

# Tariffs and Their Effects

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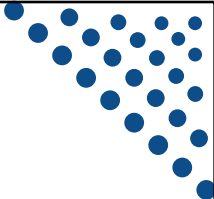
Presentation to SIR Branch 5  
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## What Is a Tariff?


- **A tariff is a tax on imports.**
- **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
- Tariff Effects in General
- Trump II Tariff Actions and Plans
- Effects of Trump II Tariffs



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# US Tariff History

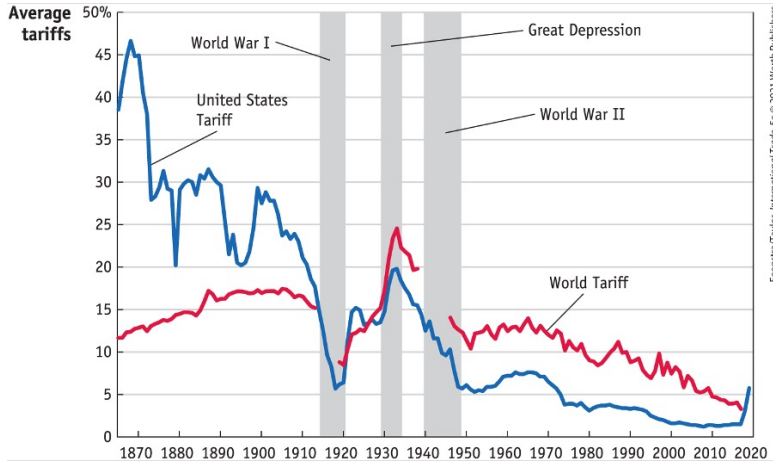


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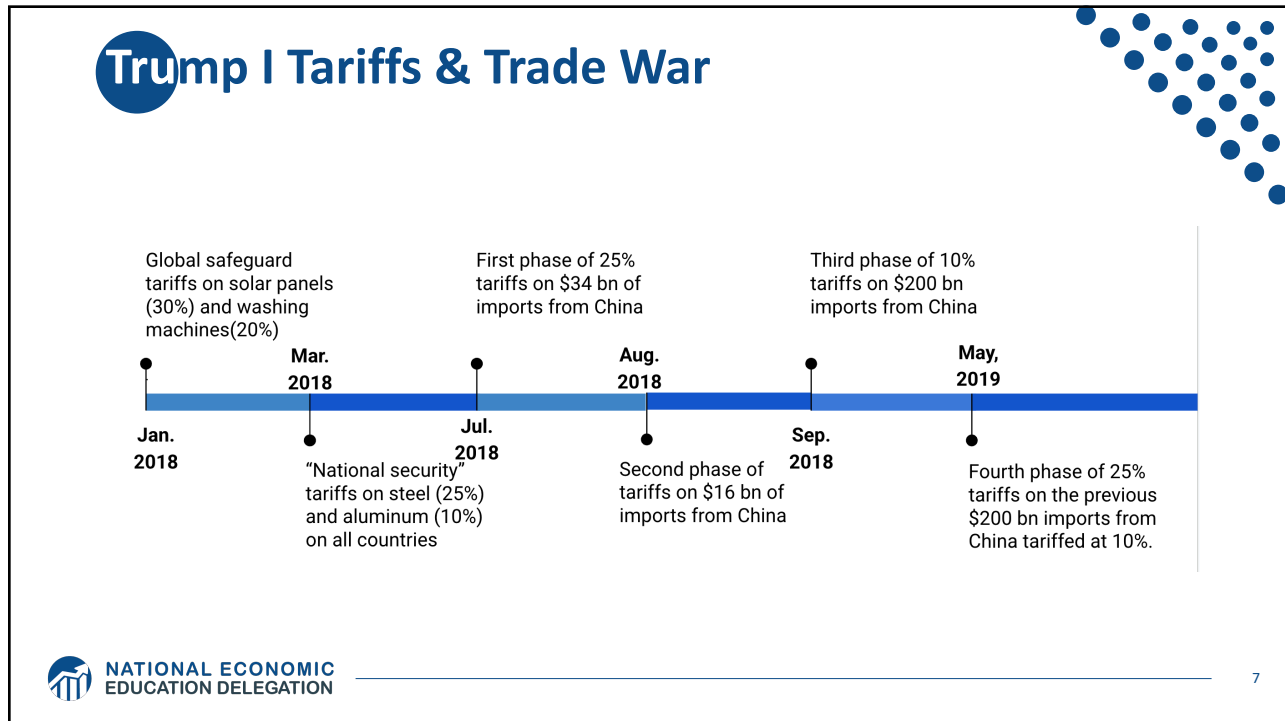
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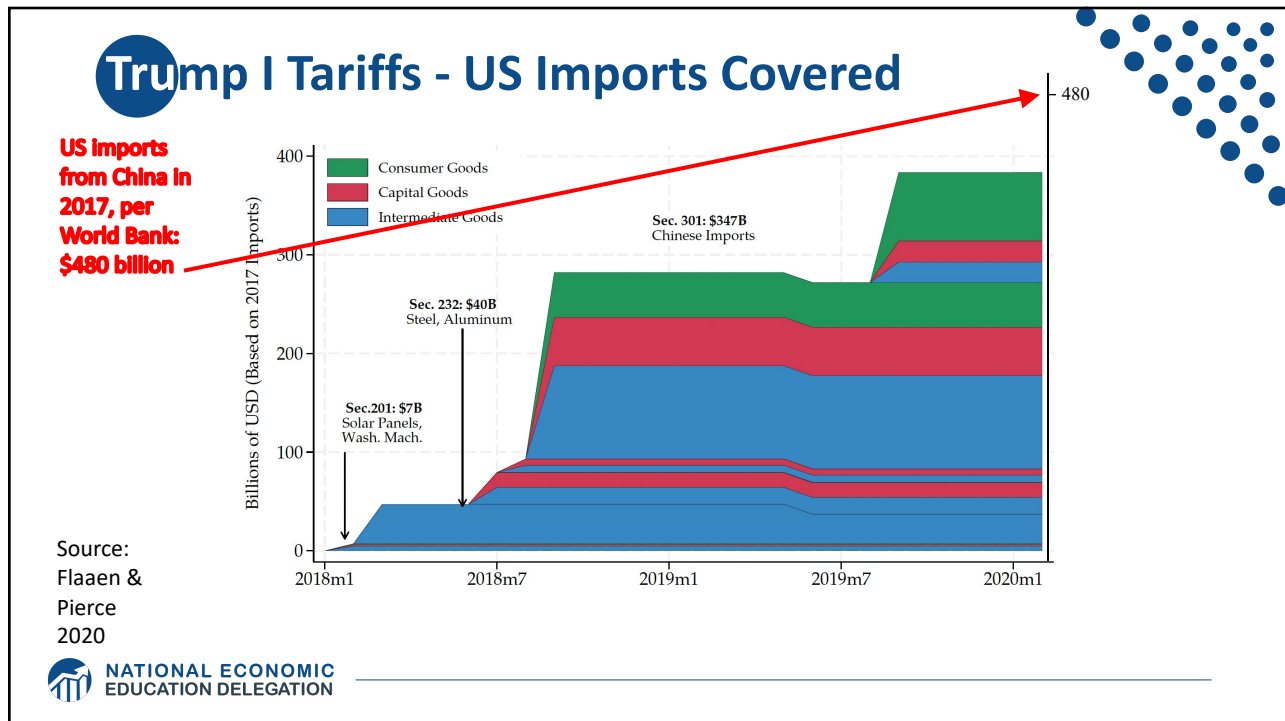
# US Tariff History, 1860-2020



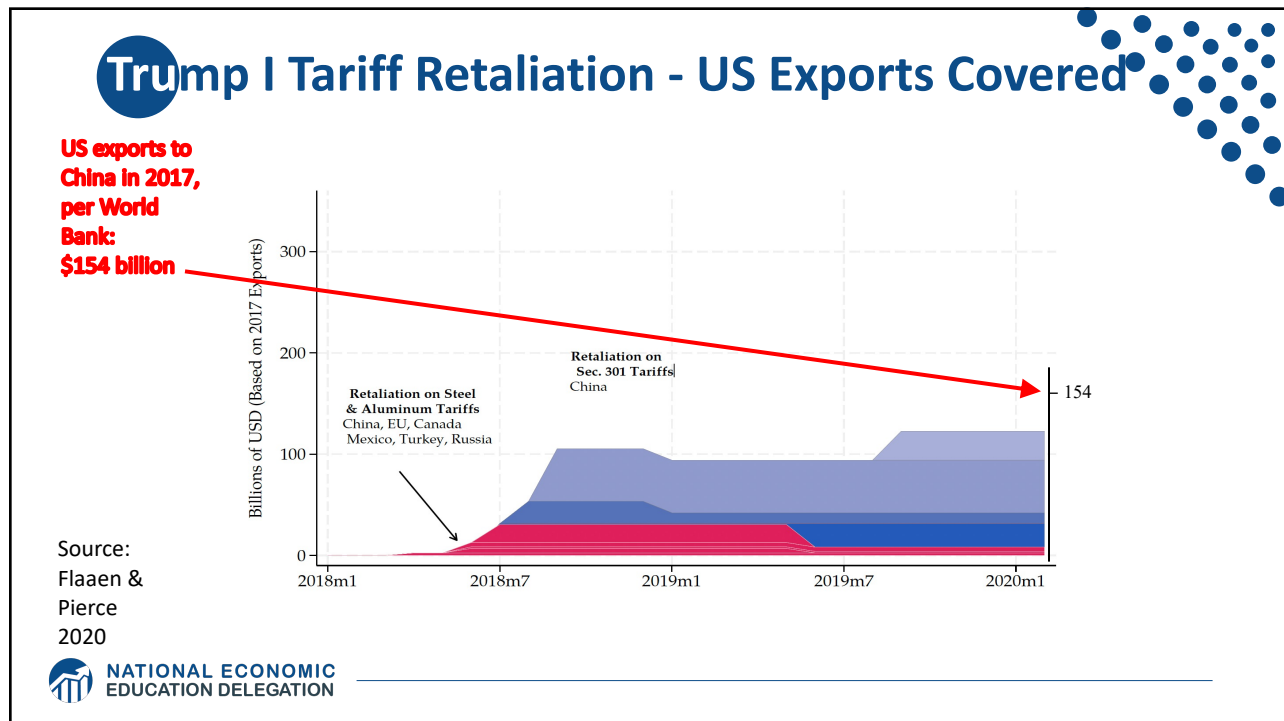
# Trump I Tariffs and the Trade War



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## Tariffs on Washing Machines

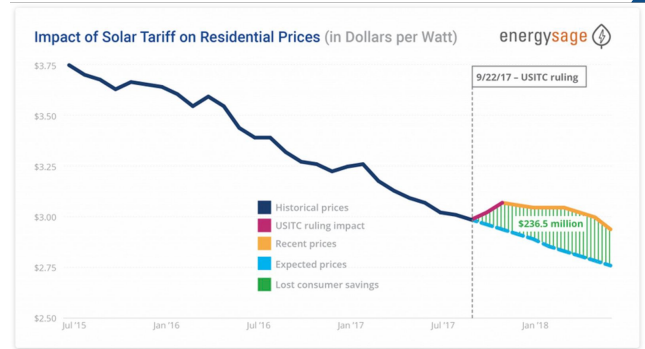
- The **price of washing machines** increased in the U.S. by 12% the next month.
- The **price of dryers** (bundled with washing machines) also increased by 12%, even if they were not subjected to tariffs.
- Consumers lost \$1.5 billion annually.
- Annual **tariff revenue** increased by about \$82 million.
- **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

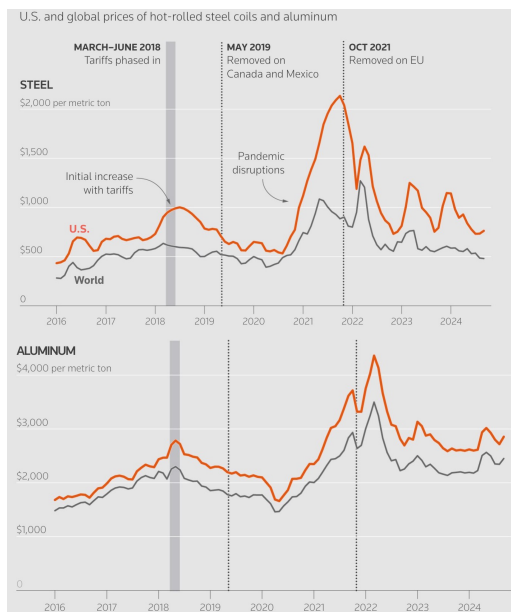
- Consumers were hurt by higher **prices of solar panels**:
  - Solar prices increased by 43-57% compared to the global average.
- U.S.-based companies that supported the tariffs:
  - First Solar (U.S.), Suniva (Chinese owned), SolarWorld Americas (acquired by SunPower, San Jose, CA)
- According to the Solar Energy Industries Association:
  - 62,000 workers were laid off or never hired
  - 10.5 gigawatts of solar capacity lost
  - \$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 **price of steel and aluminum** increased shortly after the tariff.
- 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** working 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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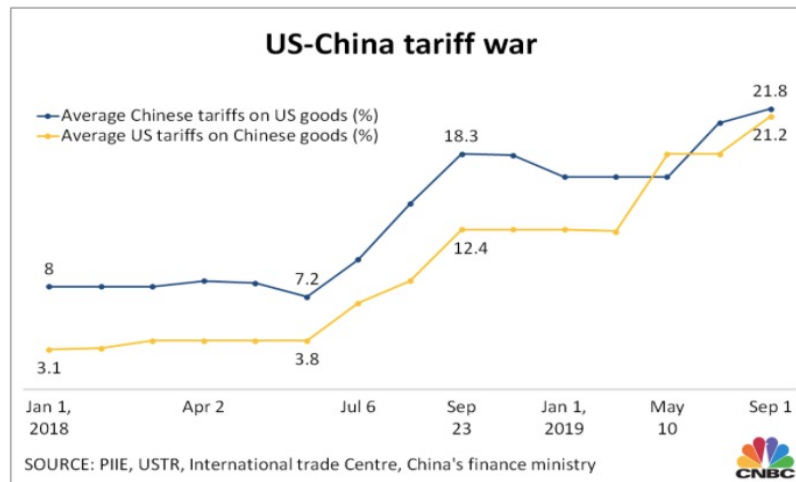
# Tariffs on Metals - Retaliation

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

Industry	Countries	Share of US Exports
Pork (reliant on foreign markets)	China, Mexico	44%
Apples	China, Mexico, India	37%
Nuts	China, India	12%
Whiskies (e.g. KY bourbon)	EU, Canada, Mexico	53%
Mineral water, coffee, ketchup	Canada	About 50%

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# 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.

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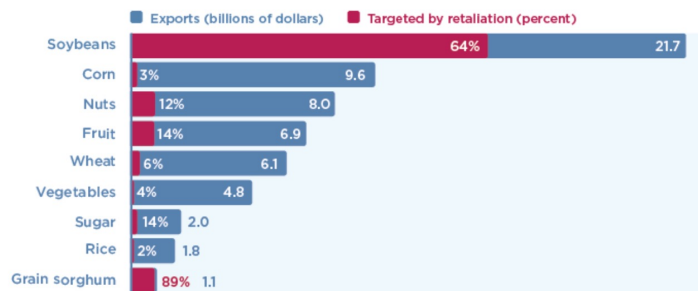
## U.S - China Trade War

- Tariffs were fully-passed through to US import prices, but only partially to retail prices: retail margins decreased, and American consumers paid **higher prices**.
- Net decrease in **manufacturing employment** due to tariffs (the negative effects of higher input prices and retaliatory tariffs outweighed the benefits to protected industries)
- Overall lower **aggregate real income** in both U.S. and China (small magnitudes relative to GDP)
- A 2024 study found that the tariffs failed to provide economic help to the heartland: import tariffs has “neither a sizable nor a significant effect on US employment in regions with newly-protected sectors” and foreign retaliation “by contrast had clear negative employment impacts, particularly agriculture.”

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## Subsidies to American Farmers

Figure 2 US exports of major crops, 2017



- \$12 billion subsidy to help soybean farmers mitigate the trade damages

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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

- **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.



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## Trump Tariff Exemptions

- **Trump administration's decisions on exclusions were mysterious and arbitrary.**

- "Tariff exemptions were given
  - o to Bibles but not to textbooks,
  - o to salmon but not to pollock,
  - o 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:
  - o Contributions to Republicans made China exemptions more likely
  - o Contributions to Democrats made China exemptions less likely
  - o 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.






# 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 price of competing goods produced there
  - Benefits to those producers
  - Harm to buyers of both the import 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



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## 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



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## Effects of a tariff

- **Politics of tariffs**
  - Political forces favor tariffs
  - Tariffs were reduced during 1934-1995 only by slow reciprocal negotiation among countries


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## 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

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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**

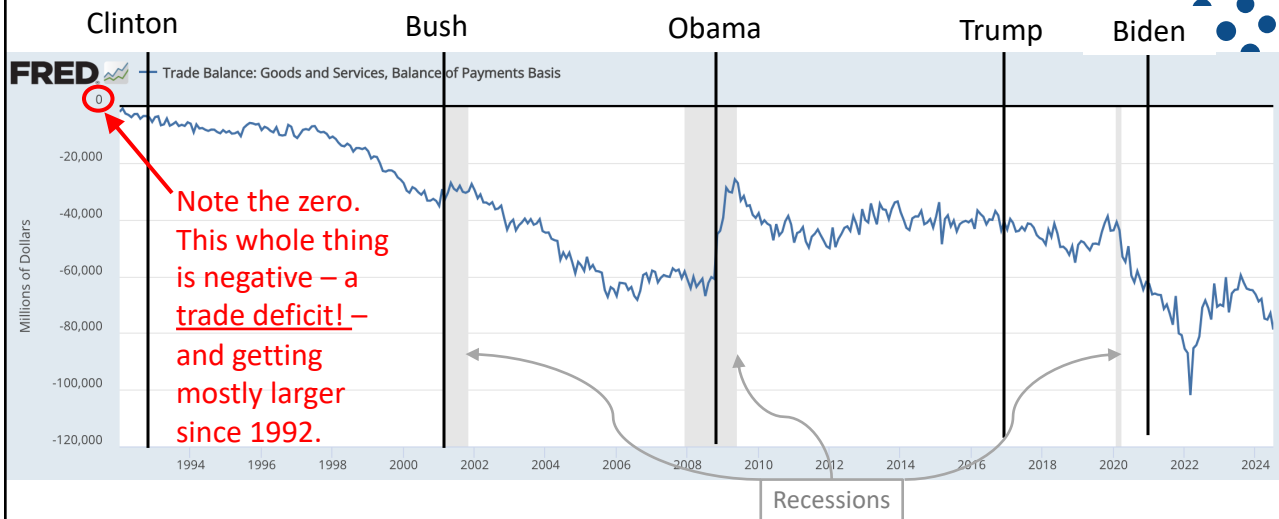
- Other countries place tariffs on US exports
- Trade war that started in 2018 continues and gets worse

- **Corruption**

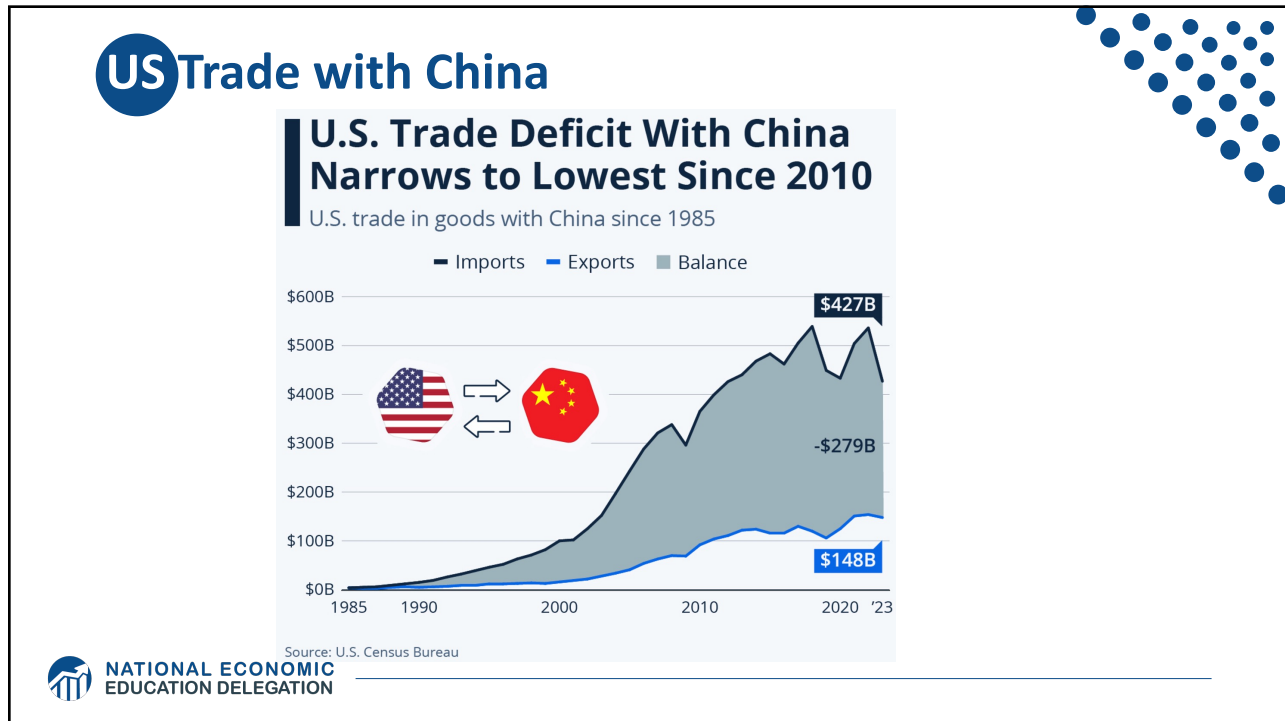
- Historically, tariffs prompted both smuggling and bribes to customs officers
- Today, in the US, those are less likely.
- But requests for exemptions from tariffs may be accompanied by favors or political contributions

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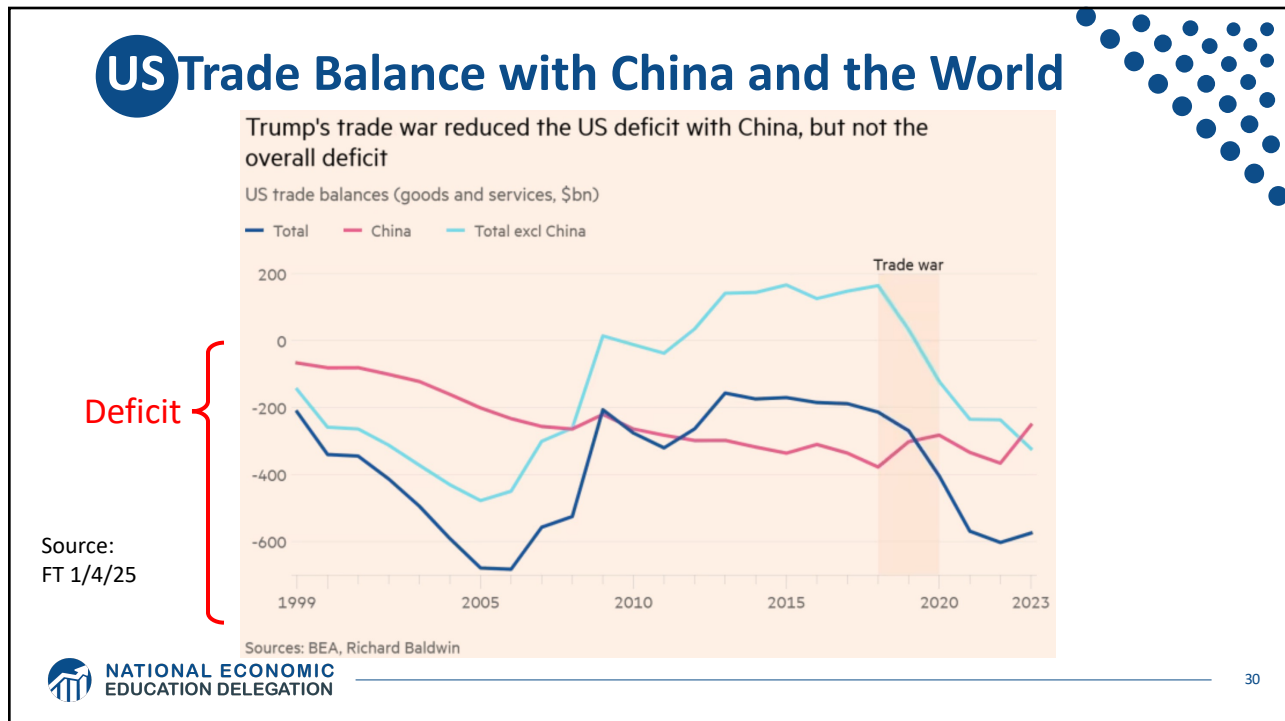
# US Trade Balance = Exports minus Imports



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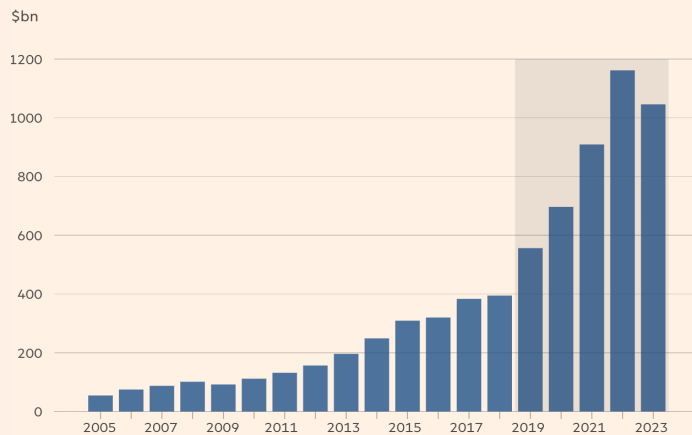
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## US Trade Balance with Vietnam

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



FINANCIAL TIMES

Source: US Census Bureau



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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 above)
- 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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## 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 ¾ 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



## Trump II Tariffs



## 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)
- Reciprocal Trade and Tariffs (all countries)
- Tariffs on countries imposes digital services tax on American companies (targets EU countries, Turkey, UK, Canada)



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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 “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



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# Steel and aluminum

Section 232 tariffs

**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.

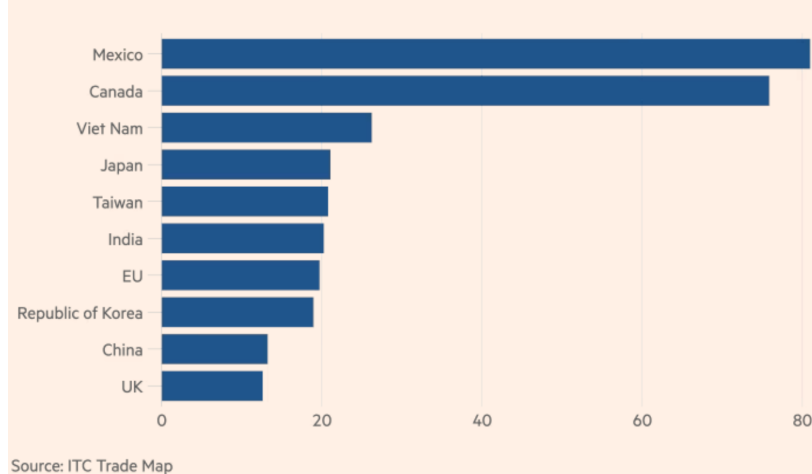
**Mar. 12:** Canada announces plans to retaliate on Mar. 13 by imposing 25% tariffs on C\$29.8 bn of US goods such as steel and aluminum products, tools, computer, display monitors, sport equipment, and cast-iron products.

**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.

# 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

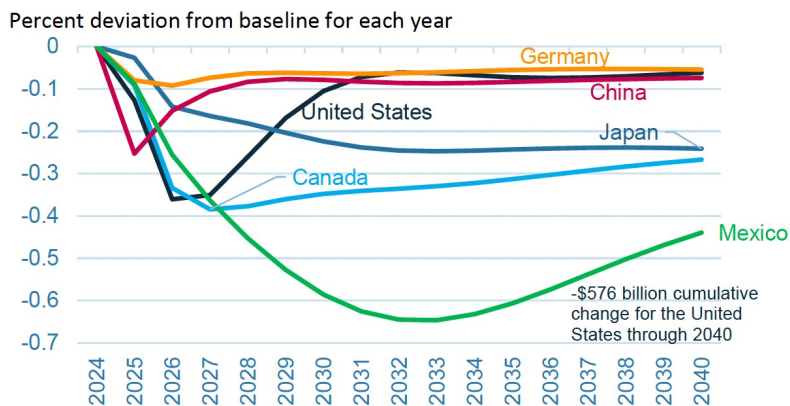
## Effects of a tariff

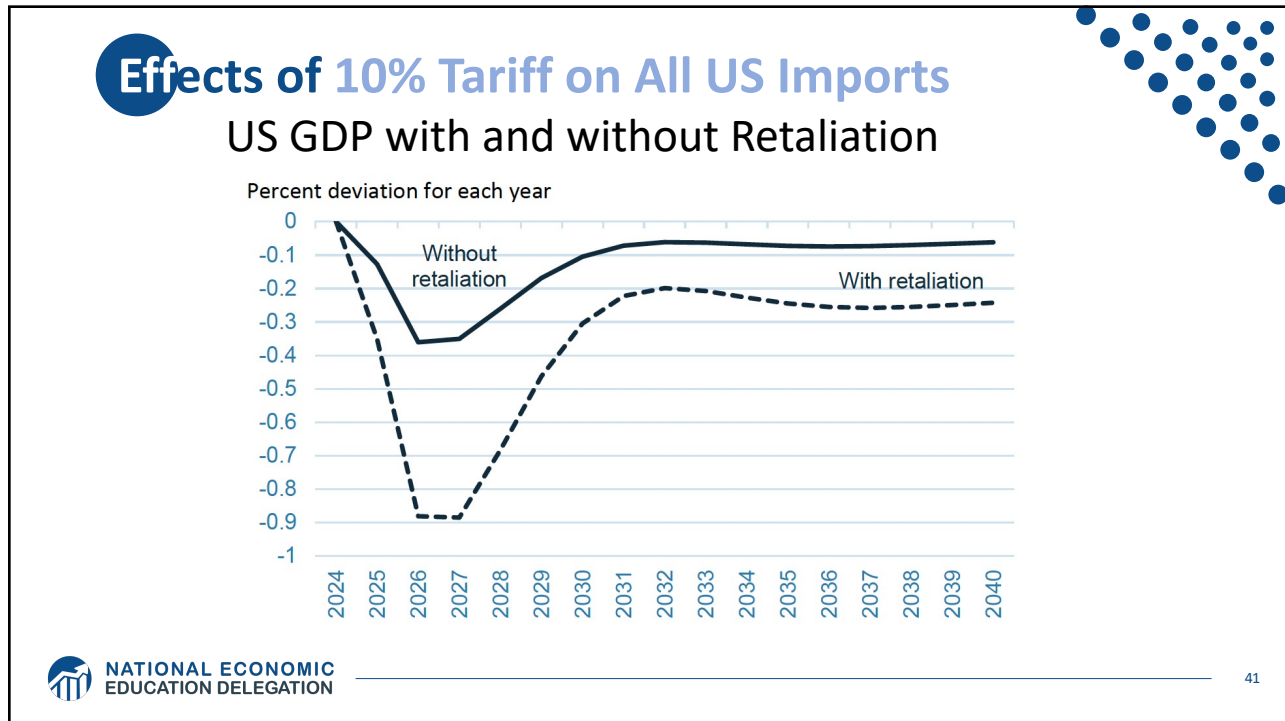
- **Government revenue**

- 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:
  - o 60% on US goods imports from China,  $0.6 \times \$0.43\text{tr} = \$0.26\text{tr}$
  - o 20% on US goods imports from non-China,  $0.2 \times \$3.40\text{tr} = \$0.68\text{tr}$
  - o 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

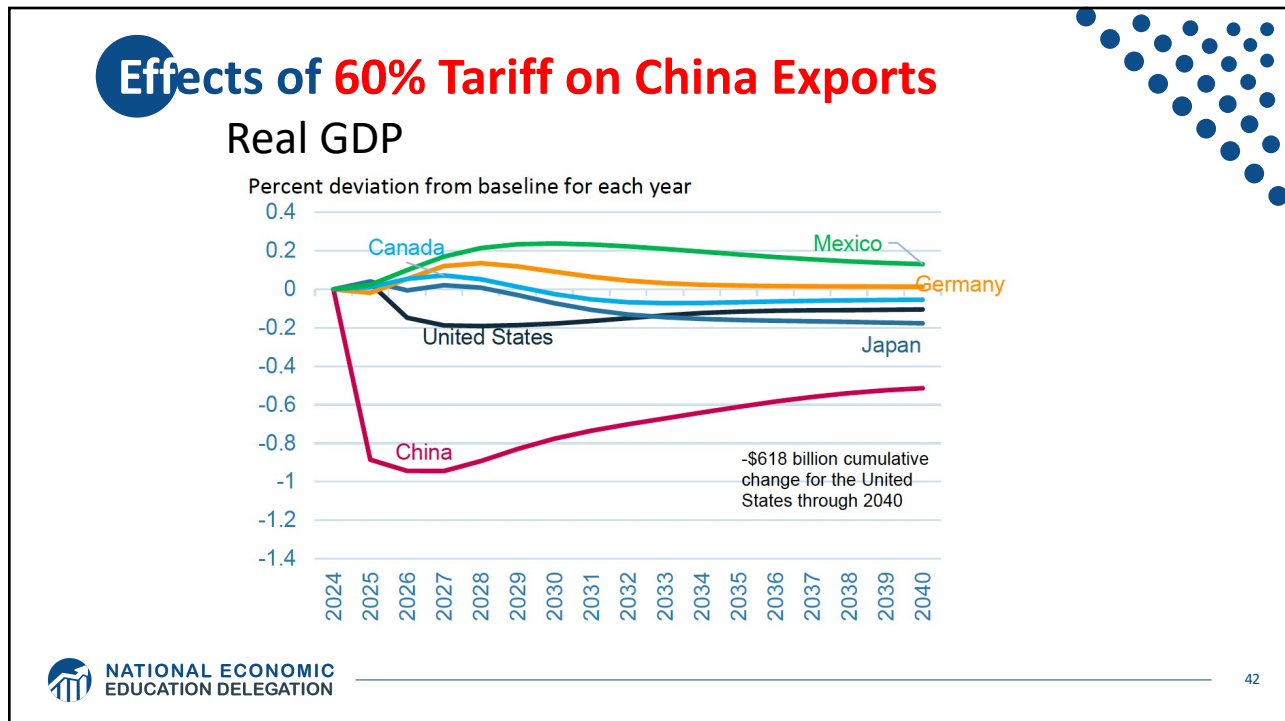
## Effects of 10% Tariff on All US Imports

### Real GDP

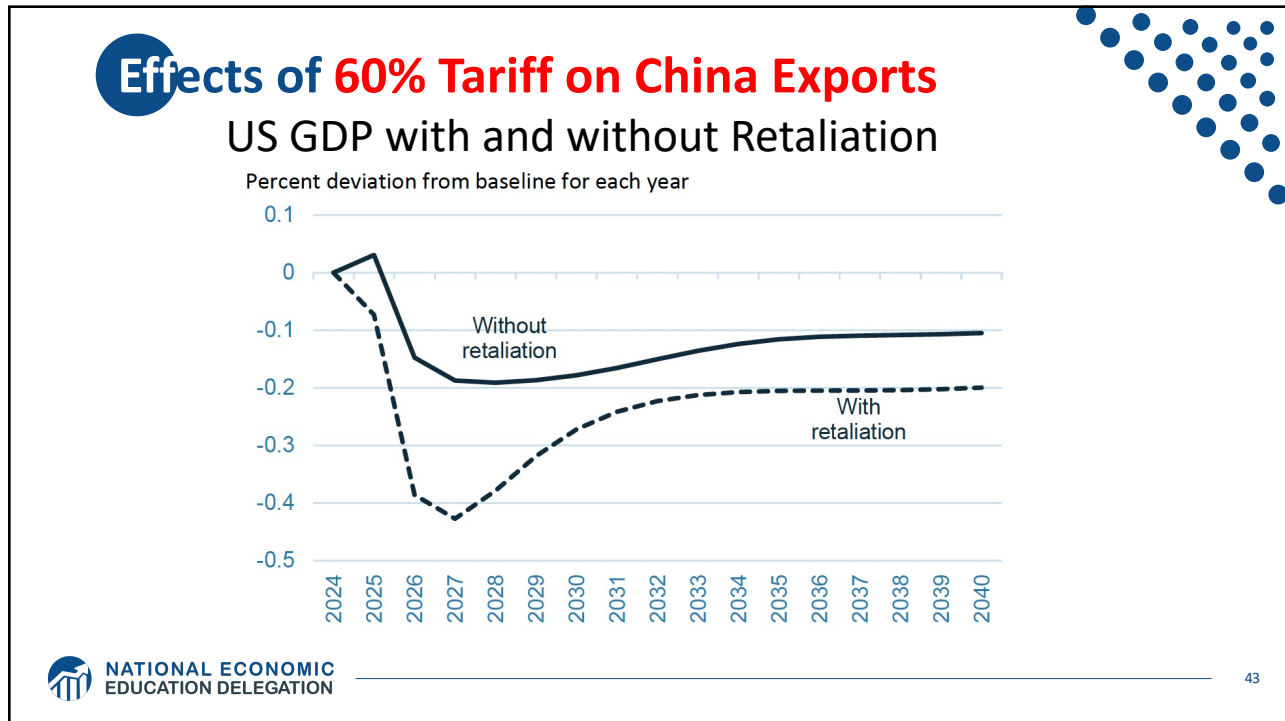




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# Thank you!

# Questions?

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