



Trade Talk: The Latest on U.S. Tariffs

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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.

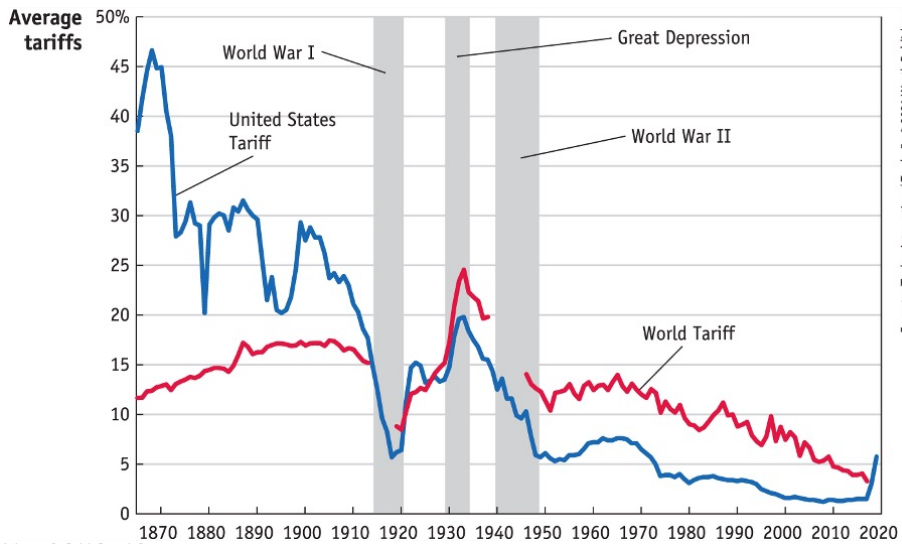
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US Tariff History



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US Tariff History, 1860-2020



Source: Feenstra/Taylor, International Trade, 5e

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Why Are We Even Talking About Tariffs?

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Recent Change In Tariffs

Customs duties as a share of import value

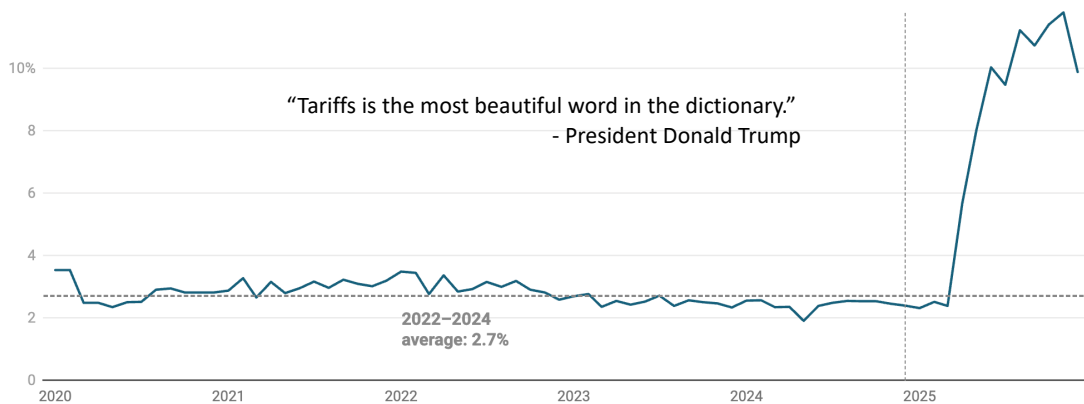
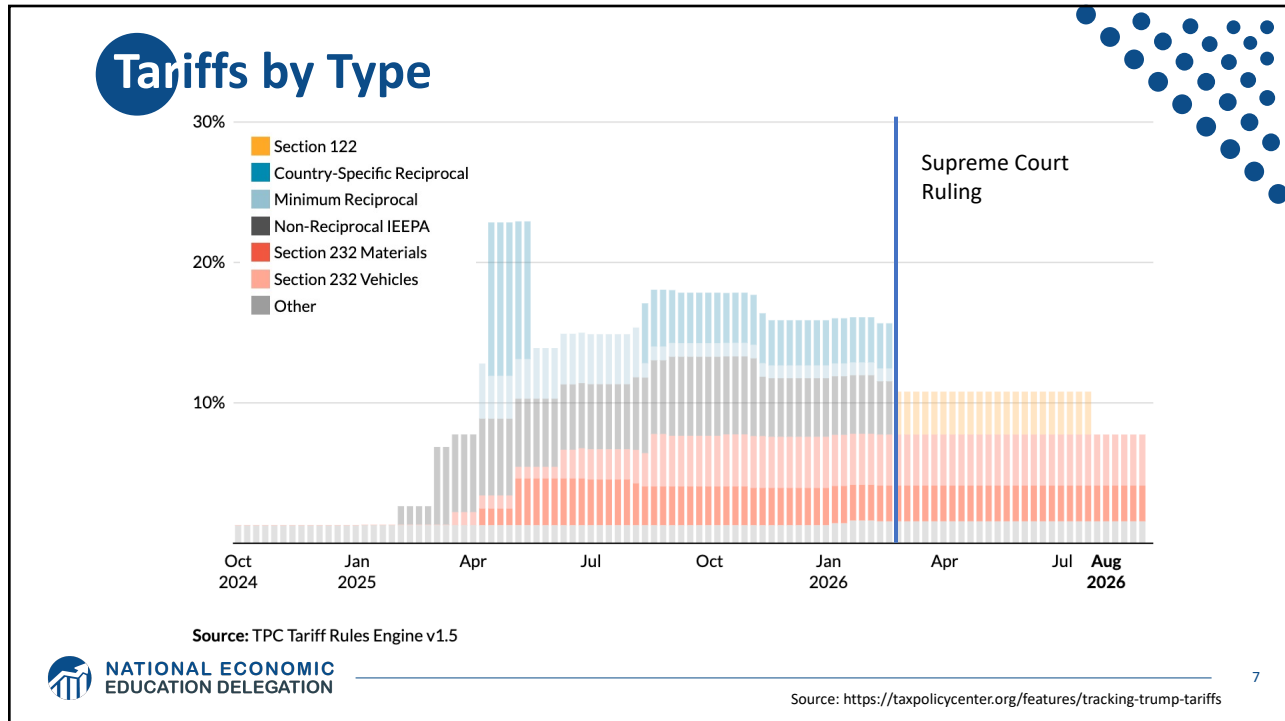
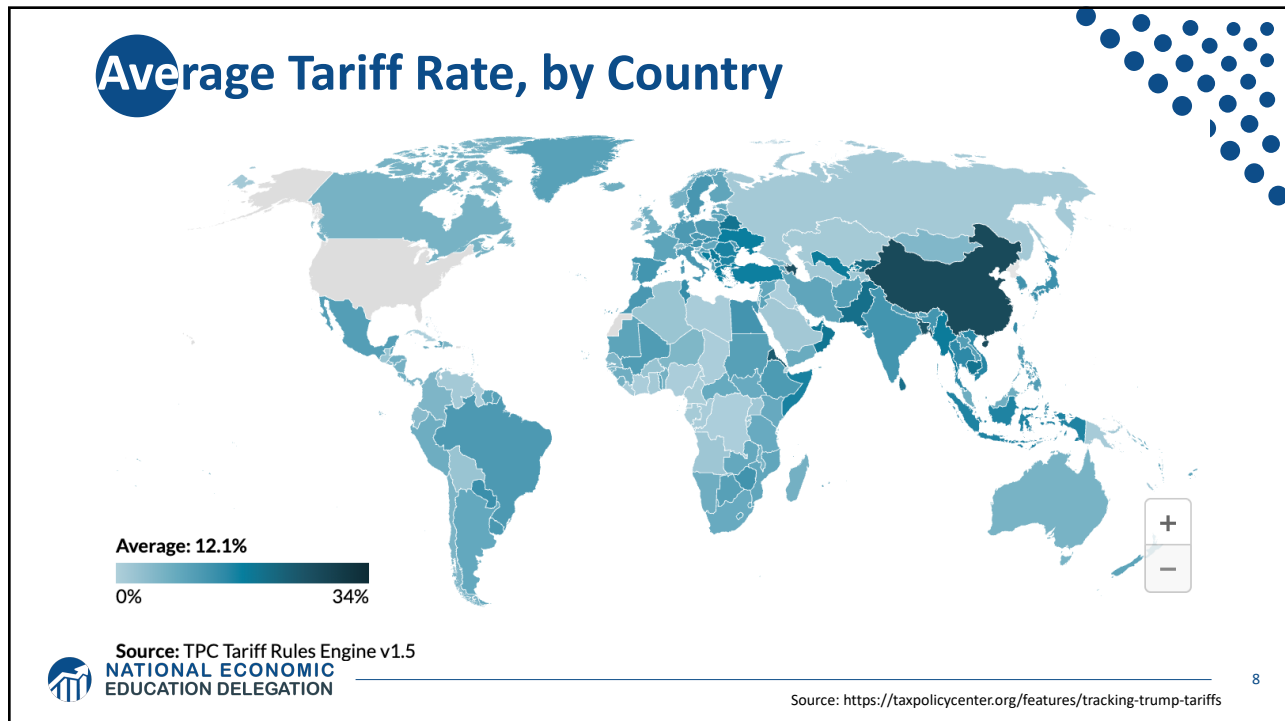


Chart: The Budget Lab • Source: U.S. Treasury, Census Bureau via Haver Analytics, The Budget Lab analysis • Created with [Datawrapper](#)

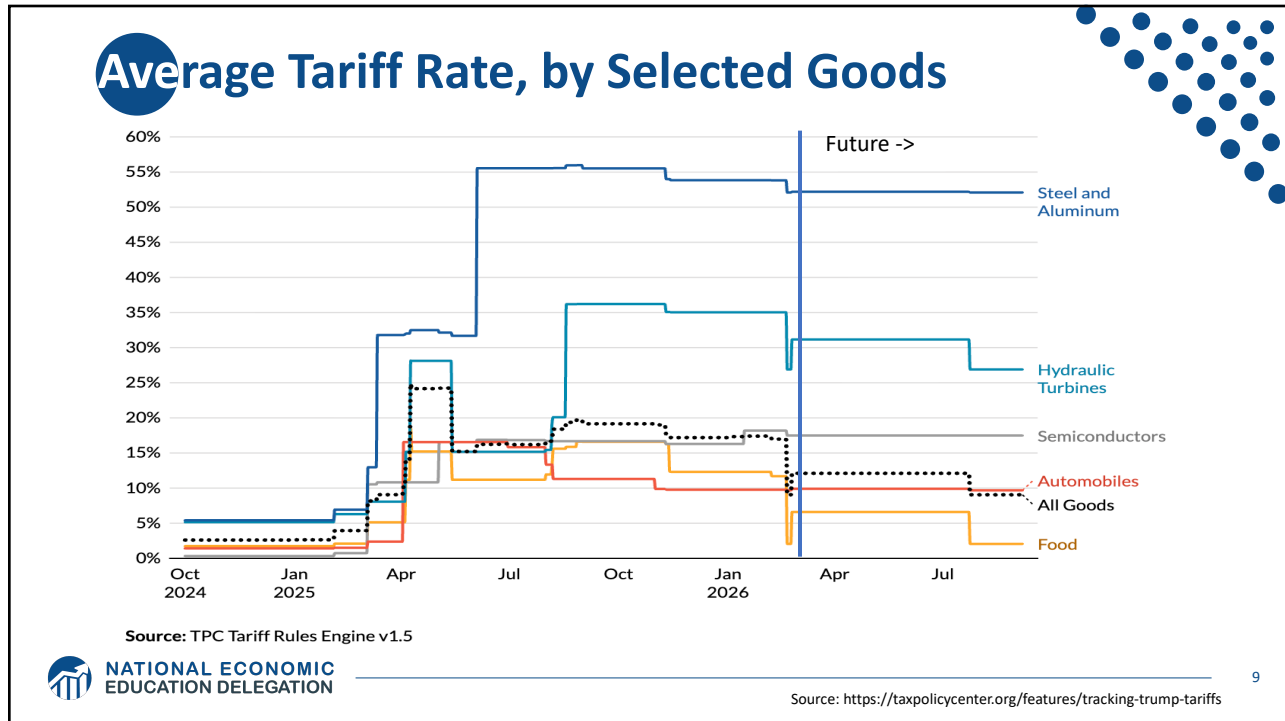
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Are Tariffs A Good Idea?

- **Generally, economists don't think so, but there are some reasons for them:**
 - National Defense – strategic resource
 - Do we need the capacity to make our own computer chips, just in case?
 - What about steel and aluminum?
 - “Infant” Industry
 - Unfair trade practices of exporting countries

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President Trump's Reasons for Tariffs

- **Our exports are being treated unfairly.**
- **Bring back manufacturing employment.**
- **Raising revenue – replace the income tax?**
 - Foreign companies would pay the tariffs.
- **National security**
- **Foreign policy leverage**



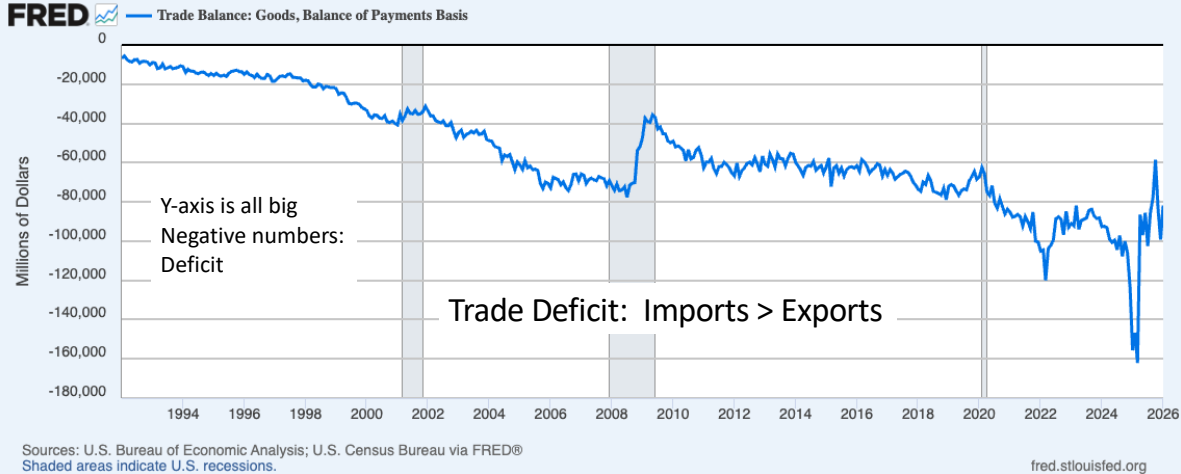
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Unfair Treatment



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Evidence of Unfair Treatment: Trade Deficit



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US Trade Deficit – Mixed Results with Tariffs



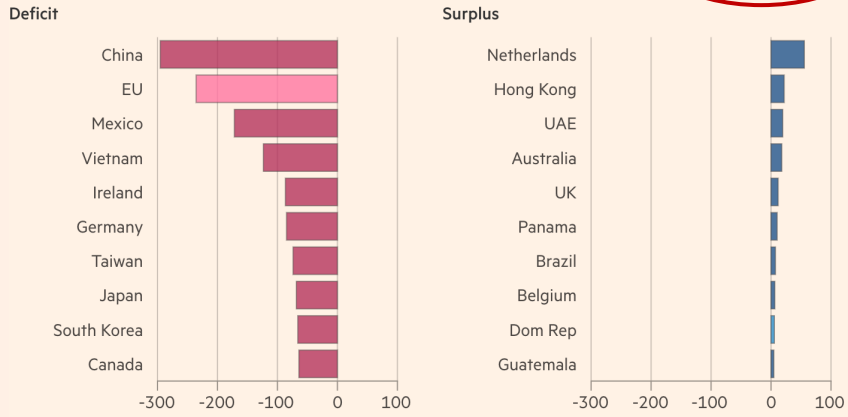
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Reciprocal Trade and Tariffs

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: \$240 Million

Facts about Lesotho:

GDP per capita = \$1,073;
 Population = 2.1 million
 Trade balance = -\$234 million
 Average tariff rate against US = 10%

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Is A Trade Deficit A Result of Unfair Treatment?

- Intuitive, but no.
- Have to look at the whole picture.
- We trade not only goods and services, but also investment funds.
 - The United States is a very attractive investment market.
 - Selling Treasury securities to foreigners is an **export**.
 - So we run an investment trade surplus.
- Investment trade surplus = goods and services trade deficit
 - Why? Exchange rates.
- Will tariffs lower the trade deficit? No.

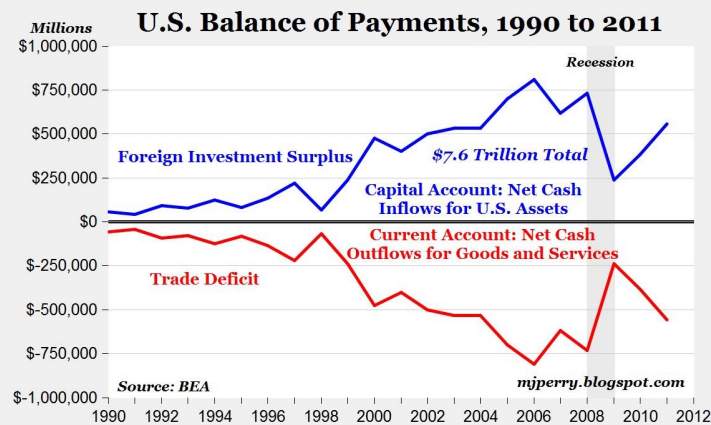


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Trade Deficits are Driven by Investment Flows and Tariffs Can NOT “Fix” Them



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Also... Exports

- **Lower imports make exports more expensive in foreign markets.**
- **How?**
 - If fewer people are buying imports, the dollar appreciates.
 - Fewer dollars available for those wanting to buy exports.
 - If the dollar appreciates, it takes more foreign currency to buy U.S. exports.
 - Making exports more expensive.
- **Tariffs:**
 - Lower imports.
 - But they also lower exports.
 - Won't necessarily reduce the trade deficit.



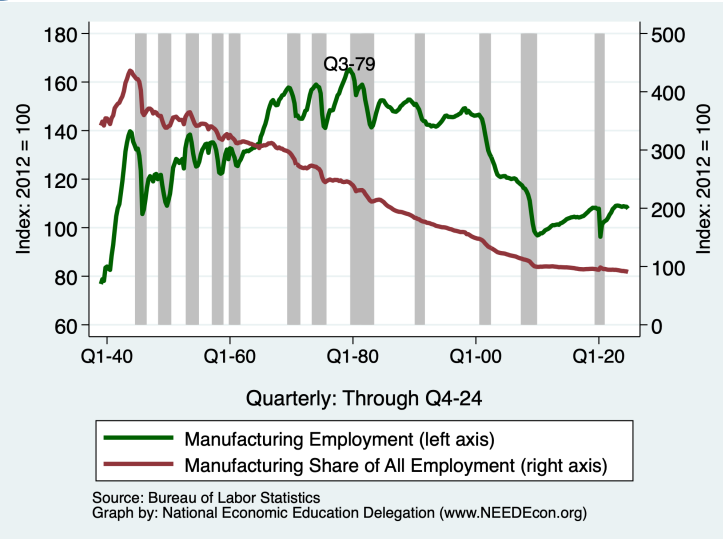
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Bring Back Manufacturing



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What is Wrong with Manufacturing Employment?



Since 1979, manufacturing employment has fallen by about 1/3.

Tariffs and Manufacturing?

- **The argument has intuitive appeal.**
 - But doesn't stand up to scrutiny.
- **Intuition: Making imports more expensive makes domestically produced goods more appealing.**
- **But... Exports.**
 - We import clothing, toys, and furniture.
 - We export airplanes and light trucks.
- **We can't just make more of the one without sacrificing some of the other – limited resources.**
- **And... Retaliation.**

CHINESE SOYBEAN PURCHASES FROM U.S.
SOURCE: AMERICAN SOYBEAN ASSOCIATION

Q2 2024: **\$3.16 BILLION**

Q2 2025: **\$0**

NEWS NATION U.S. LOSES OUT ON BILLIONS IN SOYBEAN SALES

DOW ▲24.04
45,858.26

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U.S. Manufacturing Employment

FRED — All Employees, Manufacturing

Thousands of Persons

Effect of tariffs?


Source: U.S. Bureau of Labor Statistics via FRED®
Shaded areas indicate U.S. recessions.

fred.stlouisfed.org


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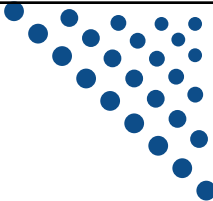


Raising Revenue

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WHAT IS THE NATIONAL DEBT TODAY?

\$38,873,984,469,352

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Source: <https://www.pgpf.org/national-debt-clock/>

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Raising Revenues?

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

Fiscal year 2026

Cumulative tariff revenue, Oct-Dec 2025 \$81,979,297,305

Federal budget deficit \$1,853,000,000,000

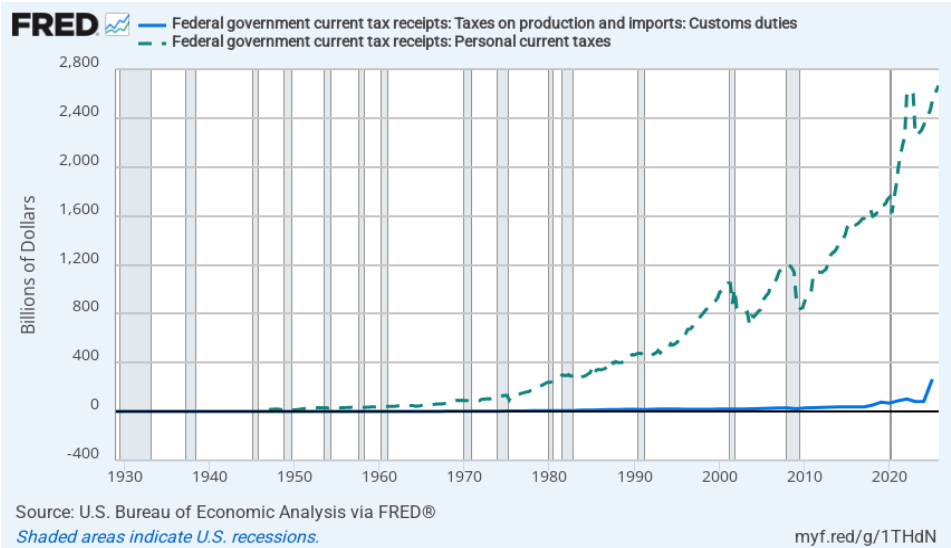
Fiscal year 2025

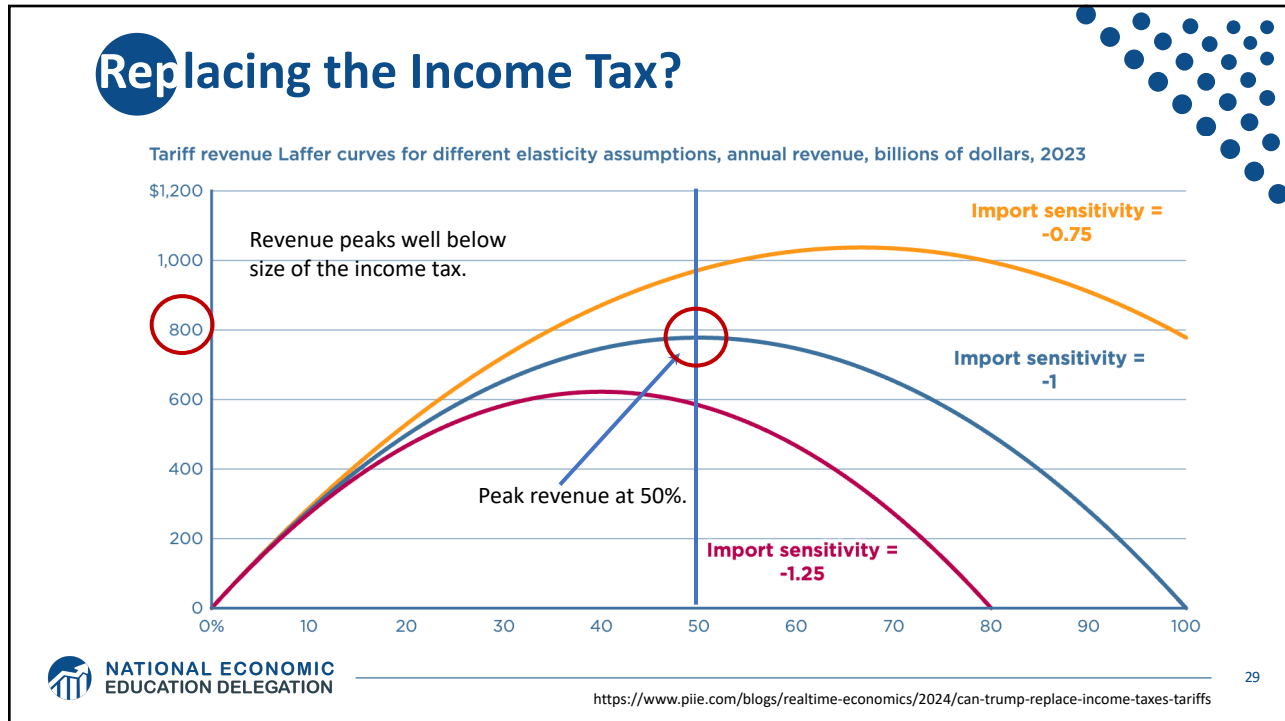
Cumulative tariff revenue, Jan-Sep 2025 \$178,821,673,016

Federal budget deficit \$1,865,000,000,000

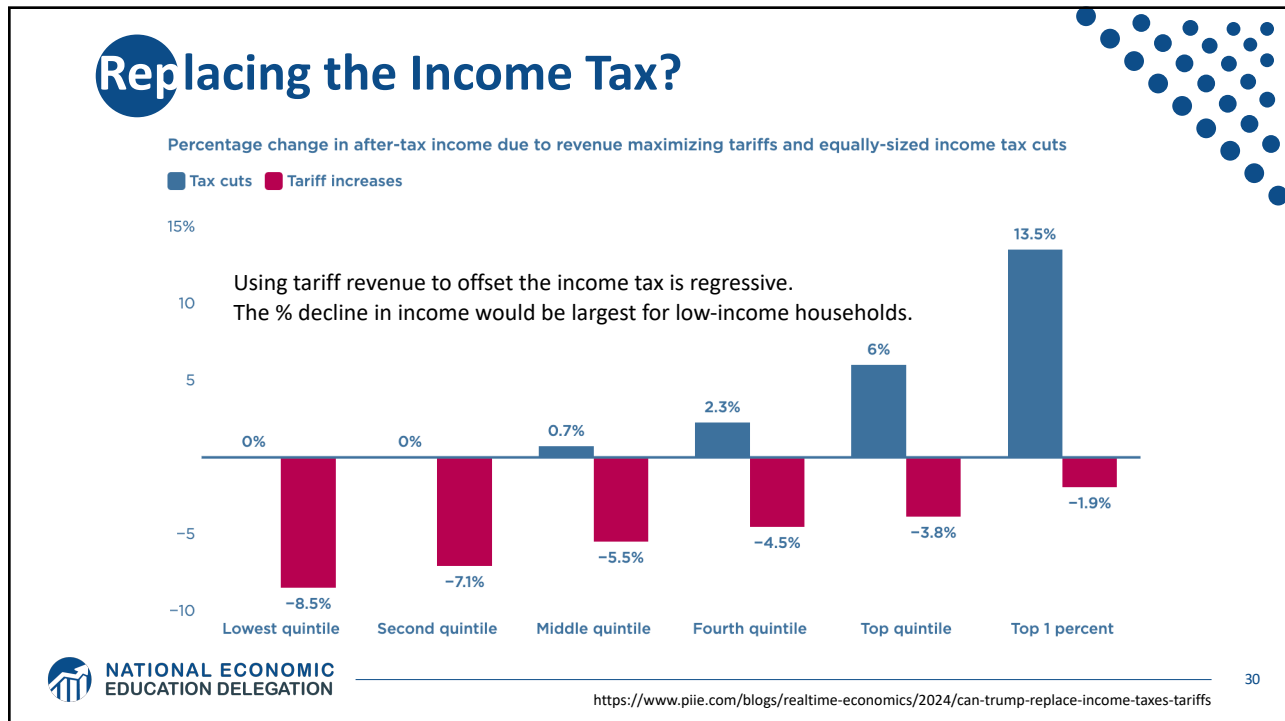
- Deficit? That's 5 year's worth of tariff revenue.
- Eliminate the income tax?
 - \$2.4 Trillion in 2024 = 10 years of tariff revenues

Replace The Personal Income Tax?





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National Security



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Steel and Aluminum Tariffs

- If you put a tariff on something, its price goes up.
- What other manufacturing industries use steel or aluminum?

ALL OF THEM!!

- So, by putting tariffs on steel and aluminum, you jeopardize other industries.
- Is it worth it? Maybe.



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Tariffs on Metals in Trump 1

- The **prices of steel and aluminum increased shortly after the tariff was implemented.**
- The **number of jobs** in iron, steel, and aluminum mills rose temporarily by about 12,000, 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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Who Pays?



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The President Said Chinese Firms Would Pay!

- **There are three things that could happen with tariffs and prices:**

1. Foreign firms could lower their prices.
2. Importing firms could lower their prices.
3. Domestic consumers could pay more.

- **Evidence from the last trade war (2018-2020):**

3. Domestic consumers paid the vast majority of the tariff (90%+).

It's sometimes worse than that: Clothes washers and dryers.

What About Prices?

Import-content-weighted index (Dec 2024 = 100) versus local projection with 90% CIs

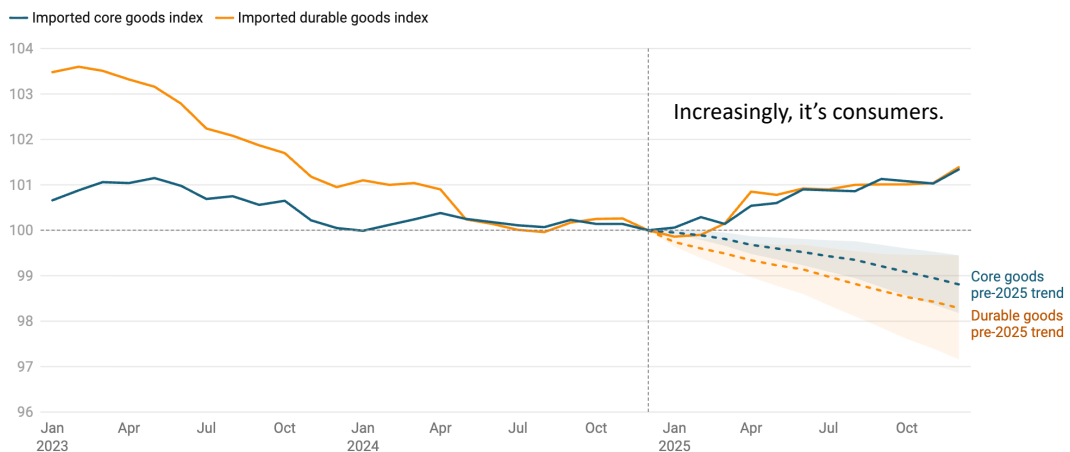
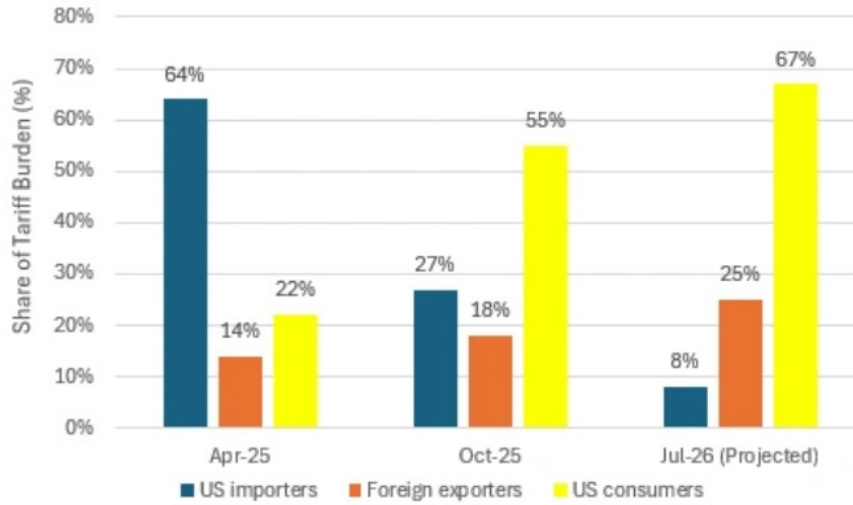


Chart: The Budget Lab • Source: BEA PCE components via Haver Analytics, BEA I-O Tables, The Budget Lab analysis • Created with Datawrapper

Changing Incidence of Trump's Tariffs



Data Source: Goldman Sachs



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Source: <https://www.cfr.org/article/who-pays-trumps-tariffs>

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To Review:



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President Trump's Reasons for Tariffs

- **Our exports are being treated unfairly.**
 - Not a problem that tariffs will fix.
- **Bring back manufacturing employment.**
 - Benefits some and harms others.
- **Raising revenue – replace the income tax?**
 - Will raise some, but will harm poorer households.
- **National security**
 - Maybe, but at what cost?
- **Is China paying?**
 - So far, some, but not much.



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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



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Effects of Tariffs on Households, As of 9/3

Percentage points of disposable income by household income decile

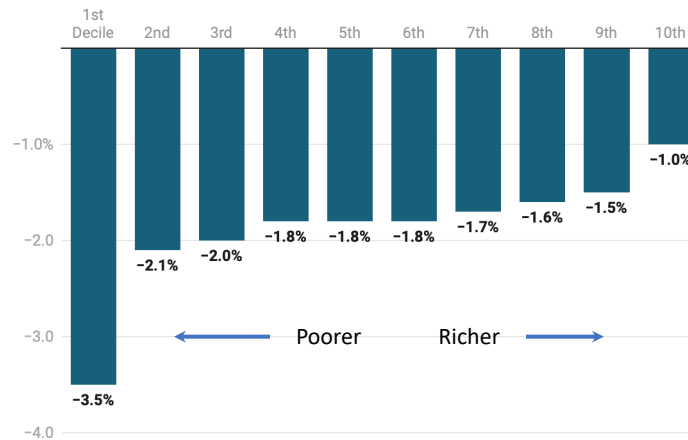


Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis. • Created with Datawrapper



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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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That Brings us to Tariffs and Democracy



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Tariffs and Democracy

- **Power to tax rests with Congress.**

- Perhaps understanding the temptation to corruption?
- Wresting this power from Congress and putting it in the hands of one person is anathema to democracy.
 - o Lack of accountability.

- **Empowers Lobbyists and Corporations**

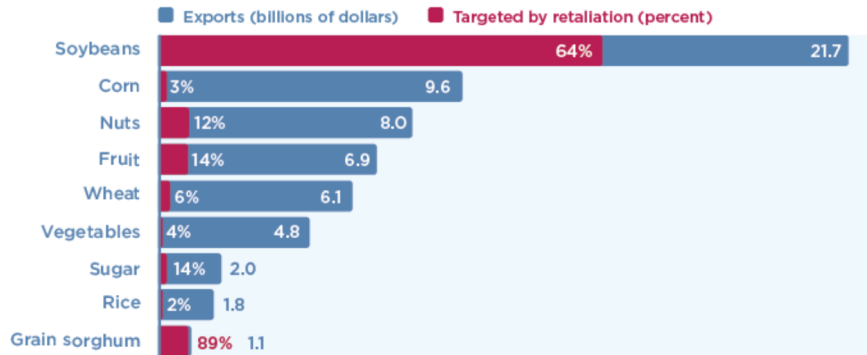
- There is an application process for exemptions.
- SOME injured parties get relief.



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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.



Trump Tariff Exemptions

- **Both the metals tariffs and the China tariffs permitted certain products and product categories to be exempted.**
 - 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 (Spoils system?)

- **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."
 - 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*".



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Where do Things Stand?



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Average Effective Tariffs

Customs duty revenue as a percent of goods imports

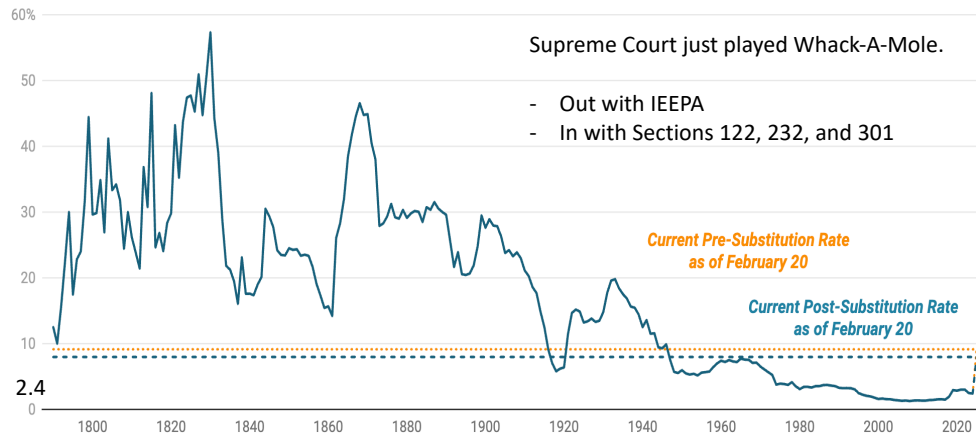


Chart: The Budget Lab • Source: Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, The Budget Lab analysis. • Created with Datawrapper



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Summary

• Tariffs will:

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

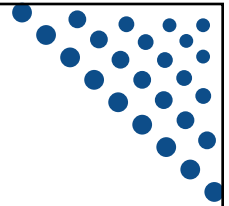


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Thank you!



Any Questions?



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