseline for each year



Effects of 60% Tariff on China Exports

US Sectoral Production

Percent deviation from baseline for each year



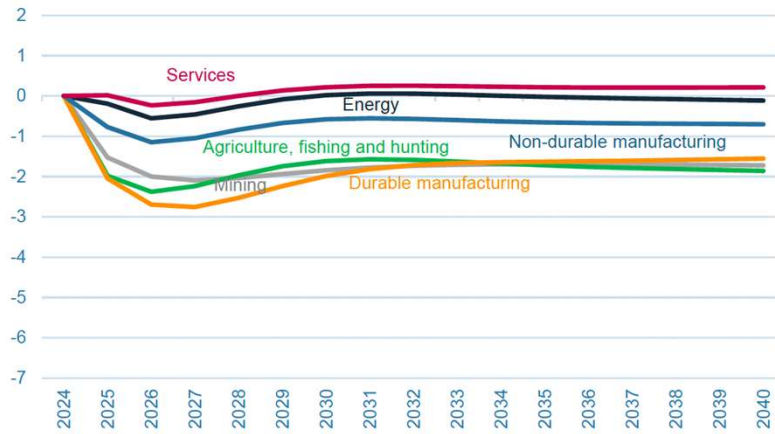
Effects of Trump Proposed Tariffs

on Sectoral Employment

Effects of 10% Tariff on All US Imports

US Sectoral Employment

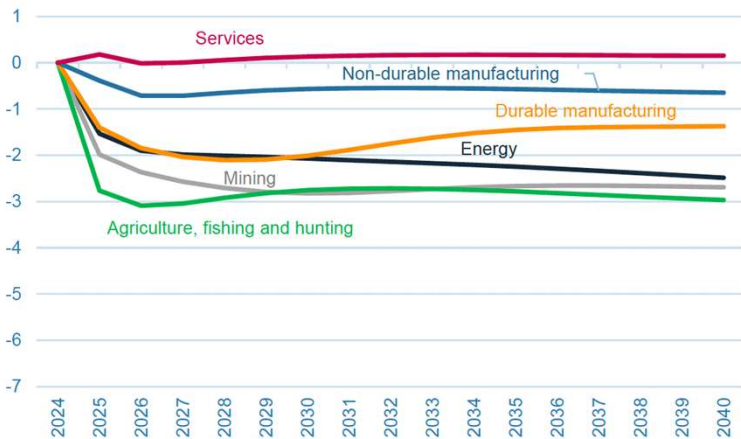
Percent deviation from baseline for each year



Effects of 60% Tariff on China Exports

US Sectoral Employment

Percent deviation from baseline for each year



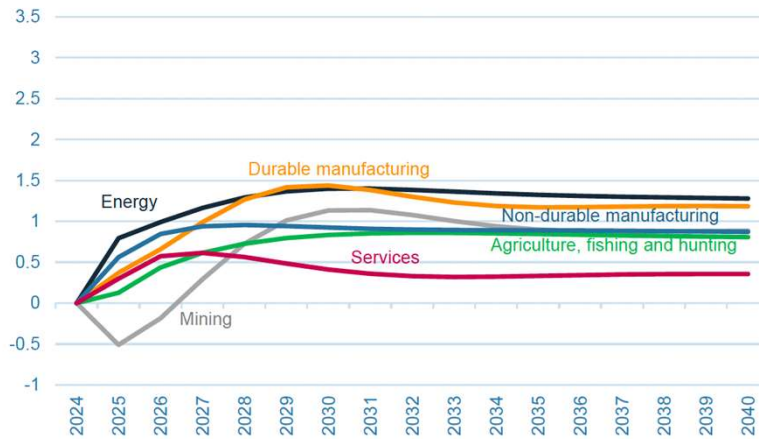
Effects of Trump Proposed Tariffs

on Sectoral Prices

Effects of 10% Tariff on All US Imports

Sectoral Prices

Percent deviation from baseline for each year



Effects of 60% Tariff on China Exports

US Sectoral Prices

Percent deviation from baseline for each year

