



Osher Lifelong Learning Institute, Spring 2025

Contemporary Economic Policy

University of Connecticut

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



Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

Course Outline

- **Contemporary Economic Policy**


- Week 1 (4/10): Climate Change (Sarah Jacobson Williams College)
- **Week 2 (4/17): Tariffs and Their Effects (Geoffrey Woglom, Amherst College)**
- Week 3 (4/24): Immigration (Robert Gitter)
- Week 4 (5/1): The New Inequality (Geoffrey Woglom, Amherst College)
- Week 5 (5/8): Federal Debt and Deficits (Brian Peterson, LaGrange Colleg)




Submitting Questions

- **I encourage you to submit questions by raising your virtual hand or by submitting in the chat. I will deal with questions as they come**
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website tonight (https://www.needecon.org/delivered_presentations.php).**






World Exports 2022




Tariffs and Their Effects

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
April 17, 2025





World Imports 2022



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Outline for the Talk

1. Accounting relationship between trade deficits and borrowing from foreigners.
2. Primer on Tariffs and why economists don't like them.
3. Primer on Trade Deficits and their determinants.
4. "Liberation Day" and its aftermath.



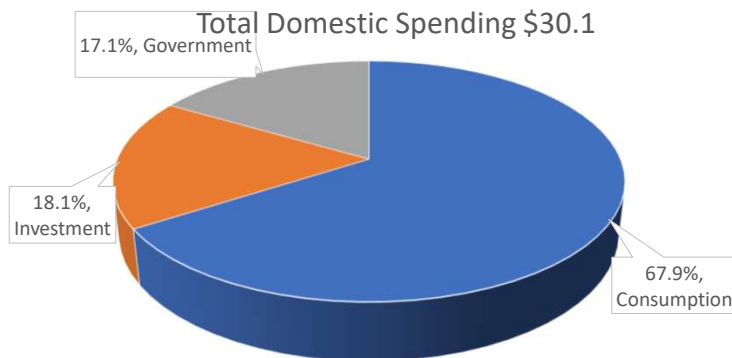
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Key Takeaways

- Trade Deficits occur when National Saving is less than investment.
- Tariffs have been falling from 1947 and were still quite low.
- Trade deficits that reflect a countries productive investment opportunities are *good*.
- China Shock (2001-2011) showed that not all expansions of trade are beneficial.
- The way to reduce the trade deficit is to increase national saving.
- Trump tariffs will hurt the poor relatively the most.
- Financial Markets are Flashing Warning Signals.

Gross Domestic Product: 2024 = \$29.2 tr

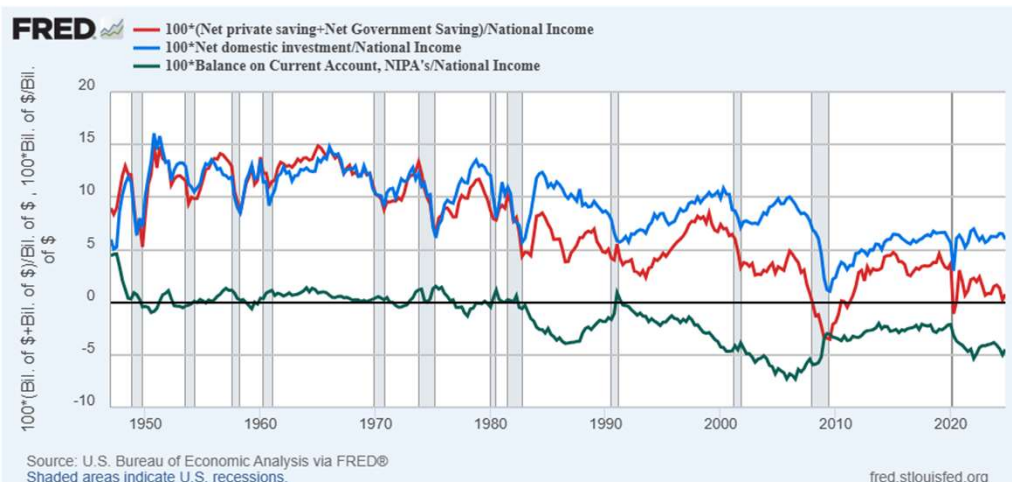


\$30.1
Less Imports (*IM*)
-\$4.1
Plus Exports (*EX*)
+\$3.2
Equals GDP (*Y*)
\$29.2

Basic GDP Accounting

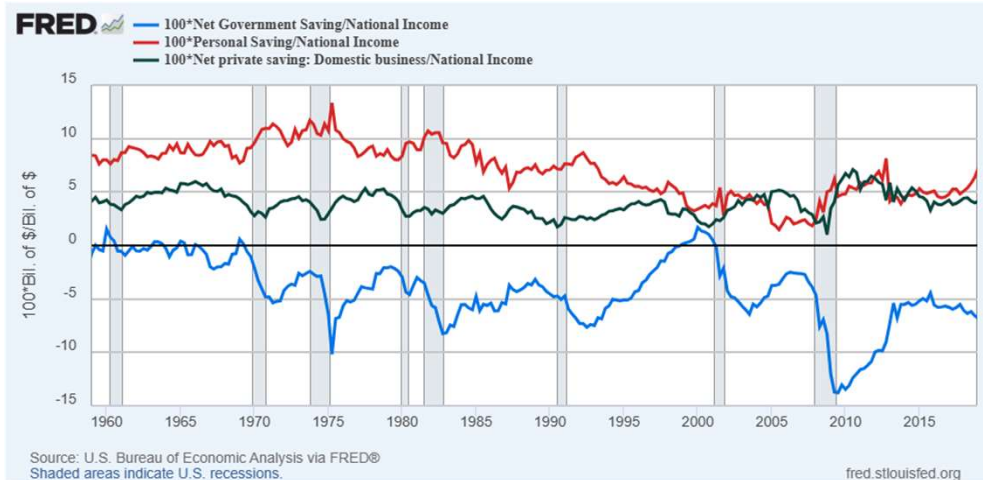
- Trade Deficit is when imports (IM) exceed exports (EX)
- Trade Deficits arise when we spend domestically more than we produce
 - Domestic Spending = $C + I + G = \$30.1$;
 - What we produce = $Y = C + I + G - IM + EX = \29.2
- $Y - C - I - G = -IM + EX$, $\$29.2 - \$30.1 = -\$0.9$
- Useful definition $Y - C - G$ is “National Saving” & rearranging;
- $(Y - C - G) - I = \text{National Saving less Investment} = -IM + EX = \text{Trade Deficit}$
- We spend more than we produce when national saving isn’t sufficient to finance our investment, so we borrow from abroad.
- Trade Deficit = Borrowing from foreigners = National Saving less Investment.
- Key Takeaway: Trade Deficits are Associated with an imbalance of national saving and investment

History of Saving, Investment and Trade Balance



Persistent Trade Deficits Start in the 1980s

Three Components of National Saving



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Movements in National Savings are Dominated by Government Deficits

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A Brief Primer on Tariffs

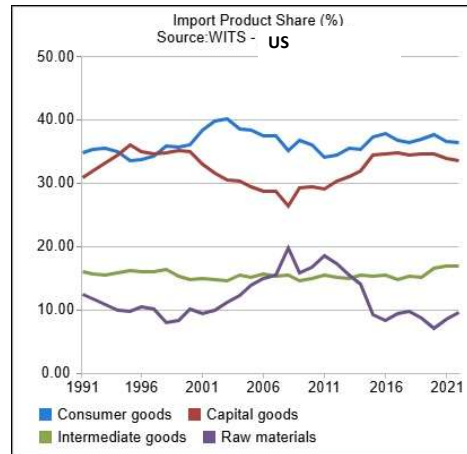
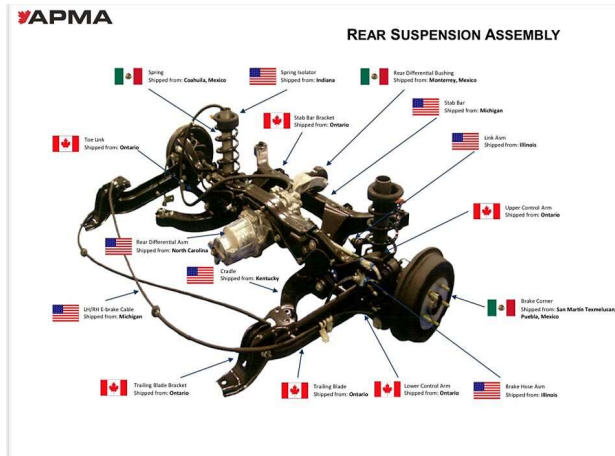
- **Tariffs** are a sales tax on imported goods, *collected* from importers
- The *burden* of the tariff in general falls on buyers of imports (consumers and firms) to the extent of higher prices and on the foreign country.
- Economists don't like tariffs in general because they reduce the gains from trade
 - More efficient utilization of global resources: Why doesn't Patrick Mahomes mow his own lawn
 - Economies of scale for producing for large markets.
- **Gains to Trade Taken to a New Level with Global supply chains**



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Supply Chains

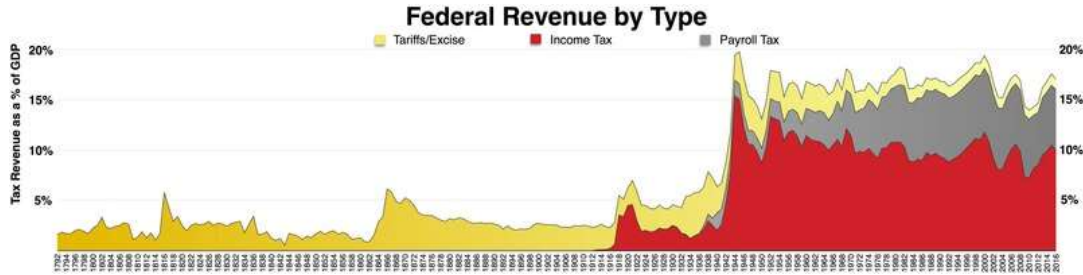


Possible Economic Arguments for Tariffs

• Possible arguments for tariffs

- National Defense – strategic resource. Do we need the capacity to make our own computer chips, just in case?
- “Infant” Industry
- Temporary strategy to reduce foreign tariffs

History of the Source of Federal Revenues

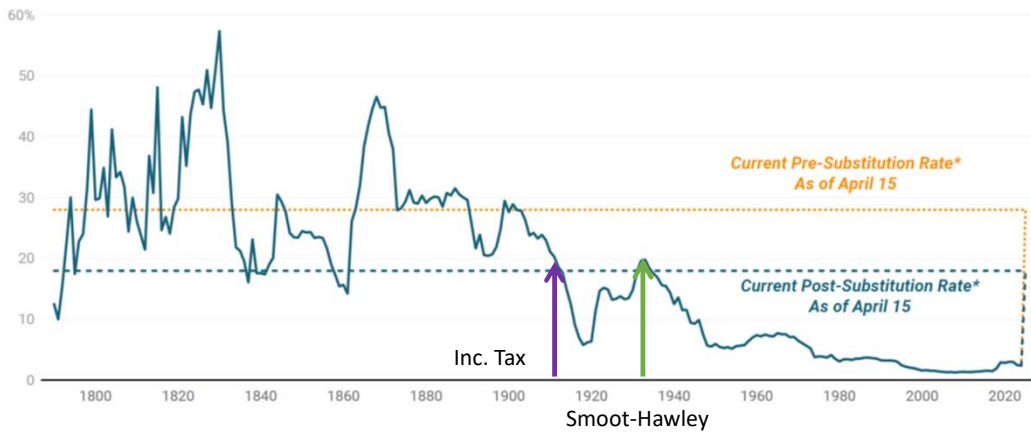


1913; Sixteenth Amendment. The Congress shall have the power to lay and collect taxes on incomes, from whatever source derived...

1930; Smoot Hawley Tariff.

1935; Social Security and Payroll taxes.

History of US Average Effective Tariff Rates



The Original Reciprocal Tariffs

- **Reciprocal Trade Agreements Act of 1934**

1. President has the authority to negotiate bilateral trade agreements allowing for the *reciprocal tariff reductions* of up to 50% of Smoot Hawley.
2. 32 Bilateral trade agreements signed between 1934 and 1945.
3. Sets a precedent of Congress delegating tariff authority to the President.

- **General Agreement on Tariffs and Trade 1947**

1. Outgrowth of Bretton Woods – Multilateral reciprocity.
2. Average tariffs fall from 22% in 1947 to 5% in 1999.

https://en.wikipedia.org/wiki/Reciprocal_Tariff_Act



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https://en.wikipedia.org/wiki/General_Agreement_on_Tariffs_and_Trade

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World Trade Organization (WTO) 1995

- **GATT was only a set of legal agreements and had no organizational structure.**
- **New trade issues arose, e.g., intellectual property rights, non-tariff barriers to trade.**
- **More efficient and “binding” dispute resolution.**

China joins the WTO in December of 2001.



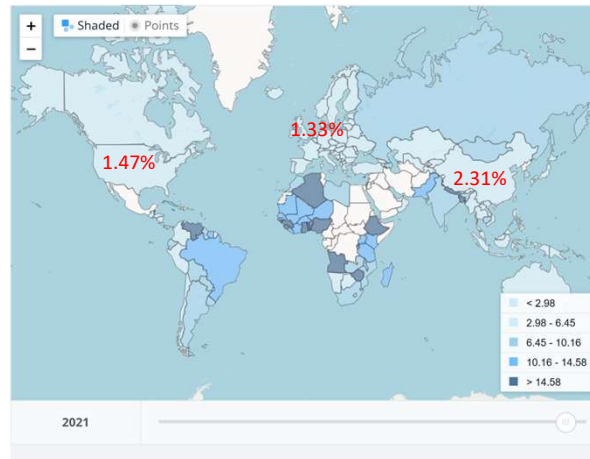
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<https://www.britannica.com/topic/General-Agreement-on-Tariffs-and-Trade>

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Tariffs in 2021

Key Takeaway:
Tariffs have been
generally very low



Doesn't Congress Set Taxes, including Tariffs?

- **Yes, but Congress has delegated the authority to *raise* tariffs 3 times**
 1. 1962: If imports threaten national security following an investigation by the Secretary of Commerce
 2. 1974: If the US International Trade Commission finds that a surge in imports is harming domestic industries
 3. 1977: President declares a national emergency due to "an unusual and extraordinary threat" originating outside the US

President Trump has been claiming tariff authority from 3., but is being challenged in courts.

Trade Deficits

- Remember, trade deficits occur when national saving is insufficient to finance investment.
- Three possible causes (not mutually exclusive):
 1. Low national saving due to government deficits
 2. Low national saving due to low private saving.
 3. High levels of investment.
- Good Trade Deficits: South Korea from 66-76?
 - GDP growth averaged around 10%
 - Investment about 25% of GDP
 - National Saving about 22%
 - Government Deficit of about 3%

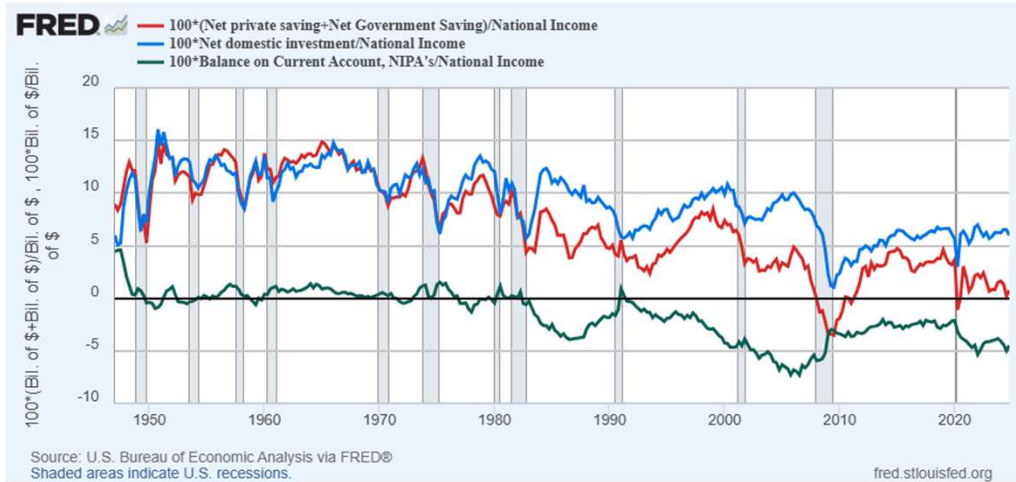
Good Trade Deficits Allocate International Saving to the most productive investments.

US Trade Balance 2022

US with all countries: - Total Imports (IM) + Total Exports(EX) = -\$3.4 tr + \$2.1 tr = \$-1.2 tr

Partner Name	Trade Balance (▲)	Export (US\$)	Import (US\$)	Import Partner	Export Partner	Partner Name	Trade Balance (▼)	Export (US\$)	Import (US\$)	Import Partner	Export Partner
China	-421,851,068.76	153,837,022.41	575,688,091.17	17.07	7.46	Netherlands	37,274,136.43	72,876,622.27	35,602,485.84	1.06	3.53
Mexico	-134,799,887.42	324,377,768.94	459,177,656.36	13.61	15.73	Hong Kong, China	20,881,771.61	25,815,866.21	4,934,094.60	0.15	1.25
Vietnam	-124,478,427.55	11,398,113.40	135,876,540.95	4.03	0.55	Singapore	14,022,454.76	46,163,161.05	32,140,706.29	0.95	2.24
Canada	-91,736,882.34	354,887,051.26	446,623,933.61	13.24	17.21	Australia	13,692,808.65	30,197,630.66	16,504,822.02	0.49	1.46
Germany	-77,858,794.14	72,549,705.24	150,408,499.38	4.46	3.52	United Arab Emirates	13,537,464.12	20,851,481.26	7,314,017.14	0.22	1.01
Japan	-74,140,635.37	80,304,526.18	154,445,161.54	4.58	3.89	United Kingdom	12,515,462.34	77,261,013.67	64,745,551.33	1.92	3.75
Ireland	-66,550,002.92	15,955,712.86	82,505,715.78	2.45	0.77	Brazil	12,207,187.03	53,577,707.16	41,370,520.13	1.23	2.66
Other Asia, nes	-52,365,066.95	43,710,241.52	96,075,308.47	2.85	2.12	Panama	11,481,043.45	12,030,212.44	549,168.99	0.02	0.58
Korea, Rep.	-49,389,767.73	71,469,488.66	120,859,256.40	3.58	3.47	Belgium	8,049,449.29	35,523,380.69	27,473,931.40	0.81	1.72
Thailand	-47,419,528.09	15,592,499.44	63,012,027.52	1.87	0.76	Dominican Republic	6,710,012.87	13,853,339.85	7,143,326.98	0.21	0.62
Italy	-44,464,212.96	27,410,694.46	71,874,907.42	2.13	1.33	Chile	6,526,583.18	23,327,985.47	16,801,402.28	0.50	1.13
India	-43,659,713.14	47,332,140.04	90,991,853.18	2.70	2.30	Argentina	5,558,851.32	12,850,390.09	7,291,538.76	0.22	0.62

US: Since 2000s, Good or Bad?

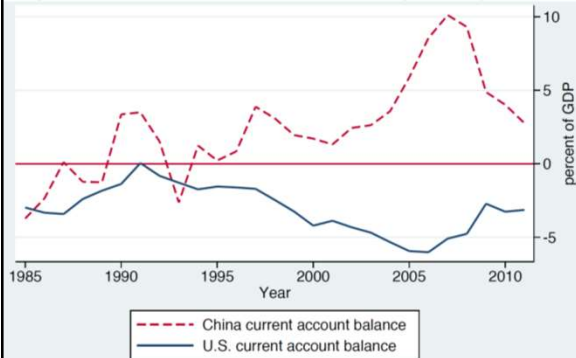


What about the China Shock?

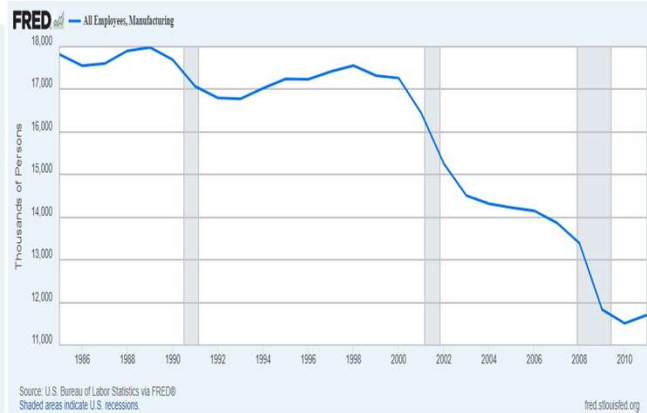
- **2000 Economist View of the Effects of Increasing Trade**
 1. Free Trade leads to more gains than losses
 2. Trade was not the major cause of the decline in manufacturing employment nor in the rise of inequality.
 3. Increasing trade would affect low skilled wages generally and not by trade-exposed workers specifically.
 4. Worker mobility was high.
- **Given 4, increasing trade should provide gains for most.**

The China Shock

Figure 5: U.S. and China Current Account Balances (% of GDP) 1985 - 2012



Source: World Development Indicators.



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

Reminder: China Joins WTO in December of 2001



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Author et. al.'s Conclusion

While these results do not at all suggest that international trade is in the aggregate harmful to nations-indeed, China's unprecedented rise from widespread poverty bears testimony to trade's transformative economic power-it makes clear that trade not only has benefits but also significant costs. These include distributional costs, which theory has long recognized, and adjustment costs, which the literature has tended to downplay.

China shock showed that a rapid influx of imports can cause harm that is geographically concentrated and long lasting to communities with import competing industries.



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Tariffs and Trade Deficits

- Remember, Trade Deficits are the mirror image of investment greater than national saving.
- **For the trade deficit to fall either national saving must rise and/or investment must fall (not what we want).**
- **For national saving to rise**
 - Households and businesses must save more, or
 - The government deficit must fall.



So, What Do Tariffs Do?

- Tariffs do increase national saving by raising revenue, but also
- Decrease the demand for the goods subject to the tariff, which
- Increases the value of the dollar, thereby
 - Lowering our exports as domestic goods cost more to foreigners.
 - Offsets some but not all of the effect of the tariff on total imports, as non-tariffed imports are cheaper.
- **Net Effect (first approximation)**
 - Exports fall, **Total Imports** fall, and the change in the trade balance is solely due to reduced government deficit.
 - Composition of imports changes while the relative share of non-tariffed imports rises.
 - Winners and Losers and rent seeking?



Trump “Reciprocal” Tariffs

Suspended for 90 days

- **Easy Peasey – Charge the rate country imposes on us.**
- **Complications**
 - Non-tariff barriers, strict labeling requirements, state procurement policies.
 - Exchange rate policy that leads to undervalued currency.
 - **Not**, Value Added Taxes
- **Complicated and Controversial, but NOT what was done.**
- **Instead, half of the bilateral trade surplus with the US divided by total exports to the US $0.5(EX-IM)/EX$.**

Example, Lesotho (2022 data)



$(EX-IM)/EX =$
 $(\$236m - \$7m) / \$236m = 0.97$
 “Reciprocal” Tariff = $0.5(.97) = .485$,
 49% tariff rate (actually, 50%)

Facts about Lesotho:

GDP/Pop = \$1,073;

Population 2.1 million

Trade balance -\$349 million

Average eff. tariff rate against US = 10%

More Generally

- **Bilateral Trade Surplus, by itself, doesn't have much economic significance, and certainly doesn't have any general relationship to the level of tariff or non-tariff barriers.**
 - **Pastrick Mahomes runs a trade deficit with the teenager who mows his lawn!**
 - **Is the teenager "ripping off" Patrick Mahomes.**
- China may be the exception.**

Tariffs as of April 15

Current Tariffs

U.S. Tariffs

20% broad tariff on all Chinese imports (effective February 4; increased March 4)

10% tariff on Canadian potash and energy (effective April 2)

25% tariff on all Mexican imports and other Canadian imports* (effective March 4)

25% tariff on all automobiles, with an exemption for US content** (effective April 3)

25% tariff on all steel and aluminum imports

U.S. Tariffs

Modified April 2 announcement: 10% minimum tariffs on all countries ex. China, Canada, & Mexico; 125% tariff on China (effective April 9, modified April 9, 90-day duration)***

Retaliatory Tariffs

China 10%/15% list (announced February 4)

Canada 25% list (announced March 4)

China 10%/15% list (announced March 4)

Canada 25% list (announced March 13)

China broad 125%

Retaliatory Tariffs

China suspension of exports of minerals and magnets (announced April 11)****

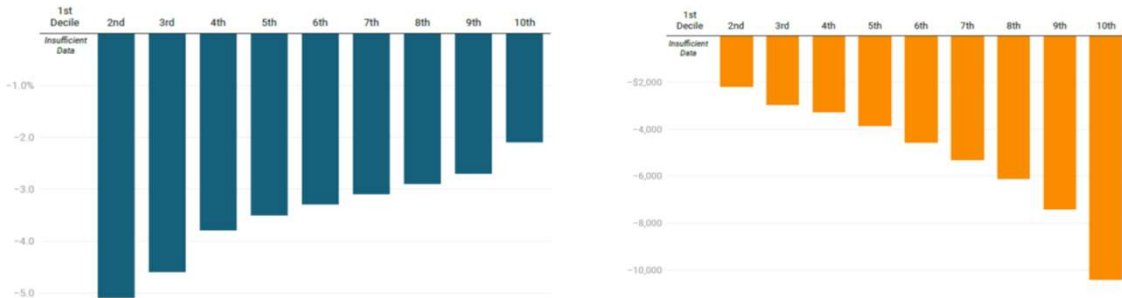
Estimated Macro effects

- **Tariff Revenue 2026-2035: between \$2.4 and \$1.8 trillion**
- **2025 growth in GDP falls by 1.1 percentage points.**
- **Change in the Price Level 3.0 points.**
- **2 Estimates of Average Effective Tariff Rates**
 - No substitution effects – 25.6% (Chinese imports 14% of total)
 - Substitution effects – 15.6% (Chinese imports fall to 3% of total!)

Distributional Effects

Figure 5. Short-Run Distributional Impact of 2025 Tariffs to Date

Through April 15
Percentage points of disposable income by household income decile



Poor hurt relatively the most, “regressive” tax

Yes but it Lowers the Deficit, Raising National Saving

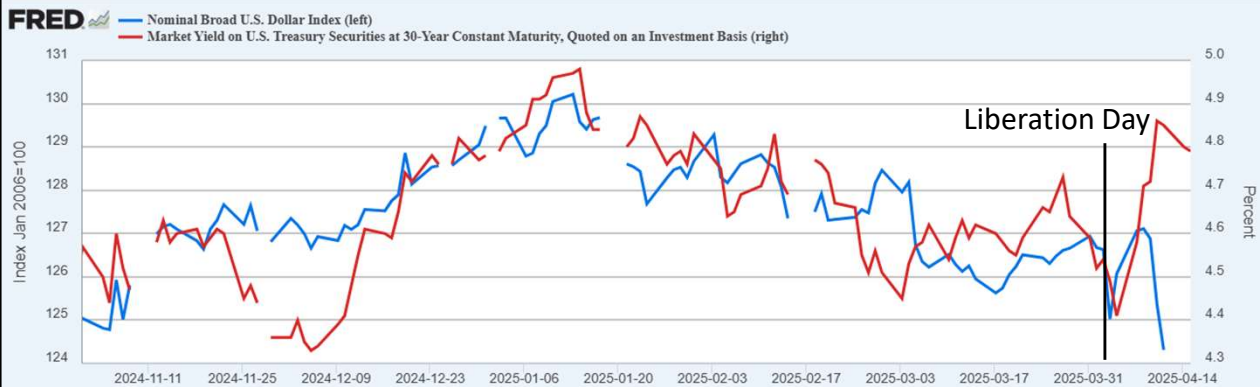
- \$2.4 to \$1.8 trillion over ten years in perspective.
- Non-partisan Joint Committee on Taxation recently estimated that the Republican tax plans including extending 2017 tax cuts will raise deficits by \$5.5 trillion over the next ten years.
- Are spending cuts the size needed to prevent rising deficits likely?



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Limitations & Ominous Mystery

- How do you estimate Effects of Policy Changes that haven't been seen in nearly 100 years?

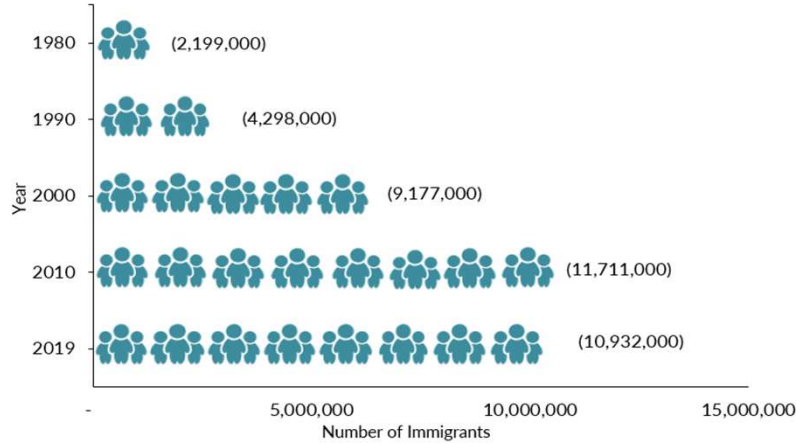


Source: Board of Governors of the Federal Reserve System (US) via FRED®
Shaded areas indicate U.S. recessions.



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Mexican-Born People in the US



About 10.6 million in 2022 (Latest data)

1 in 14 people born in Mexico currently lives in the US



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Let's Hear from You!

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