PubPol/Econ 541

Class 25

Final Class

by
Alan V. Deardorff
University of Michigan
2024

Announcements

- **Paper #3**
  - Is due this Wednesday (no class), 8:30 AM, Dec 11
  - I am still available to answer questions
    - At today's office hour 10-11
    - By email
    - Meet with your group by zoom

Announcements

- **Quiz #12**

	Q10	Q11	Q12
Mean	6.58	8.06	7.97
Median	6.25	8.5	8.5
Max	10	10	9.5
Min	5	5	5
Standard deviation	1.32	1.50	1.41

- **Quiz #13**
  - Available since last week.
  - Due by this Friday 12/13 midnight,
  - Accepted until Saturday 12/14 midnight with 1 point penalty
  - Covers material from Monday and Wednesday last week (Sanctions, Subsidies and Countervailing Duties)

- **Course evaluations**
  - Please do them
  - As of today, only 4 of 20 had been done
  - Due tomorrow

With Revisions 11/24 +

Tariffs and Their Effects

Alan V. Deardorff

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Presentation to Economic Dinner Group

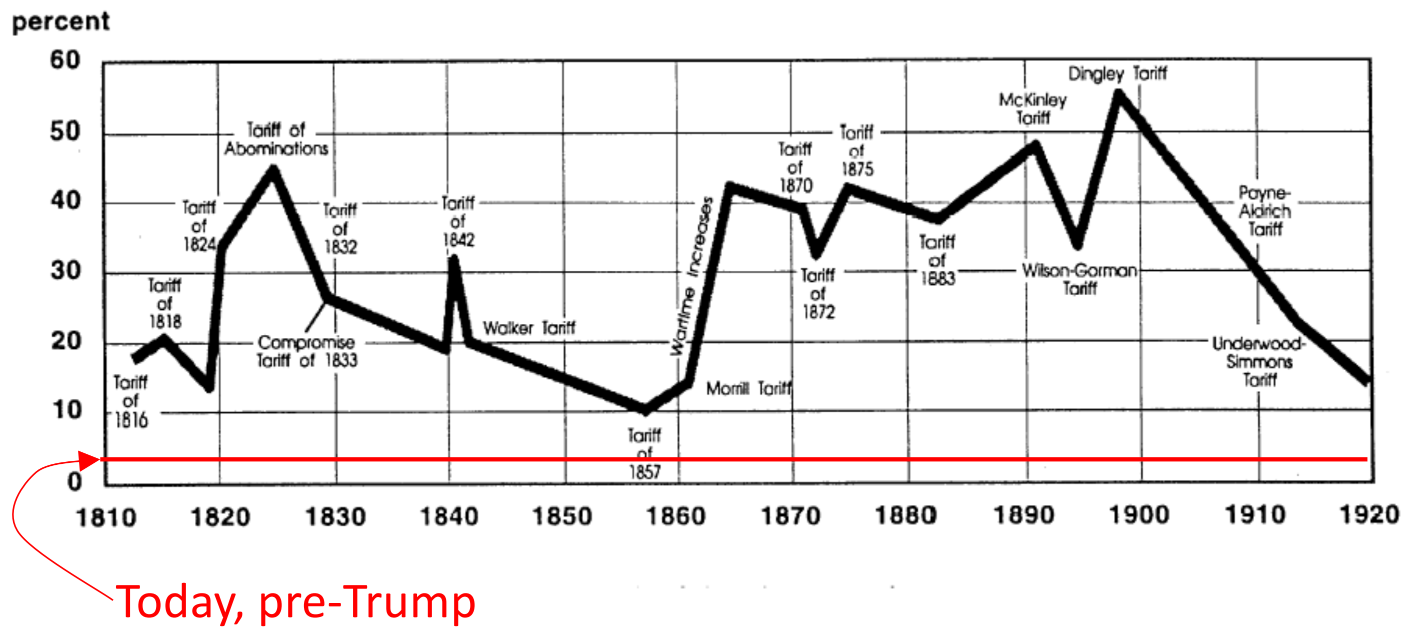
November 18, 2024

Outline

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

US Tariff History

US Tariff History, 1810-1920



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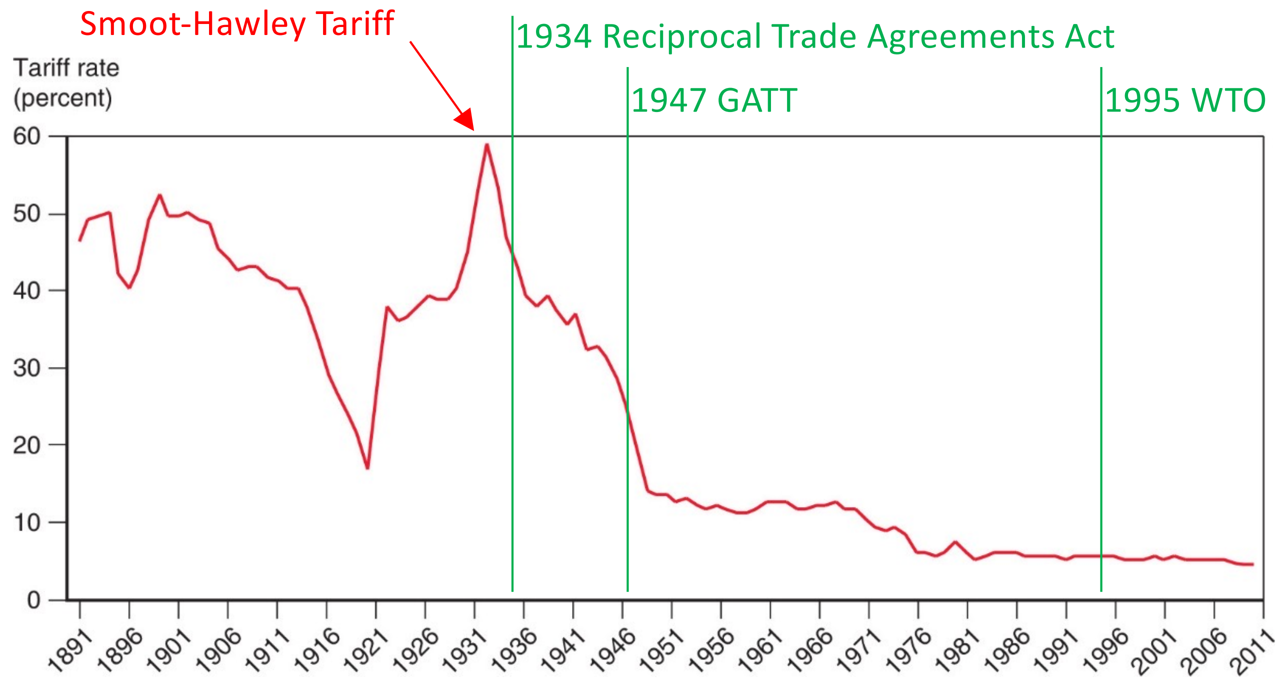
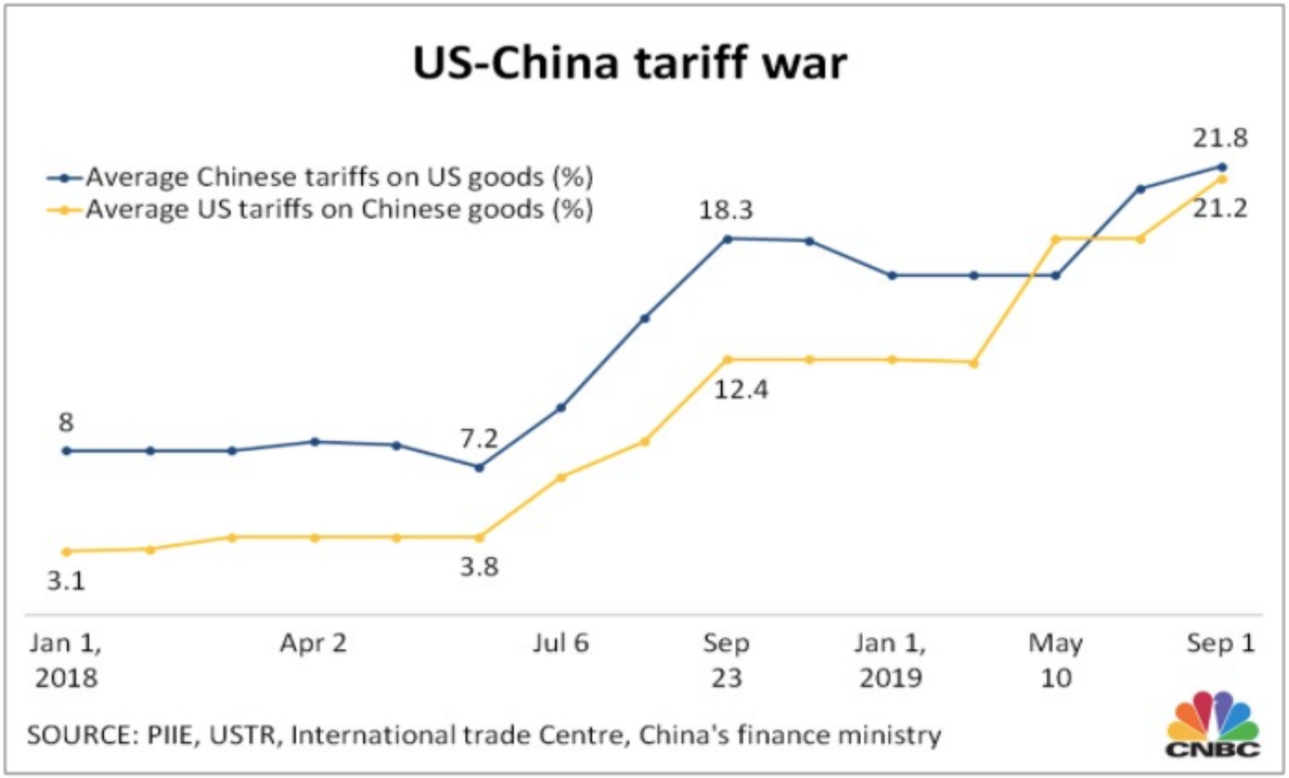
US Tariff History, 1891-2011



Trump I Tariffs and the Trade War

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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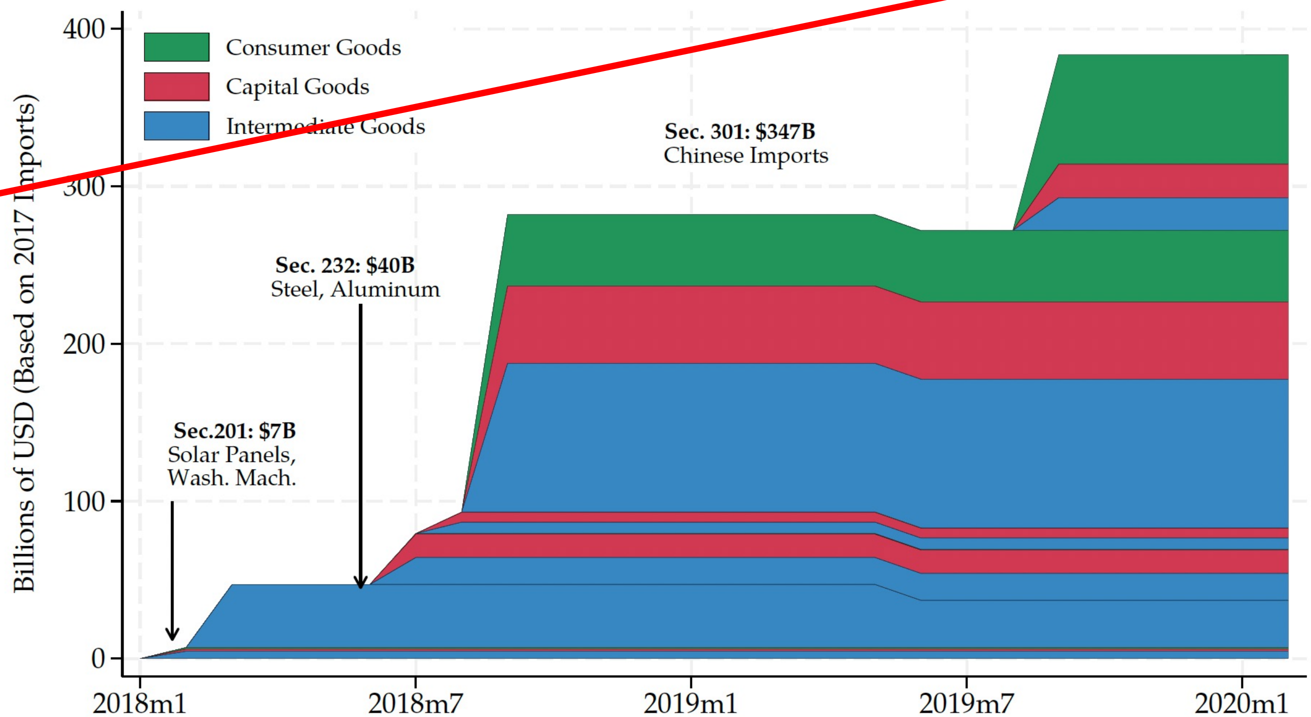
Trump I Tariffs - US Imports Covered

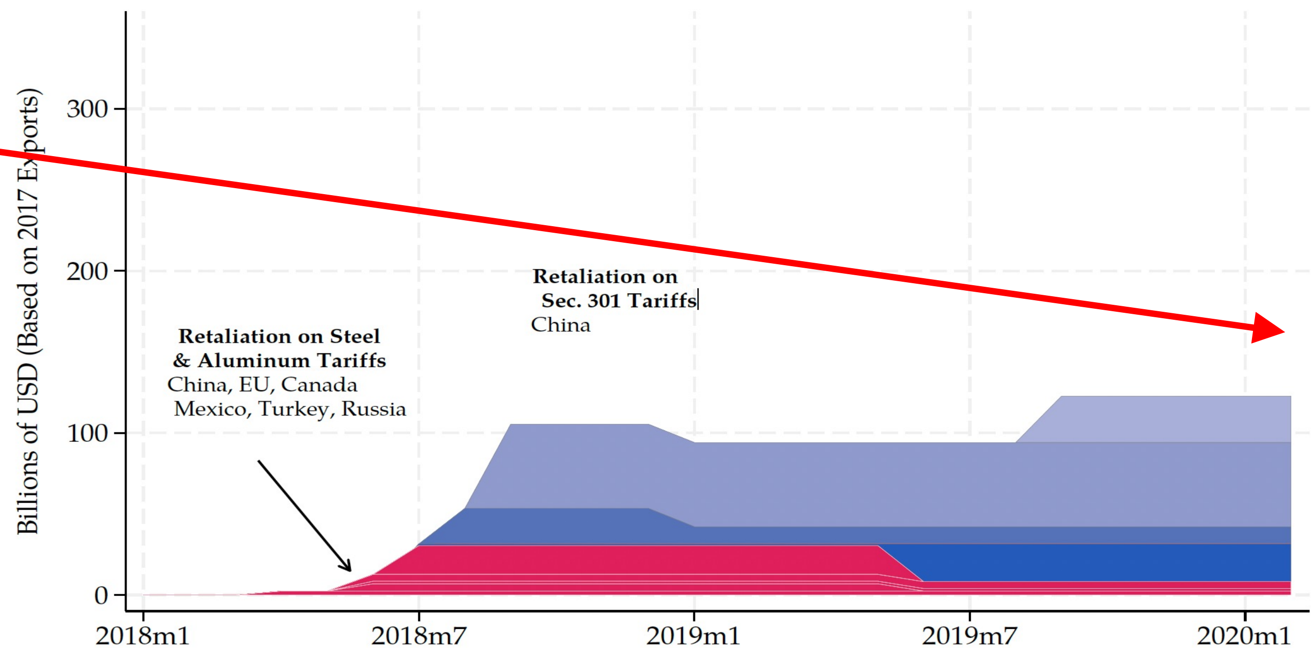
US imports from China in 2017, per World Bank: $480 billion



Source: Flaaen & Pierce 2020

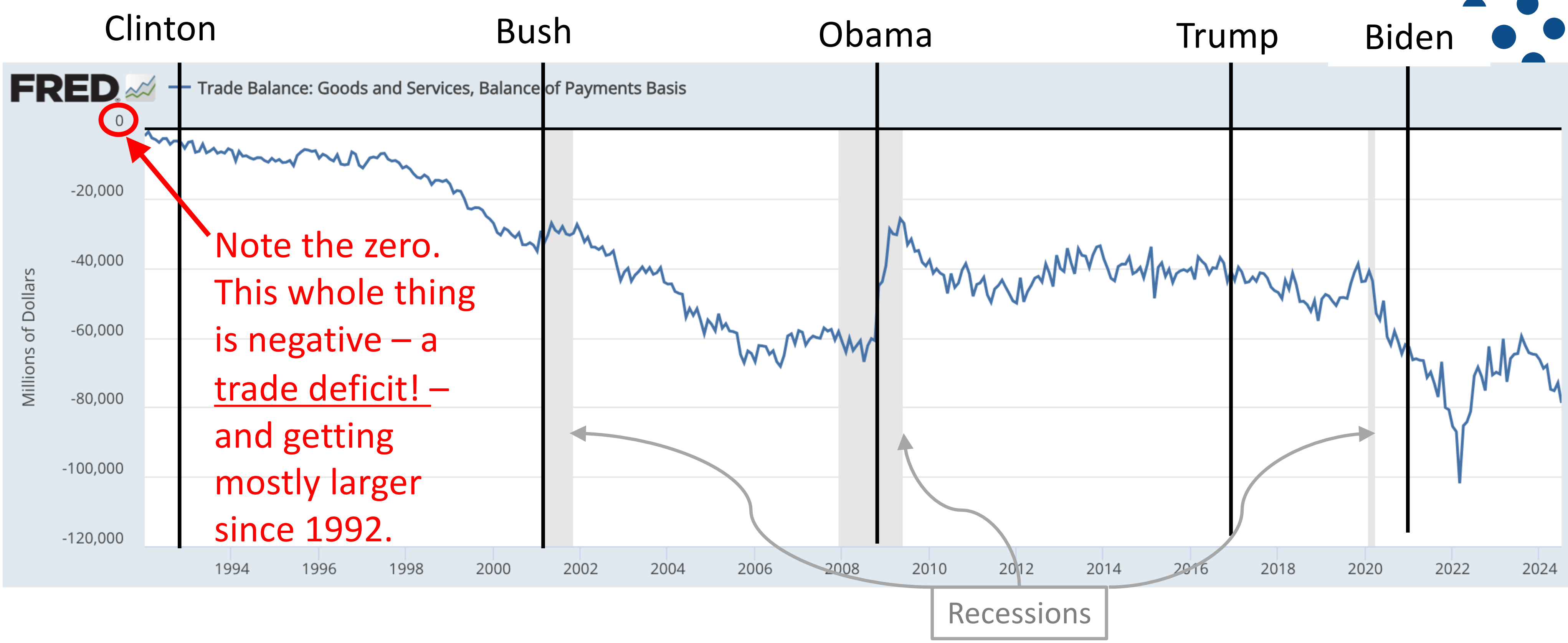
Trump I Tariff Retaliation - US Exports Covered

US exports to China in 2017, per World Bank: $154 billion



Source: Flaaen & Pierce 2020

US Trade Balance = Exports minus Imports



US Trade Balance with China

US Trade Balance with Vietnam

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Trump Tariff Exemptions

- **September 18, 2018:**

The Washington Post

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

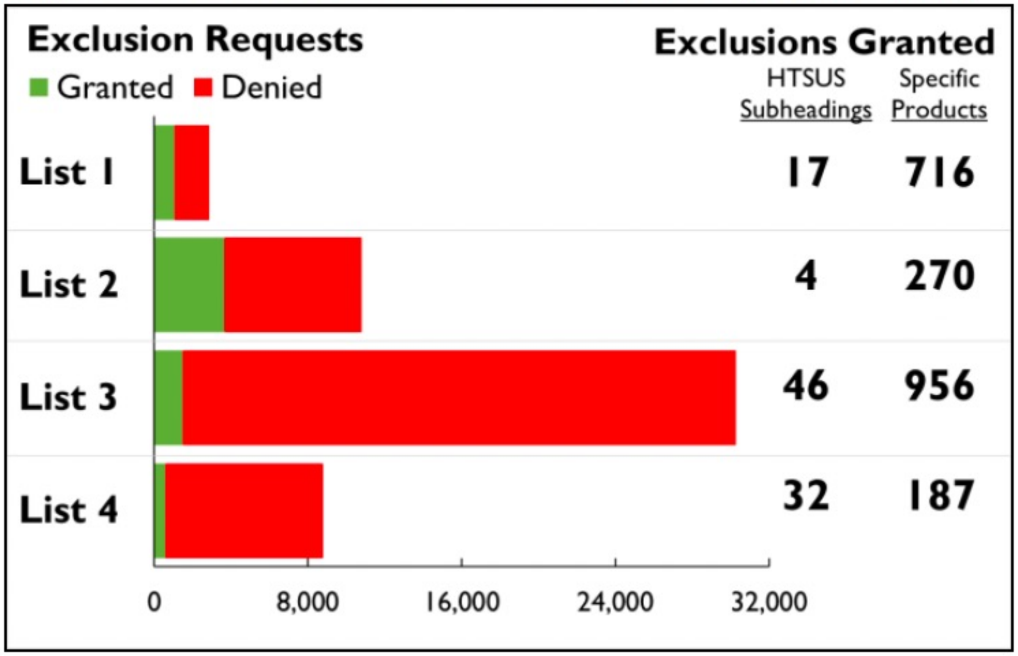
- "Clearly Tim Cook has been effective in his developing a relationship with the current administration, and this is probably one of the best examples of the fruits of that labor."

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 1. 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 has**
  - 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’”**
- **Has 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

- **More recently:**
  - 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.

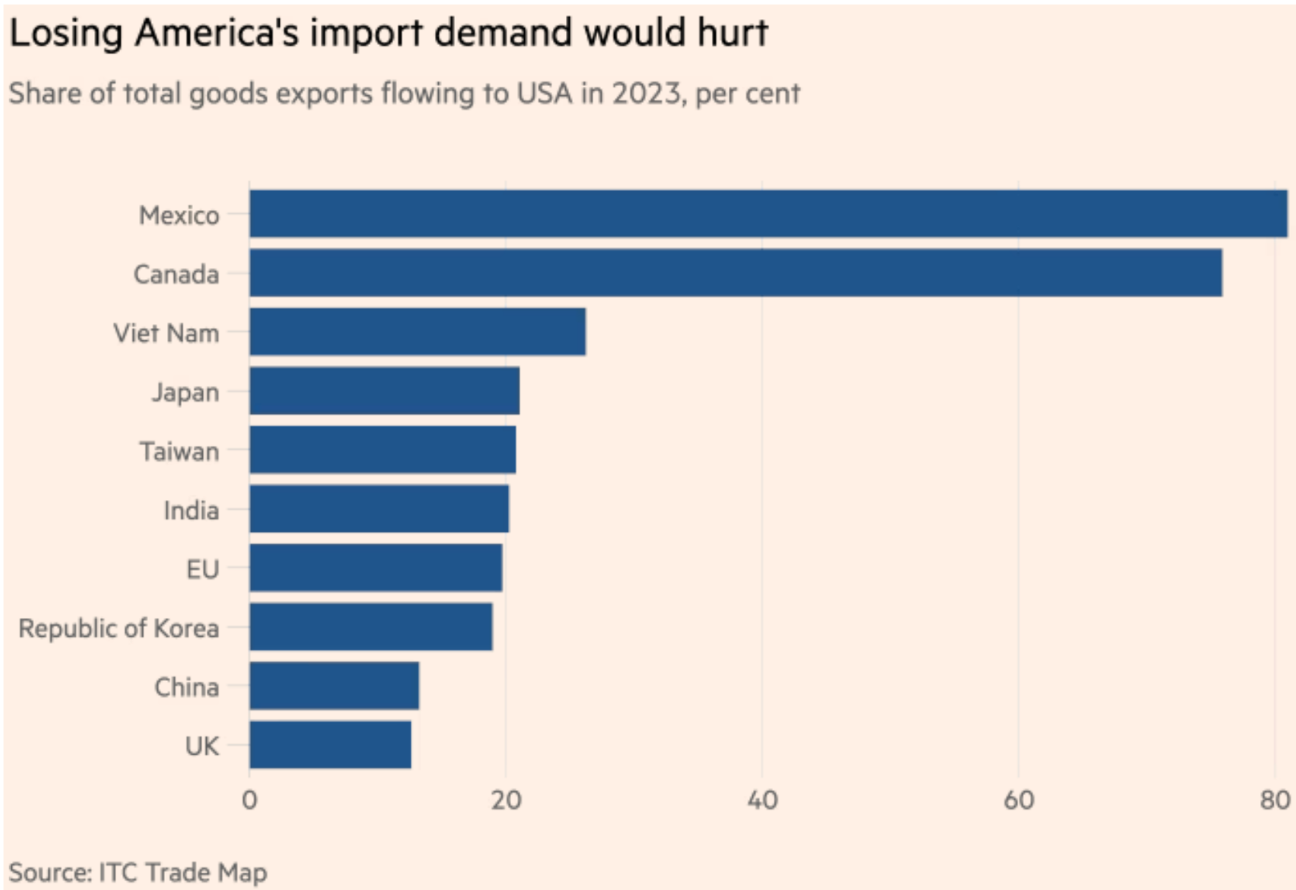
Trump II Tariff Plans

- **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 the threat to negotiate ”deals”
    - For the benefit of the country (?)
    - For the benefit of himself (!)

Trump II Tariff Plans

- **What will Trump be able do?**
  - The 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:
    - Section 201 of 1974 Trade Act: Safeguards, used for washing machines
    - Section 232 of 1962 Trade Act: National security, used for steel
    - Section 301 of 1974 Trade Act: Unfair trade, used for China tariffs
    - International Emergency Economic Powers Act of 1977, not used yet
      - But threatened against Mexico in 2018 over migration
  - For his tariffs on all imports, he may need to get Congress to act, but Beatie in FT disagrees
  - Reciprocal Trade Act would have to be by Congress

What Countries will Be Hurt?



Source: Keynes, FT, 11/15/24

Effects of Tariffs in General

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.
  - 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 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
    - 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

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 may be net harmful
    - There exists another policy 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 them

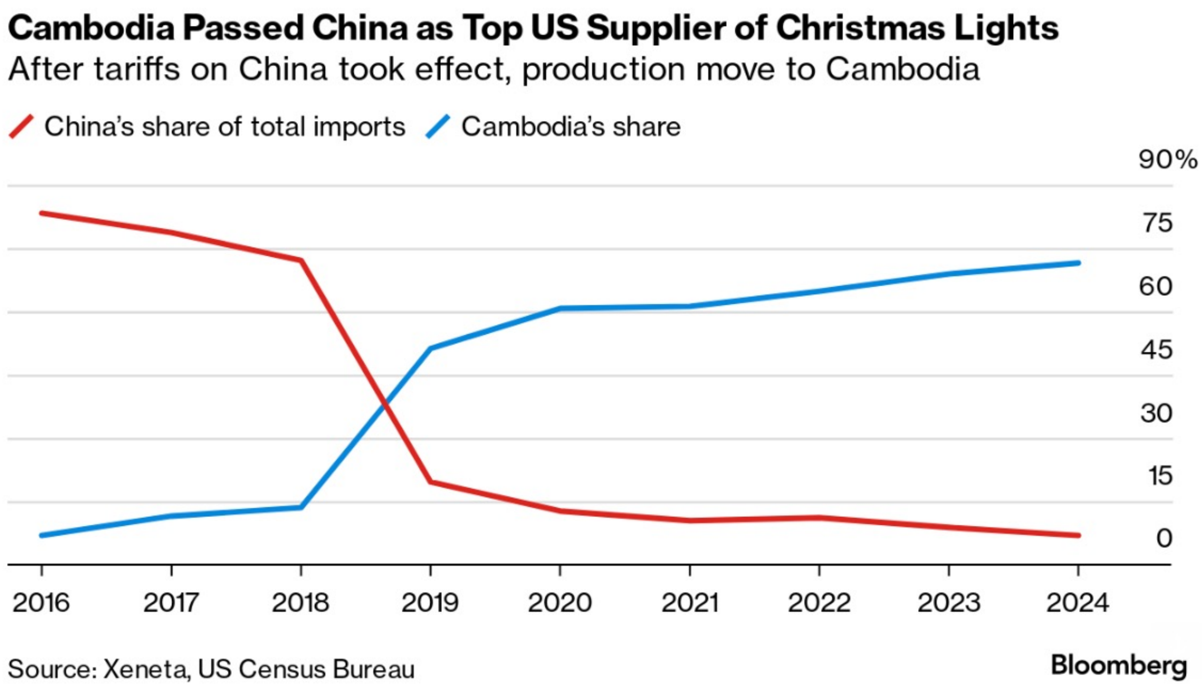
Effects of a tariff

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

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



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.

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, no reason for tariffs to raise income
  - So NO!

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×\$0.43tr = \$0.26tr
    - 20% on US goods imports from non-China, 0.2×\$3.40tr = \$0.68tr
    - Total: \$0.94tr
  - US federal income tax revenue in 2023 was \$2.18tr
  - So his tariffs would collect AT MOST less than half of the income tax

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

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 Econnomics, September 2024**

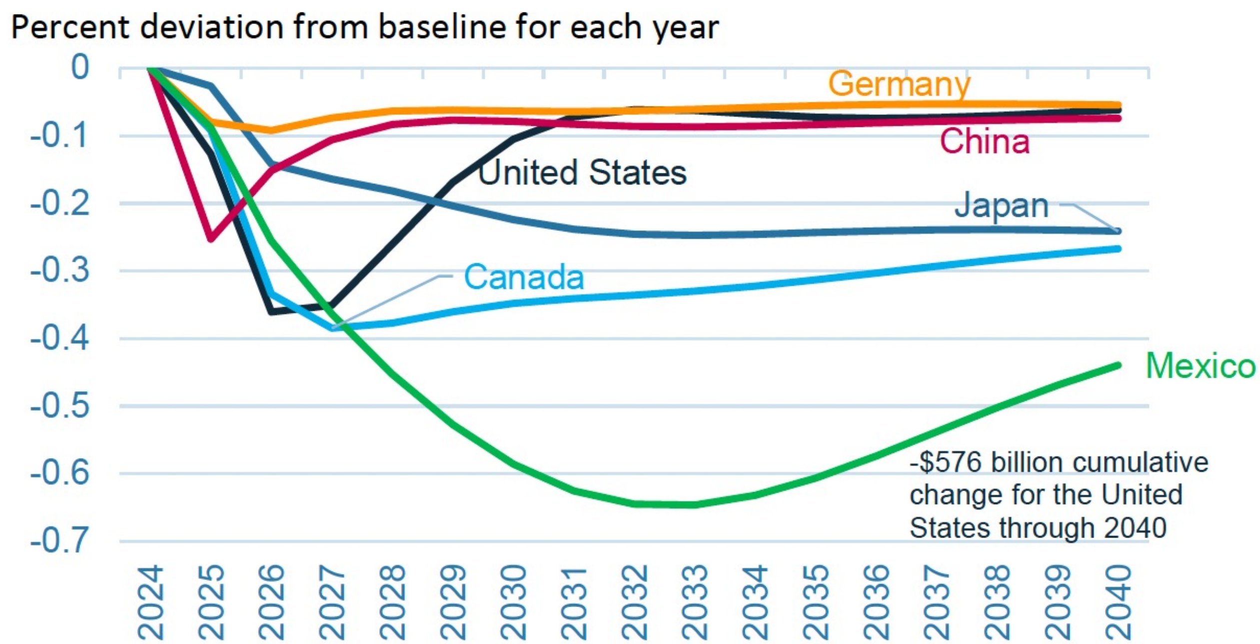
  - They use a large computer model of both microeconomics and macroeconomics to calculate effects of
    - Deportation of 8.3 million unauthorized immigrant workers
    - Tariffs
      - 10% on all imports
      - 60% on imports from China
    - Erosion of Federal Reserve independence
  - Results below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

Effects of Trump Proposed Tariffs

on GDP

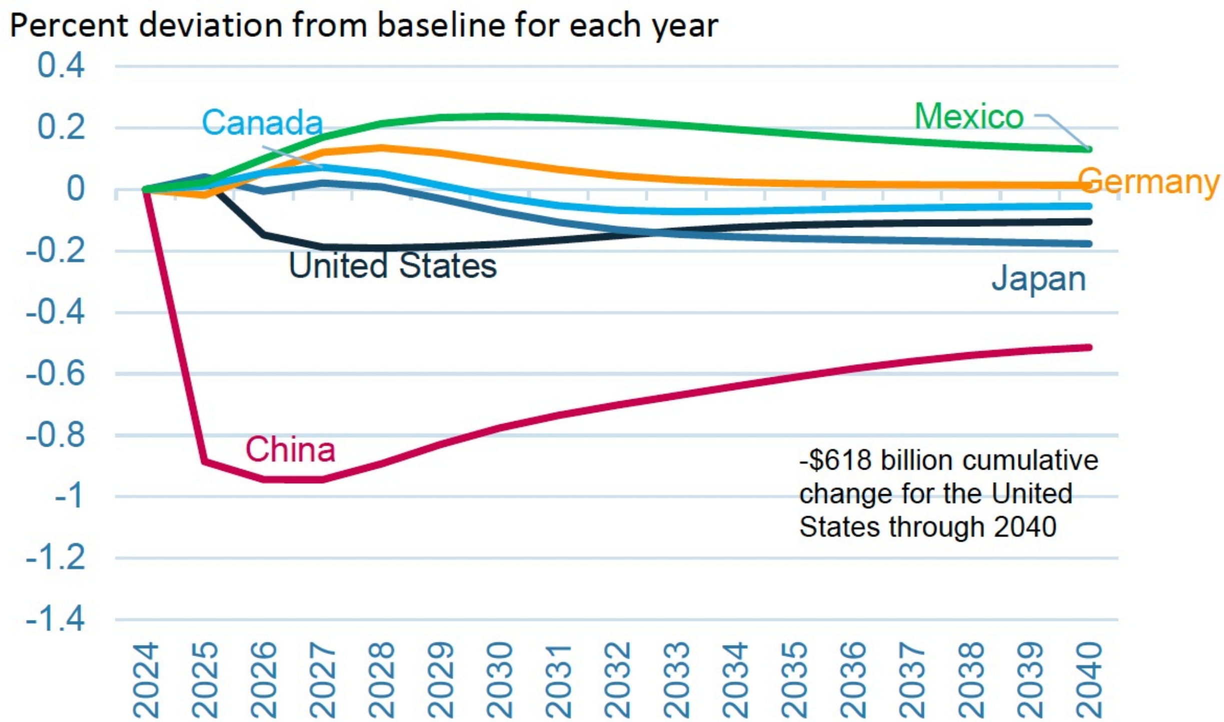
Effects of 10% Tariff on All US Imports

Real GDP



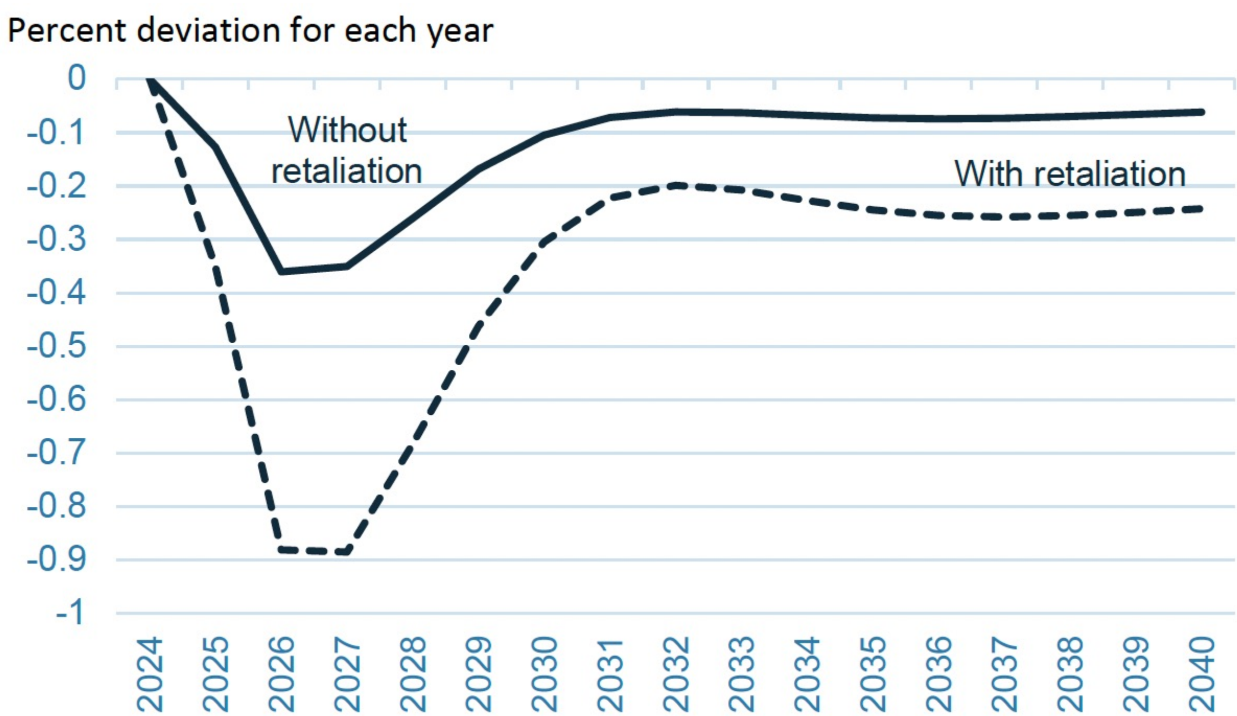
Effects of 60% Tariff on China Exports

Real GDP



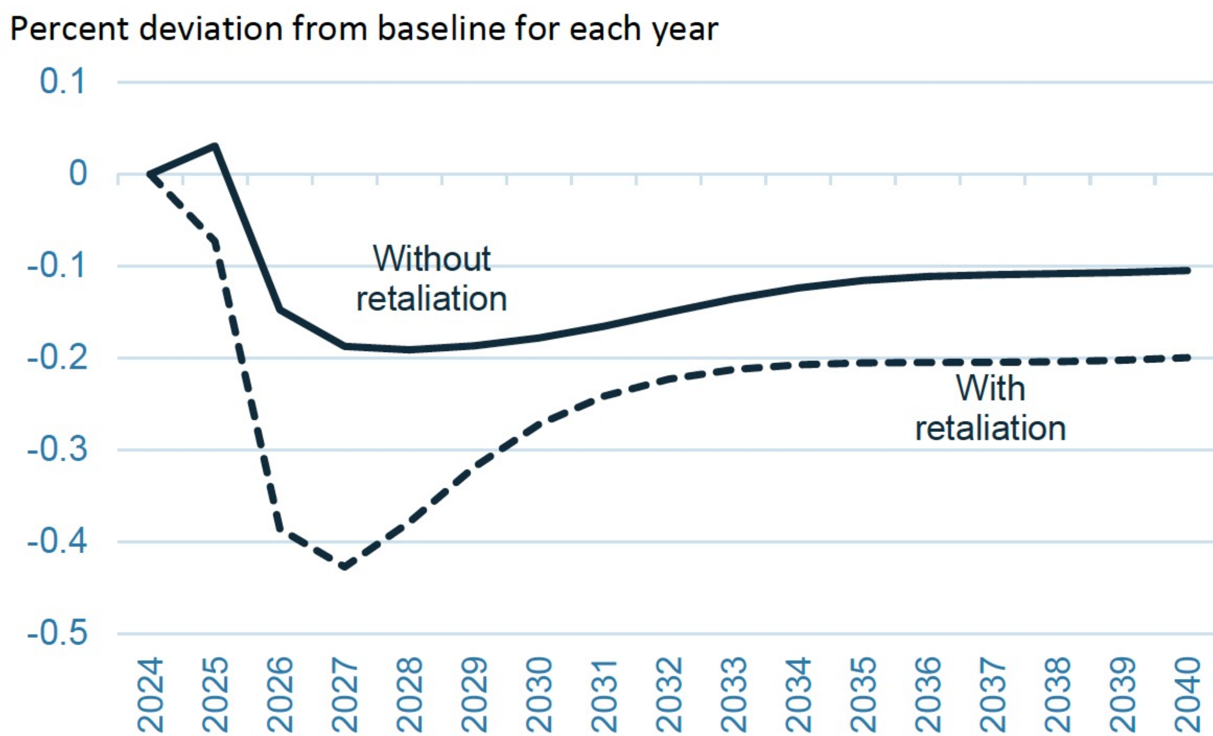
Effects of 10% Tariff on All US Imports

US GDP with and without Retaliation



Effects of 60% Tariff on China Exports

US GDP with and without Retaliation

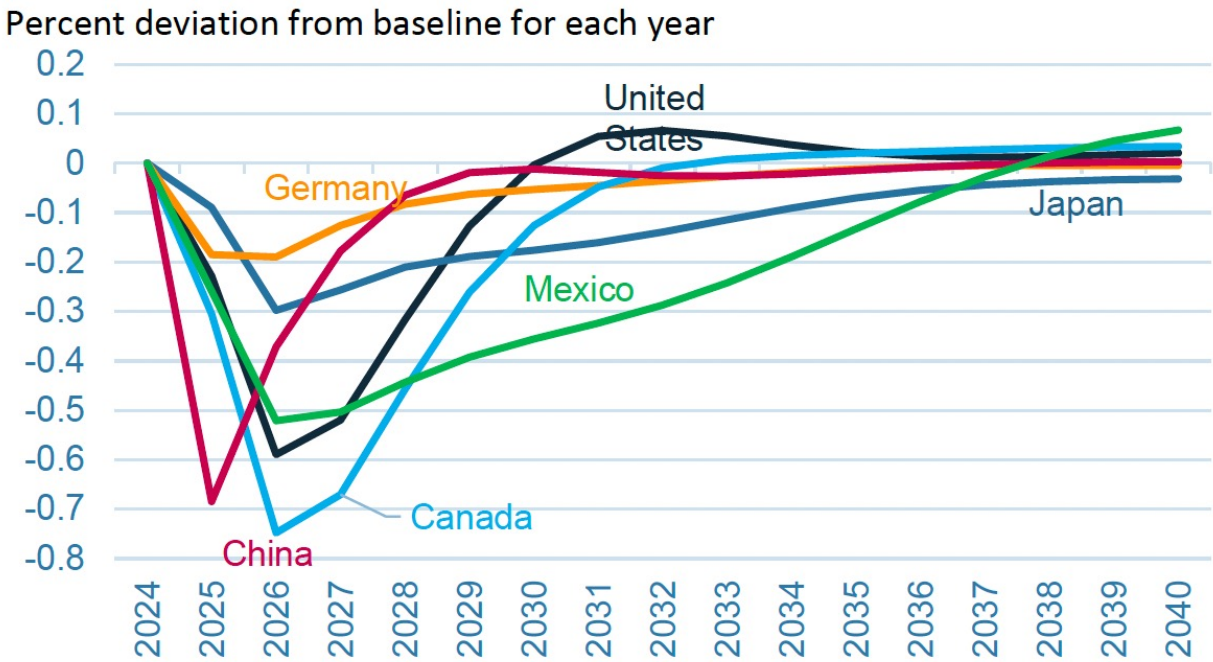


Effects of Trump Proposed Tariffs

on Employment

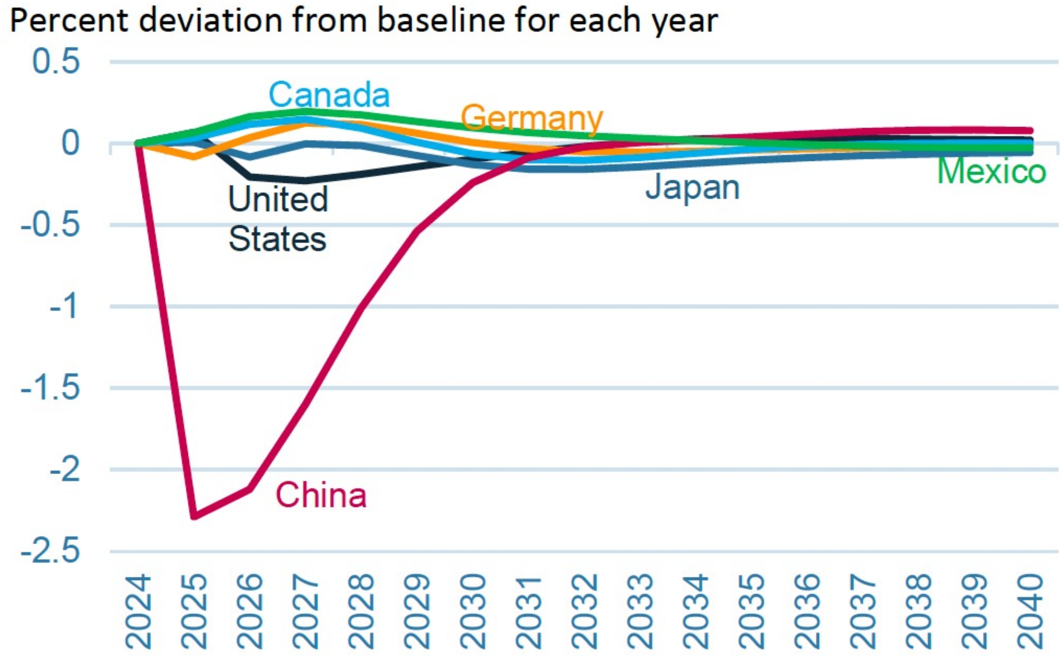
Effects of 10% Tariff on All US Imports

Employment



Effects of 60% Tariff on China Exports

Employment

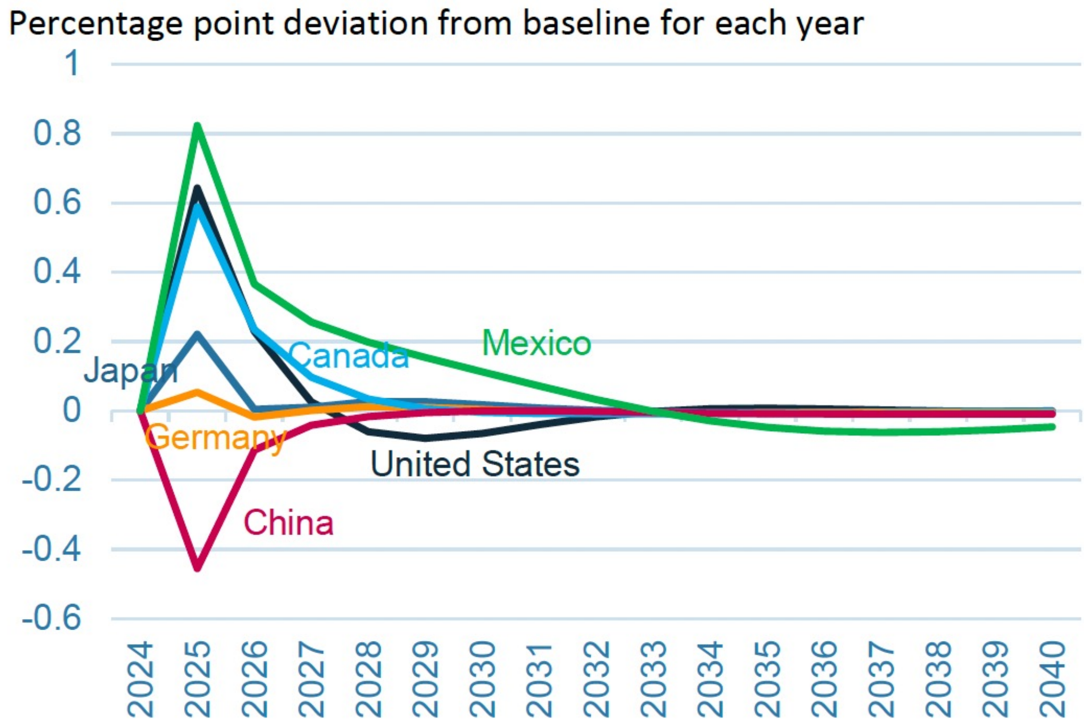


Effects of Trump Proposed Tariffs

on Inflation

Effects of 10% Tariff on All US Imports

Inflation



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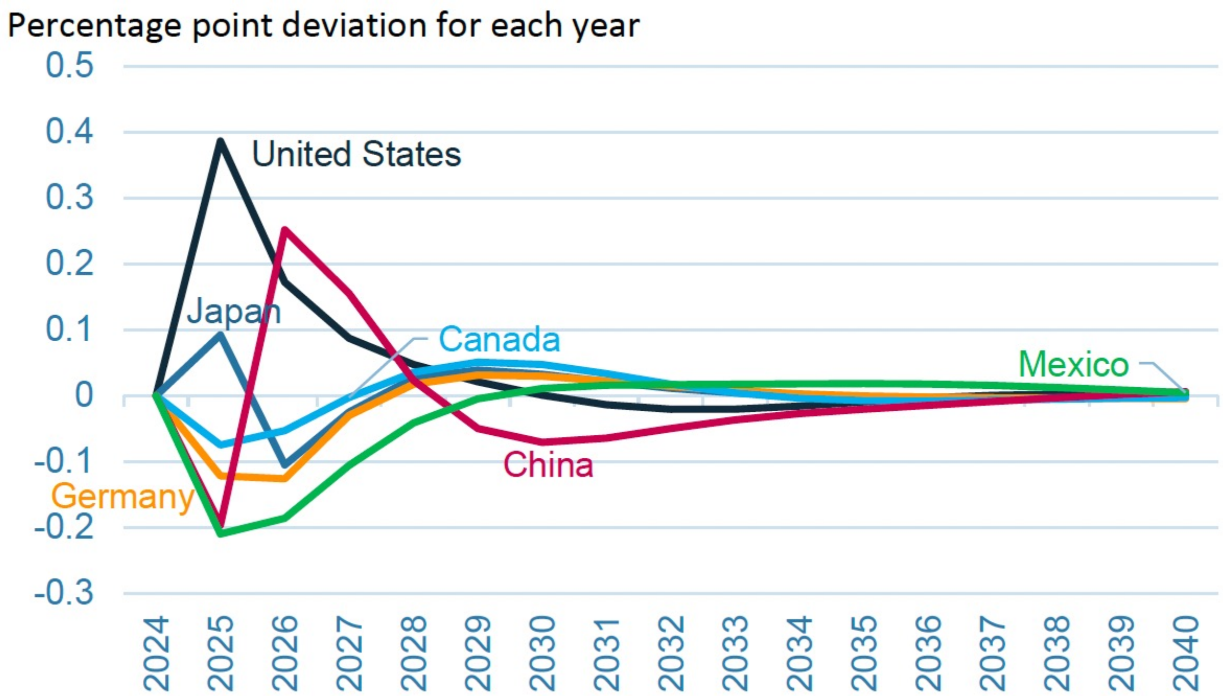
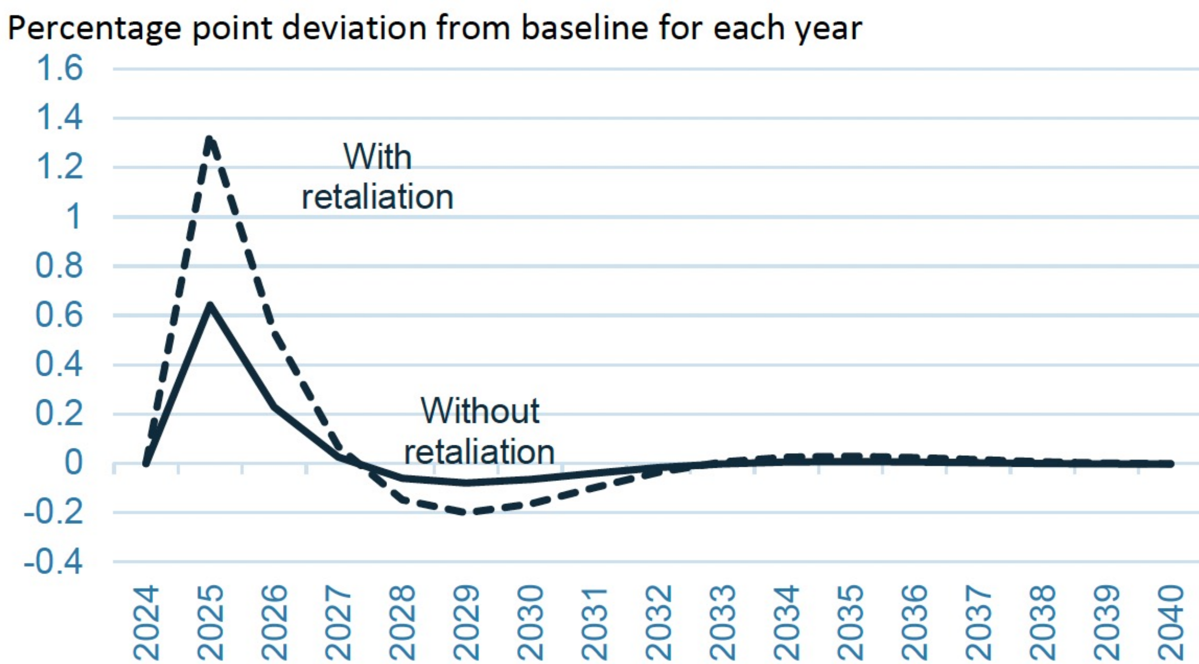
Effects of 60% Tariff on China Exports

Inflation



Effects of 10% Tariff on All US Imports

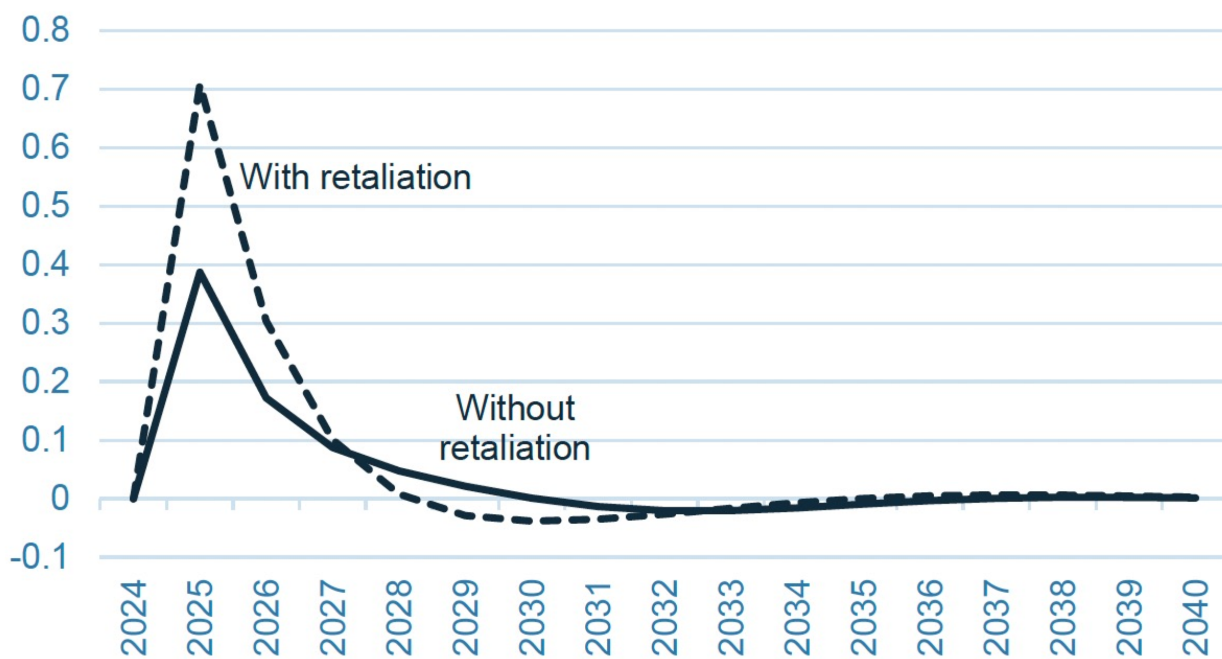
US Inflation with and without Retaliation



Effects of 60% Tariff on China Exports

US Inflation with and without Retaliation

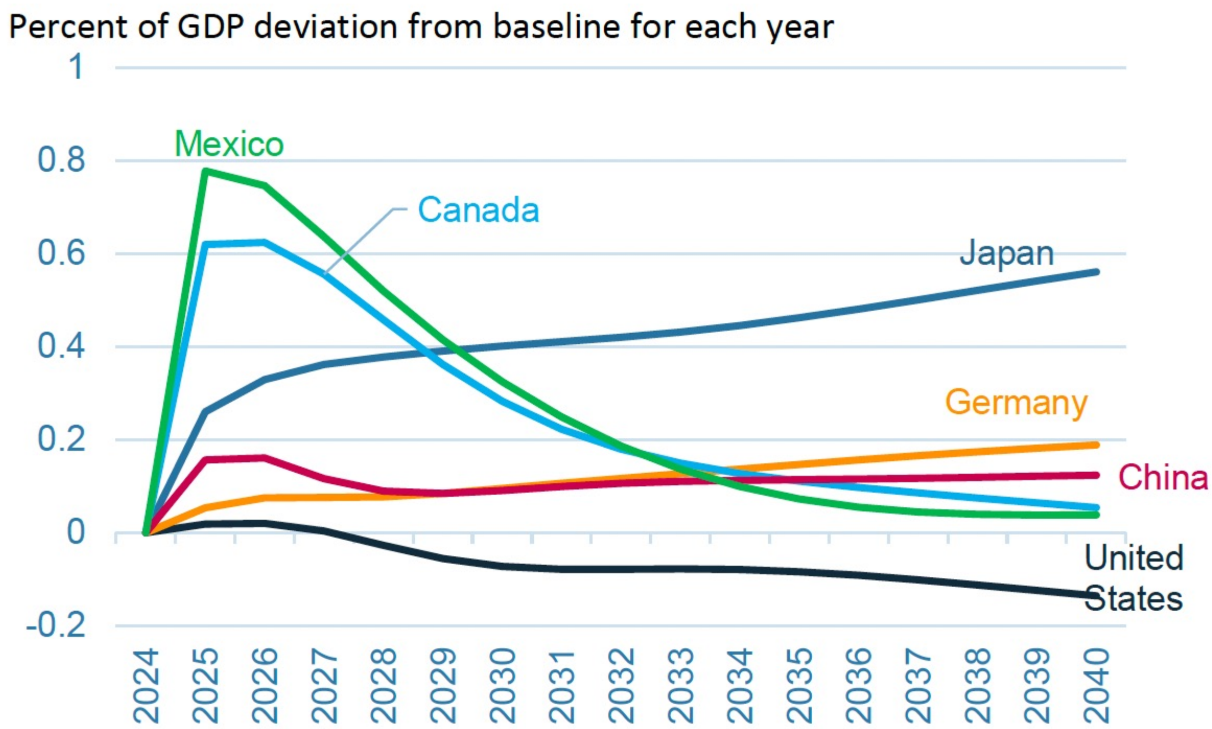
Percentage point deviation from baseline for each year



on Trade Surplus

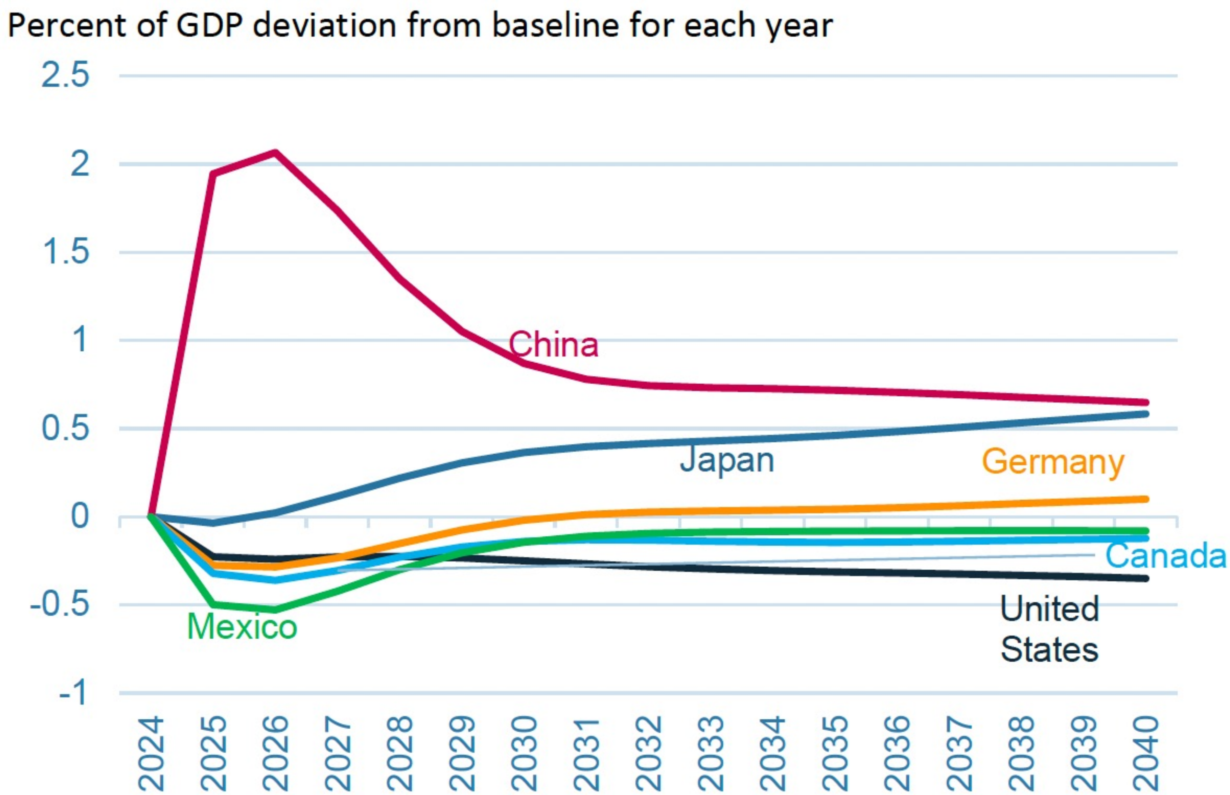
Effects of 10% Tariff on All US Imports

Trade Surplus



Effects of 60% Tariff on China Exports

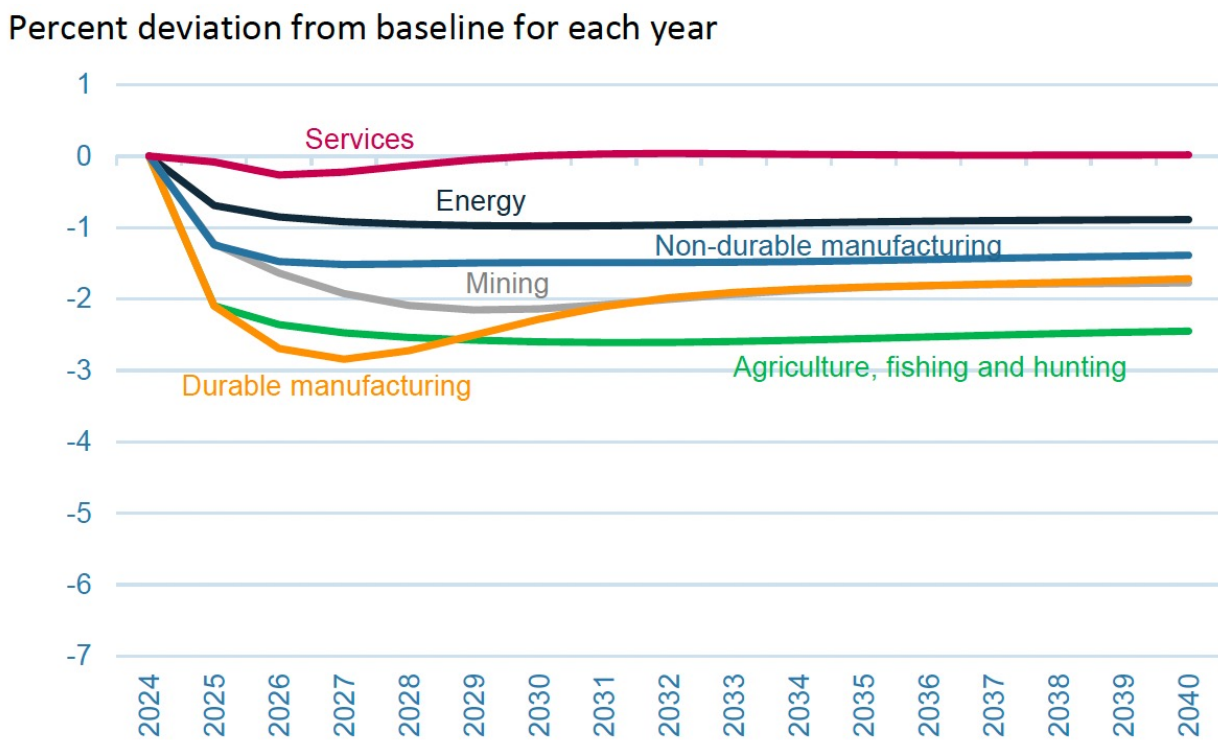
Trade Surplus



on Sectoral Production

Effects of 10% Tariff on All US Imports

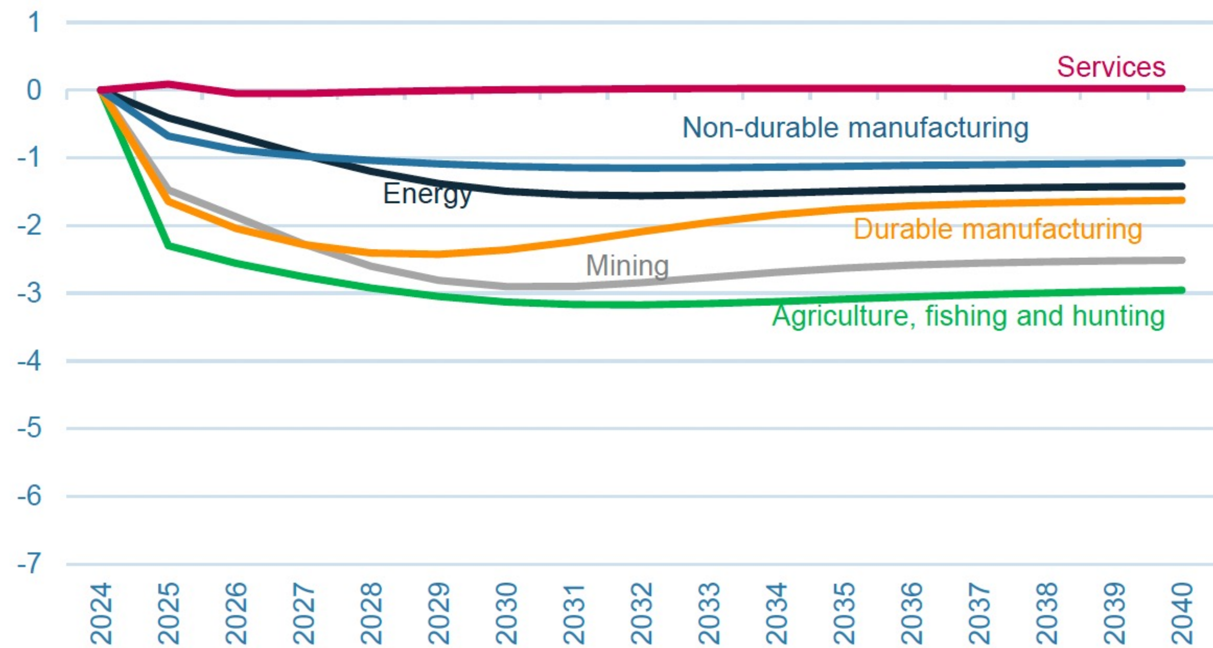
US Sectoral Production



Effects of 60% Tariff on China Exports

US Sectoral Production

Percent deviation from baseline for each year



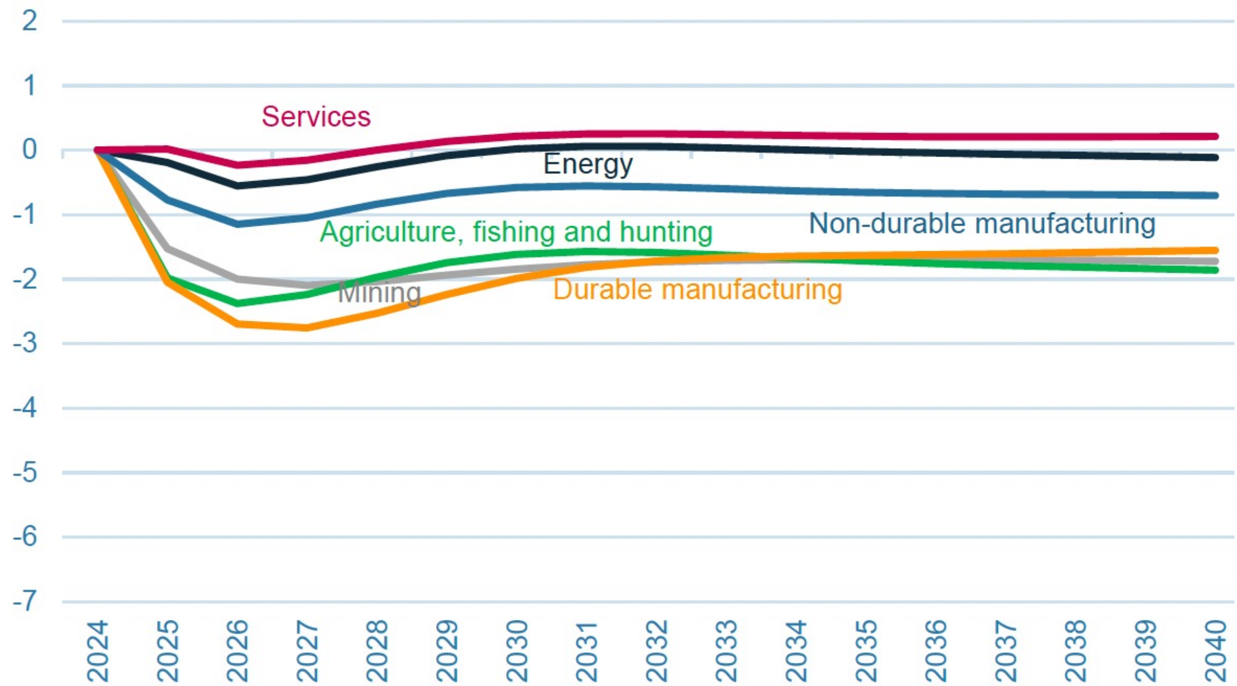
Effects of Trump Proposed Tariffs

on Sectoral Employment

Effects of 10% Tariff on All US Imports

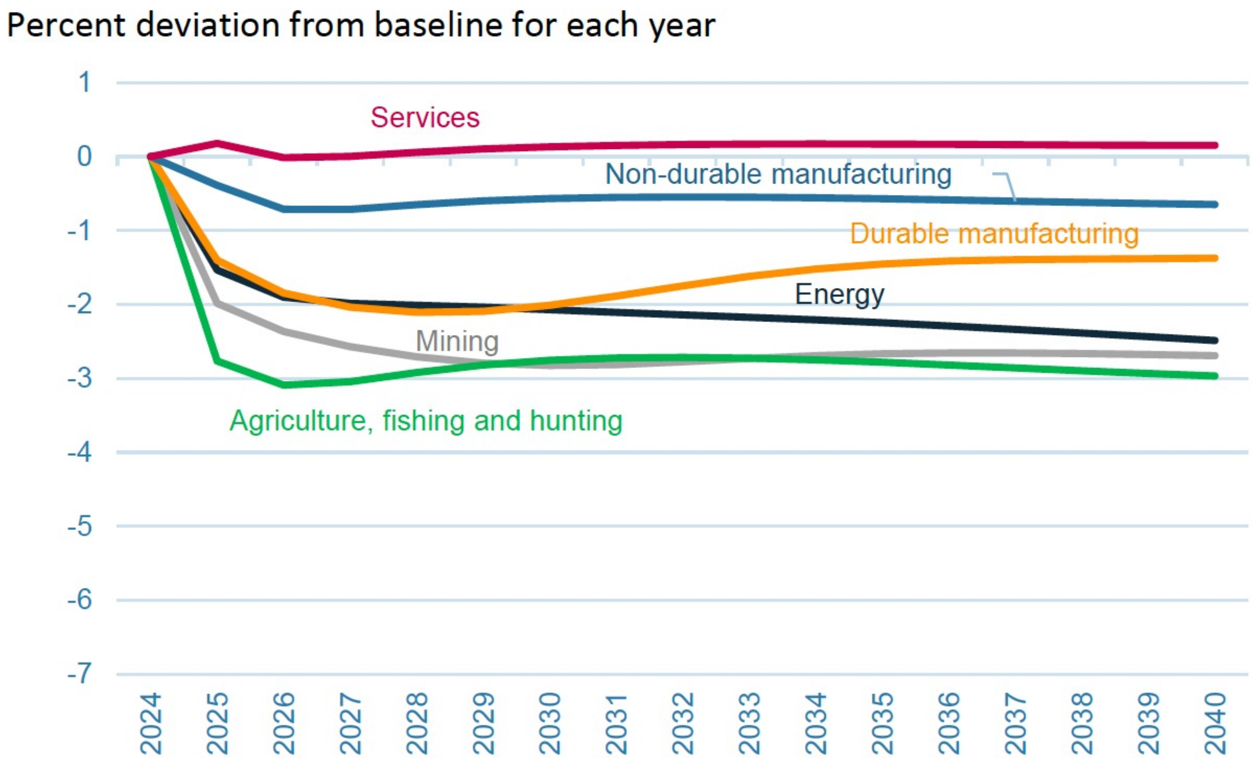
US Sectoral Employment

Percent deviation from baseline for each year



Effects of 60% Tariff on China Exports

US Sectoral Employment



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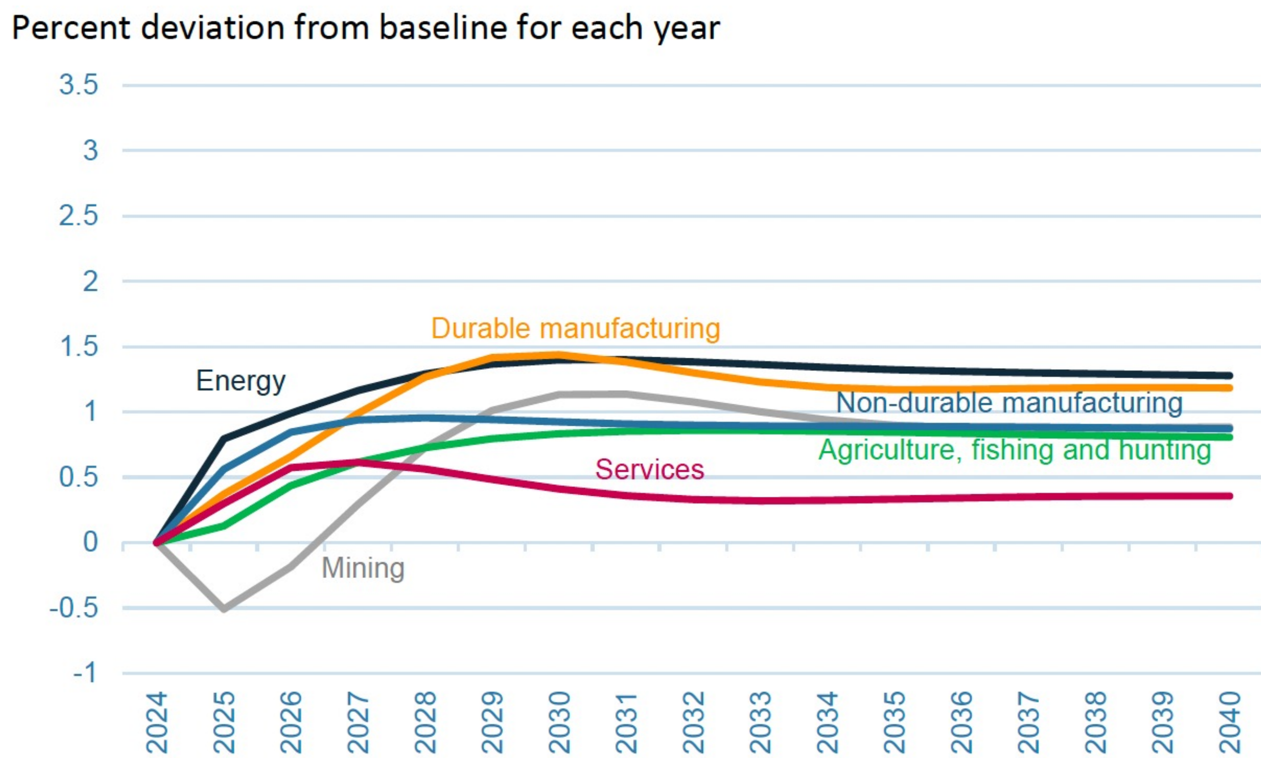
Effects of Trump Proposed Tariffs

on Sectoral Prices

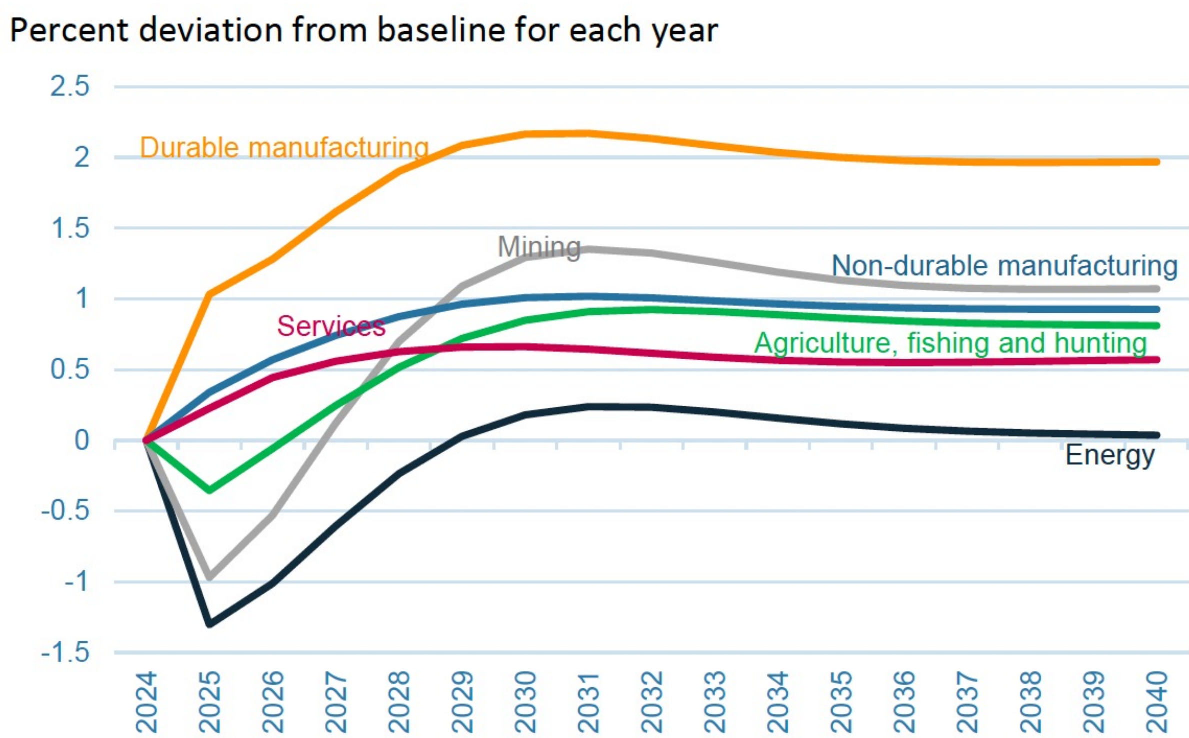
Effects of 10% Tariff on All US Imports

Sectoral Prices



Effects of 60% Tariff on China Exports

US Sectoral Prices



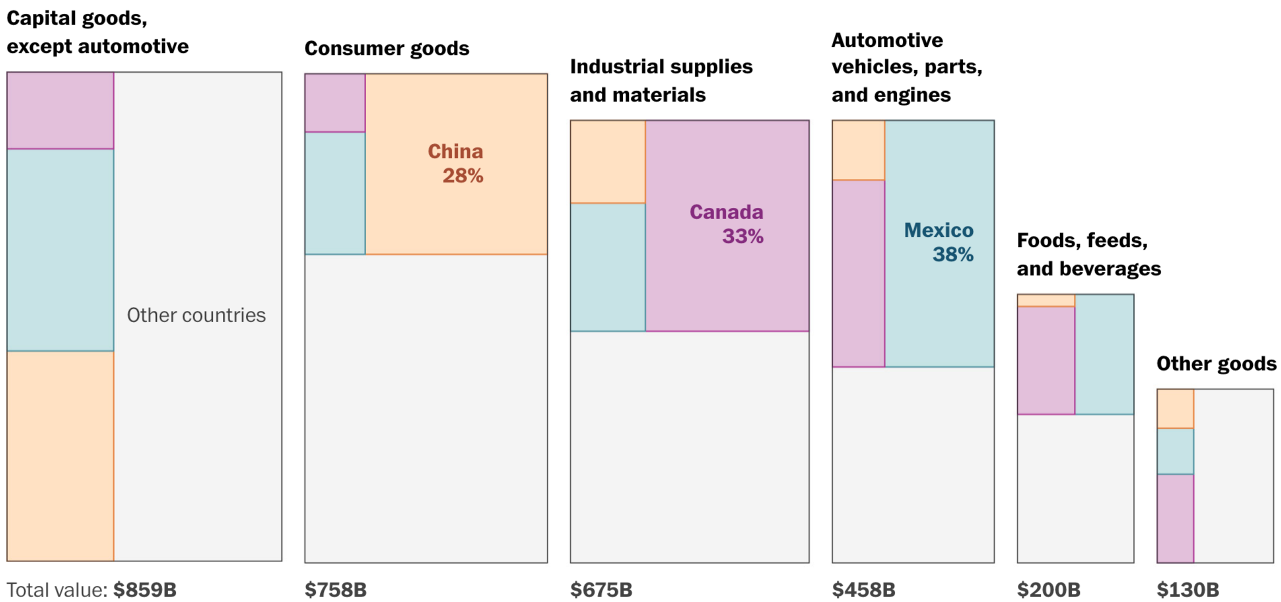
Effects of Trump Proposed Tariffs

Which products come from which countries?

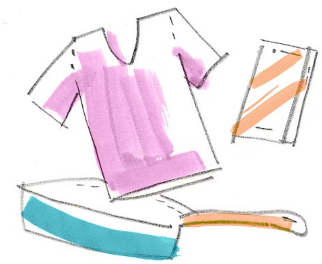
SourceP. Luis Melgar and Rachel Lerman, “See which products Trump’s tariffs could make more expensive,” Washington Post, December 5, 2024.


Top suppliers of goods to the U.S. by value in 2023
Germany
Japan
Mexico
China
Canada
Other countries
Total value: $3.1T
$1.3T in 2023, 43% of all import value

Value of goods imported to the U.S. in 2023 from **Canada**, **China**, **Mexico** and other countries

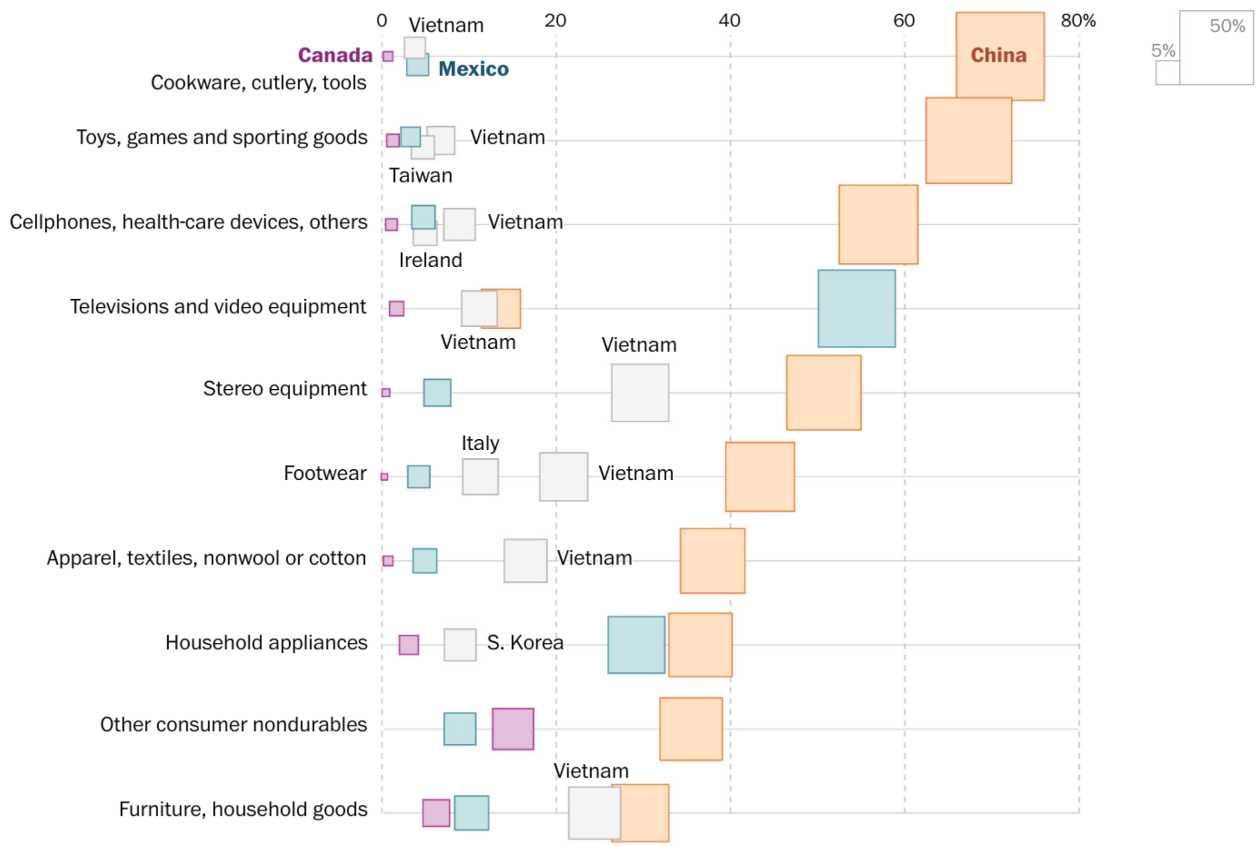


Here are the products that could be affected by Trump's proposed tariffs.



Cellphones, clothes and household goods

Canada, China, Mexico and other top suppliers by share of value of goods imported by the U.S. in 2023



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Produce, beer and juice

Canada, **China**, **Mexico** and other top suppliers by share of value of goods imported by the U.S. in 2023

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Vehicles and car parts

Thank you!

Questions?

See slides on my website

https://websites.umich.edu/~alandear/presentations/