The Rational Kernel in the Protectionist Shell? Trump's Tariffs and the Impact of Trade on the US Economy

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Abstract

Donald Trump's renewed trade war in 2025 has been criticized for the capricious and unpredictable nature of his tariff decisions, the uncertainty this has created for firms and households, the costs the tariffs will impose on US consumers and producers, and the damage they are causing to US trading partners and global growth. Although many conflicting rationales have been given for the tariffs, the most commonly expressed objectives are to revive US manufacturing production and employment and to balance the country's trade in goods. With some exceptions, economic analysis of Trump's tariffs to date has mostly emphasized the likely costs to US households and firms, who most estimates show will bear the lion's share of the tax burden (not foreign exporters, as Trump claims). While estimates of the costs of protection provide useful benchmarks for policy analysis, the implicit support for simply removing the tariffs and restoring "free trade" ignores the empirical evidence that trade liberalization has contributed significantly to rising inequality, employment losses, and the squeeze on working- and middle-class households. Therefore, this paper focuses instead on the Trump administration's own arguments for tariffs, and considers whether a protectionist trade regime—even a more stable and coherent one—is likely to bring the kind of gains that Trump and his advisors have promised, which they claim will make any short-term pain worth the cost. The paper will argue that tariffs are likely to fail in their chief objectives, for three principal reasons. First, there are other causes of increased imports, worsening inequality, the decline of industrial employment, and the US trade deficit besides shifts in trade policies; imposing tariffs or one-sided "trade deals" will not eliminate those other factors. Second, tariffs will reduce rather than boost US exports, because other countries may retaliate, costs for US producers will increase, and resources will be reallocated to import-competing sectors. Third, the rise of global value chains (GVCs) and offshoring, increasing importance of information and communications technology (ICT), and decreasing weight of manufacturing compared to services all imply that tariffs cannot promote nationally integrated industrial sectors or promote long-run growth as they did in earlier eras. In this new global trading environment, tariffs are more likely to undermine industrial dynamism and export success, except when used in carefully targeted ways and accompanied by other, complementary policies (most of which would be the opposite of Trump administration policies and budget priorities). The paper concludes by emphasizing the alternative of using domestic industrial policies, broadly defined, to address the problems that tariffs cannot solve.

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1. Introduction

Donald Trump returned to the White House in January 2025, promising for a second time to "Make America Great Again" (MAGA)—a slogan that has come to characterize his entire political movement and electoral base. While there are many political, cultural, and racial dimensions to this loaded term, on the economic front the distinguishing feature of the MAGA movement has been the emphasis on using protectionism to promote the recovery and rejuvenation of the US manufacturing sector. In Trump's mind, US economic "greatness" appears to be associated with the period between roughly the 1890s and 1950s, when US manufacturing industries achieved a dominant position in the global economy and supplied most of the manufactured goods consumed domestically.

By early September 2025, Trump's new tariff orders had increased the nation's effective tariff rate to 17.4%, which was the highest since 1935 (The Budget Lab at Yale, 2025b).[1] Meanwhile, Trump's hardball tactics (one of his own cabinet members is reported to have described them as "a shakedown"—see Hitchens, 2025) induced several leading nations (including the EU, Japan, South Korea, Vietnam, and the UK) to negotiate trade "deals" on his terms. The general pattern in these deals, which appear to set a rubric for future agreements, is that the other countries agree to the following: (1) to accept US tariffs of around 10–20%, subject to numerous exemptions and exceptions; (2) not to impose any retaliatory tariffs on imports from the US (or reduce their own tariffs on US goods to zero); (3) to achieve quantitative targets for imports of specified US goods; and (4) to invest significant amounts of money in the US economy. While the US tariff rates in these deals are lower than the even higher ones Trump had threatened previously, they still represent large increases over previously negotiated most-favored-nation (MFN) rates.

Furthermore, higher tariffs (up to 50%) remained in effect for certain specific products (such as aluminum, automobiles, copper, and steel) and particular countries that had incurred Trump's ire (including Brazil, Canada, China, India, and Switzerland)—see Table 1 for details. On September 26, Trump announced new tariffs of 100% on brand-name pharmaceuticals. However, exclusions had been granted for imports of many specific products, such as intermediate goods needed by US tech firms favored by Trump and goods that qualify for tariff exemptions under existing free trade agreements, and he promised exemptions for pharmaceuticals produced by companies that invested in new US production facilities. There was still much uncertainty about the future of these tariff policies, not only because of Trump's proclivity for changing his mind, but also because of an appeals court ruling that some of these tariffs were illegal and a final decision from the Supreme Court expected later in the fall. Also, decisions about higher tariffs on other specific products, such as lumber, were still pending as of the time of this writing.

[1] This assumes the ex ante structure of demand remains in place. If the tariffs are maintained in the long run, consumer substitution away from affected imports would reduce the effective tariff rate to 16.4%; if the tariffs under review by the Supreme Court are ruled illegal, the rate would fall to 6.8% (The Budget Lab at Yale, 2025b).

Table 1. Current Second-term Trump Tariff Policy as of September 3, 2025

U.S. Tariffs****	Retaliatory/Deal Tariffs
20% broad tariff on all Chinese imports (effective February 4; increased March 4)	China 10%/15% list (announced February 4)
10% tariff on Canadian potash and energy (effective April 2)	Canada 25% list (announced March 4, USMCA-compliant trade exempted August 22)
25% tariff on all Mexican imports. 35% on other Canadian imports* (prior 25% rates effective March 4, 35% rate effective August 7)	China 10%/15% list (announced March 4)
25% tariff on all automobiles, with an exemption for US content and a discount through April 2027 on parts tariffs for US-assembled autos** (effective April 3), reduced to 10% on the first 100K UK imports (announced May 8), 15% on the EU (announced July 31).	Canada 25% list (announced March 13, USMCA-compliant trade exempted August 22)
50% tariff on all steel and aluminum imports (effective March 12, raised May 30), 0% on the UK (announced May 8), extended to steel derivative products (effective June 23)	China broad 125%, lowered to 10% for 90 days (announced April 4; increased April 11; lowered May 12)
50% tariff on copper imports, clarified to exclude refined copper and copper ore (announced July 8, effective August 7).	UK reduction in ethanol tariff on the US to 0% (announced May 8)
Modified April 2 announcement: 10% minimum tariffs on all countries ex. China, Canada, & Mexico; 125% tariff on China lowered to 10% for 90 days on May 12 (effective April 9, modified April 9, 90-day duration)***. July 31 unilateral announcements and bilaterial deals with Japan, Indonesia, the Philippines, & the EU (effective August 7). 50% tariff on India.	
US-Vietnam July 2 framework: 20% broad tariff, 40% tariff on goods transshipped from China	
August 22 announcement: Canada effectively dropping most of their retaliatory tariffs against the US. August 20: US expanded the scope of steel & aluminum tariffs.	

** USMCA-compliant trade remains duty-free. TBL assumes that 48% of imports by value from Mexico are USMCA-compliant, while 50% of imports from Canada are compliant.*

*** TBL assumes that 40% of automobile content in imported motor vehicles from Canada and Mexico are of US origin. For the purposes of the auto tariff rebate, TBL assumes that 1/3 of imported autos are assembled in the US.*

**** The tariffs announced on April 2 apply to most imported goods but exempt steel, aluminum, and autos—which have already been tariffed separately this year—as well as copper, pharmaceuticals, semiconductors, lumber, energy, and critical minerals. The Administration clarified the scope of the semiconductor exemption on April 13. TBL carved out these commodities in its analysis of the April 2 announcement but does stack tariffs on those commodities from earlier announcements where applicable.*

***** Executive Order 14289 prevents many tariffs from stacking with one another and establishes the stacking order for tariffs, with the Section 232 automobile tariffs being the highest priority.*

Table: The Budget Lab • Created with Datawrapper

Source: The Budget Lab of Yale (2025b).

In their public statements, Trump and his supporters have given at least four different economic rationales for the imposition of tariffs on allies and foes alike: (1) to reindustrialize the US economy and "bring back" manufacturing jobs; (2) to reduce or eliminate the US trade deficit; (3) to raise a significant amount of tax revenue (supposedly paid by foreign exporters); and (4) to use the tariffs as bargaining chips to achieve other goals either in trade or other areas (everything from lowering foreign trade barriers to achieving alleged national security objectives). Nevertheless, as will be discussed in more detail below, when administration officials have attempted to give a coherent justification for the tariffs, they have almost invariably focused on objectives (1) and (2) (see, for example, Office of the US Trade Representative, 2025). Several of Trump's trade advisors have further claimed that the deindustrialization of the US economy and the nation's chronic trade deficit are primarily the result of allegedly "unfair" foreign trade practices, not only in state-managed economies like China, but supposedly even in highly open economies with generally liberal trade regimes (such as Canada and the EU). Hence, high tariffs are asserted to be necessary to force a return of manufacturing industries and employment to the US, or to induce other nations to lower their barriers to US exports.

In many respects, however, the imposition of tariffs seems to be a reflection or assertion of Trump's authoritarian tendencies rather than the pursuit of any coherent economic goals (Rodriguez, 2025). His authoritarian proclivities are especially notable in his use of bullying tactics (for example, threatening to raise US tariffs even higher on countries that retaliate) to induce other nations to accept manifestly unfavorable trade deals, with no guarantee that he won't change his mind or impose additional levies. The authoritarian inclinations are also manifest in his assumption of powers to unilaterally set tariff rates never before claimed by any US president, which appear to violate both the spirit and the letter of US trade laws and the Constitution (which mandates that tariffs must be approved by Congress). Baldwin (2025) argues that the chaotic introduction of the tariffs, open flouting of legal norms, and violations of international trade agreements all constitute an intentional "hack" of the global trading system, motivated by a "Grievance Doctrine" that appeals to Trump's MAGA political base, and which is intentionally designed to undermine the "rules-based" international trading order.[2]

The way that Trump has used his tariff threats to garner attention—and to make both domestic firms and foreign governments grovel before him (and make financial contributions or concessions) in the hope of winning exemptions or concessions—are further signs of how his unprecedented trade policies fit into his larger agenda of maximizing his own personal power and control. The justifications for some of the tariffs have included some of Trump's personal obsessions that are manifestly unrelated to trade, such as stopping "illegal" immigration and fentanyl flows from Mexico and (supposedly) Canada, making India cease imports of Russian oil (allegedly out of pique that Prime Minister Modi refused to nominate Trump for a Nobel Peace Prize), and

[2] In a similar vein, Milberg (2025) refers to Trump's tariff policy as a case of "neopatrimonial mercantilism." Baker (2025) refers to it as part of a wider syndrome of Trump turning the White House into a "shakedown shack."

ending Brazil's prosecution of former President Bolsonaro for attempting to stage a coup (similar to what Trump attempted in the US on January 6, 2021). In fact, the tariffs can be seen as part of a larger agenda to increase direct presidential control over the economy, which is also seen in the government taking an ownership share in Intel, creating a presidential "golden share" in the Nippon-US Steel merger, engineering a buyout of TikTok by Trump's billionaire cronies, and charging *de facto* export taxes (called "payments," but probably illegal under the US constitution—see Somin, 2025) for exporting critical electronic products to China.

The political dimension of Trump's tariffs has led some observers to cast doubt on any effort to evaluate their effectiveness as policy instruments. For example, Baker (2025) declares that "It is a foolish exercise to try to make sense of Trump's major actions on the economy as economic policy. They are about lining his pockets and making people bow down to him. By this measure, Trump's policies are doing very well." Nevertheless, there are two reasons for conducting such a "foolish exercise." First, the news media (both traditional and social) credulously broadcast Trump's claims for his policies, while tens of millions of voters take them seriously and believe that he is at least trying to address their needs.[3] Second, a critique of Trump's policies is essential for determining the best direction for a post-Trump trade policy. If we focus only on the costs of the tariffs to domestic firms and households, as most economic analyses to date have,[4] the implication would seem to be that we should simply return to the status quo ante—the "neoliberal" regime of trade liberalization coupled with a rules-based trading order that generated the populist backlash that led to the rise of Trump's protectionism in the first place.[5] Alternatively, if we recognize that trade liberalization created significant costs in terms of greater inequality, deindustrialization, social dislocation, and anti-globalization backlash, then we will see the need to formulate progressive alternative policies that protect workers' interests and promote the industries of the future, without relying on crude protectionism or beggaring other countries.

Furthermore, a critical analysis of the justifications given for Trump's tariffs and potential alternative trade policies for the future is also important from a theoretical point of view. The literature (surveyed in section 3) that focuses on the costs of Trump's tariffs for US businesses and consumers rests upon a neoclassical view of international trade as inherently cooperative and mutually beneficial. In this view, estimating these costs and their distributional impact is sufficient to prove the case for simply removing the tariffs and restoring a regime of generally liberal trade. Such estimates of the costs of protection *are* useful and important, as they establish reasonable orders of magnitude for the magnitude and incidence of the tariff costs that must be borne by some combination of domestic and foreign agents, which must be taken into account in any policy analysis. Nevertheless, this perspective misses the potential for international trade

[3] See Autor et al. (2024) for evidence that Trump's first-term tariffs succeeded in increasing political support for Republicans, even though they did not achieve their stated objective of increasing US employment.

[4] A notable exception is Baldwin (2025).

[5] See de Bolle et al. (2025) and Reinert (2025) on the rise of economic nationalism and populist responses generally.

relations to be conflictive in terms of goals such as economic growth and industrial development, even if free trade is generally beneficial for consumers, as recognized in a long line of heterodox and post-Keynesian modeling of open economies (see Blecker, 2025). It is therefore important to take the argument for protectionism seriously, and evaluate whether a regime of high tariffs (or a set of one-sided bilateral trade "deals" that appear to favor US interests) is likely to be an effective tool for achieving the stated objectives of industrial revival and balanced trade.

In any event, what we will call the Trump-MAGA Regime (TMR) appears sincere in its belief that the tariffs are a necessary measure for the US to reindustrialize its economy, balance its trade, and revive manufacturing employment. Of all the rationales given for the tariffs, these are the ones that have been most frequently stated,[6] and the first one come closest to having any logical or empirical foundation. Therefore, this paper will take the core TMR arguments seriously and address them head-on. This paper will attempt to look beyond the "noise" over Trump's trade war, which has resulted from the erratic and chaotic way in which the tariffs have been announced and imposed (with frequent "pauses" and granting of exemptions), and the uncertainty this has wrought for domestic and foreign economic agents alike. Rather, this paper will focus on whether a regime of high tariffs, generally along Trumpian lines, is or is not likely to accomplish the TMR goals of reindustrializing the US economy, bringing back manufacturing jobs, and restoring balanced trade.

This paper will argue that *some* aspects of the TMR argument about the impact of the neo-liberal global trading system on the US economy are not entirely wrong, while other aspects are either exaggerated or simply false. In fact, imports and offshoring *have* contributed to losses of manufacturing employment, increased inequality, and the increasing difficulties faced by US workers who lack a college education in achieving a middle-class standard of living. Trump exploited these issues in winning the presidential elections of 2016 and, to a lesser extent, 2024 (when other issues, like immigration and inflation, dominated). He promised voters that imposing more tariffs would bring back manufacturing industries, create good-paying jobs, and restore America's industrial greatness. These promises especially helped him to win crucial industrial swing states, such as Michigan and Pennsylvania, which helped put him over the top in those elections.

The (partial) elements of truth in some TMR claims notwithstanding, this paper will argue that Trump's elixir of placing high tariffs on imports and negotiating one-sided trade deals will not bring back the lost jobs, restore middle-class prosperity, or unleash a rejuvenation of the US manufacturing sector. Even leaving aside the capricious and unpredictable nature of his tariff decisions, even a more stable and predictable tariff regime would not accomplish these goals, for three fundamental reasons. First, there are other causes of the rising tide of imports, increased trade deficit, and economic woes of American workers besides trade agreements that have low-

[6] For example, Office of the United States Trade Representative (2025) emphasizes fostering a "manufacturing renaissance" and balancing US trade in goods as the main objectives of the tariffs.

ered tariffs or the persistence of foreign trade barriers; increasing US tariff rates and getting other countries to reduce remaining trade barriers (which in many cases are quite minimal) will not eliminate those other factors.

Second, tariffs are likely to reduce US exports as well as imports, in which case the benefits for the manufacturing sector will be muted at best, and there is unlikely to be much (if any) improvement in the trade balance. Tariffs will have a negative impact on exports for several reasons, including higher costs of (actually or formerly) imported inputs, possible foreign retaliation, and the "Lerner symmetry" effects of skewing incentives for resource allocation away from export production. Third, the nature of industrial technology and the structure of the global economy have changed since the early and mid-20th century, in ways that make tariffs much less effective and more counterproductive for promoting industrial development than they were in the past. The advent of global value chains (GVCs) and the profitability of offshoring labor-intensive manufacturing operations imply that reshoring a substantial portion of such production to the US would come at an enormous cost for most US firms, workers, and consumers, while creating incentives for further automation that would limit employment gains for all but the most highly educated workers.

Before proceeding further, several; qualifications are in order. First, although this paper focuses on Trump's tariffs and trade deals, it is impossible to discuss their likely impact without taking into account the potential effects of other administration policies, including the budget bill and immigration crackdown. Second, the paper will focus on the economic arguments for the tariffs and analysis of their likely economic effects; it will pay only brief attention to the non-economic dimensions of the debate about Trump's tariffs, such as the political, legal, and constitutional aspects, as well as their implications for US international relations with other countries. Third, the paper concentrates on the impact on the US economy. The tariffs will have profound effects on other countries, but these will be mentioned only briefly, mostly in regard to whether part of the cost of protection is "paid" by foreign exporters, and also insofar as they are relevant to the impact on US exports and the trade balance. And fifth, the paper emphasizes whether the tariffs are likely to accomplish the goals touted by the Trump administration (industrial revival and balancing trade) and the costs to US firms and households; it does not consider the macroeconomic impact on inflation or unemployment, except to the extent that these are relevant to the effects on industrial growth and the trade balance.

The paper will proceed in the following steps. Section 2 discusses the arguments that Trump's economic and trade advisors have made to justify the tariffs. Section 3 surveys studies that have estimated the costs that Trump's tariffs (from both his first term and his second term to date) have imposed on US importers, firms, and consumers, including the distributional impact on US households by income quantile and whether any portion of the tariff costs has been borne by foreign exporters. Section 4 discusses what the pro-tariff argument gets right and what it gets wrong about deindustrialization, growing inequality, and the causes of the US trade deficit.

Section 5 critically evaluates the probable effectiveness of the tariffs and other TMR policies for the administration's chief goals of revitalizing US manufactures and balancing US trade, and considers alternative policies that would better promote a US industrial revival with far lower economic costs at home and abroad. Section 6 concludes. **[Sections 4–6 are not written yet.]**

2. Trump administration arguments for tariffs

The core economic rationale for the tariffs has been summarized by US Trade Representative (USTR) Jamieson Greer, in a *New York Times* opinion column worth quoting at length:

> Over the past three decades, the United States slashed barriers to our market to allow vast inflows of foreign goods, services, labor and capital. At the same time, other countries kept their markets closed to our goods and deployed a suite of policies—such as subsidies, wage suppression, lax labor and environmental standards, regulatory distortions and currency manipulation—to artificially boost exports to the United States. This approach made the United States and a handful of other economies the consumers of last resort for countries pursuing beggar-thy-neighbor economic policies.
>
> Our trading partners were adept at this game, and elites on Wall Street and in Washington were all too happy to cash in on the global arbitrage by moving production abroad. The net result? The bulk of global manufacturing shifted to jurisdictions such as China, Vietnam and Mexico where companies could exploit vulnerable workers or benefit from expansive state support while the United States ran up what in absolute terms is the highest trade deficit in the history of the world. This led to extensive and well-documented losses in U.S. industrial capacity and employment as well as reliance on our adversaries for critical supply chains.
>
> ... This approach harmed American workers, their families and communities by undermining *a manufacturing sector that creates high-wage jobs, fosters innovation and catalyzes investment across the economy*. (Greer, 2025, emphasis added.)

Greer summarizes his objectives for imposing tariffs as follows:

> Here is my end game:
> First, reverse the trend of our global goods trade deficit and decrease it over time.
> Second, increase real median household income in the United States.
> Third, increase manufacturing's share of our GDP. (Office of the USTR, 2025)

This argument contains an odd mix of reasonable propositions, questionable assertions, and sheer hypocrisy. The references to "elites" and "lax labor and environmental standards" are at best laughable—and at worst offensive—coming from an official in an administration whose policies

have generally favored the country's largest corporations and wealthiest billionaires while dismantling the enforcement of labor and environmental standards at home. Nevertheless, the reasons Greer gives for the focus on the manufacturing sector make perfect sense, and sound like they could have been written by any structuralist development economist or scholar of industrial policy (e.g., Bresser et al., 2015; Juhász et al., 2024; Kaldor, 1966, 1971; Lane, 2025; Rodrik, 2013, 2014; Szirmai, 2012). But foreign countries have not "kept their markets closed," as Greer claims. Rather, they also lowered their trade barriers dramatically in recent decades (see, e.g., Clemens and Williamson, 2004; Wacziarg and Welch, 2008)—until some (especially China and the EU) began retaliating against Trump's tariffs starting in 2018 (Autor et al., 2024).

It is true that US lowered its trade barriers more than most other countries did in the decades after World War II, but the US accepted these differences in multiple rounds of multilateral trade agreements. As another TMR official, Council of Economic Advisers Chair (and temporary Federal Reserve Board Governor) Stephen Miran accurately notes, the tariff differentials "are, in large part, legacies of an era in which the United States wanted to generously open its markets to the rest of the world at advantageous terms to assist with rebuilding after World War II, or in creating alliances during the Cold War" (Miran, 2024, p. 7).[7] In addition, higher tariffs were allowed for developing countries because of their more vulnerable position in the global economy. Furthermore, all recent presidents (except Trump) have understood that international alliances remain important to the US even the in the post-Cold War era. It may be reasonable to argue that the justification for many of the tariff differentials is obsolete in the 21st century, but a new global trade regime could be instituted through an orderly process—for example, by reopening the stalled WTO Doha Round or launching a new multilateral trade negotiation process—rather than by having the US president arbitrarily impose high tariffs to bludgeon other nations into reducing their own, while insisting that they accept differential rates that favor the US.

Greer's claims that other countries succeeded in exporting only through unfair trade practices, and that these practices and the discrepancies in trade barriers are the primary causes of the US trade deficit, are unsupported by any empirical evidence or economic logic (as discussed in detail in section 4.2, below). A more sensible (and defensible) explanation for the US trade deficit is given by Miran (2024), who blames it primarily on chronic overvaluation of the US dollar, which he in turn attributes principally to its role as the world's main reserve currency and a safe haven for foreign investors. Large purchases of dollar reserves by foreign central banks and net foreign acquisitions of US financial assets by private investors create an equilibrium value for the US exchange rate in the currency market that makes it overvalued relative to an exchange rate that would result in balanced trade. Thus, "America's status as reserve currency [issuing country] confers the burden of an overvalued currency eroding the competitiveness of our export sector, balanced against the geopolitical advantages of achieving core national security aims at

[7] In future drafts, the political science literature that has made some of these points previously will be cited.

minimal cost via financial extraterritoriality" (Miran, 2024, p. 11).

Another key TMR argument for protectionism is the idea of bringing back manufacturing jobs that were (allegedly) lost due to imports and offshoring. In explaining why Trump is eager to renegotiate the United States–Mexico–Canada Agreement (USMCA)—Trump's own successor to the North American Free Trade Agreement (NAFTA)—US Secretary of Commerce Howard Lutnick stated that: "He wants to protect American jobs. He doesn't want cars built in Canada or Mexico when they can be built in Michigan and Ohio. It's just better for American workers." (Quoted in Sorace, 2025.) Greer (in Office of the USTR 2025) claims that 5 million manufacturing jobs were lost due to the US trade deficit and the admission of China to the World Trade Organization (WTO), and argues that restoring manufacturing employment is important because it offers higher wages and greater economic benefits than other sectors like services:

> A recent study found that typical restaurant workers make 35% more if they go into a comparably-skilled job at an average factory—and double that for the most advanced factories. That's more than if they went into healthcare (19%) or even finance (32%). Manufacturing jobs offer better benefits, more career development opportunities, and the promise of stability. And manufacturing jobs have broader economic benefits for communities. A new manufacturing job creates 7.4 downstream jobs in other sectors, compared to 2 in healthcare and a mere 1.2 in retail. (Office of the USTR, 2025)

Peter Navarro, currently a senior counselor to the president for trade and manufacturing, is an outlier even within the TMR orbit for his extreme hostility to the country he insists on calling "Communist China." In his contribution to the *Project 2025* report,[8] which was written before the 2024 election, he accused China of seeking "to supplant America as the world's dominant economic and military power" (Navarro, 2023, p. 783), and warned against

> the broader existential threat posed by the Chinese Communist Party (CCP) in its quest for global dominance. That challenge is rooted in the CCP's continued economic aggression, which begins with mercantilist and protectionist trade policy tools such as tariffs, nontariff barriers, dumping, counterfeiting and piracy, and currency manipulation. However, Communist [sic] China's economic aggression also extends to an intricate set of industrial policies and technology transfer-forcing policies that have dramatically skewed the international trading arena. (Navarro, 2023, p. 766)

To get the flavor of his analysis, note that Navarro (2023) provided an eight-page table (Table 5, pp. 774–781), titled "Communist China's Categories of Economic Aggression," which maps specific Chinese policies onto purported outcomes, and another lengthy table detailing alleged

[8] Interestingly, the chapter on international trade is the only one in *Project 2025* that offers two contending conservative perspectives: the protectionist one by Navarro, and a pro-free-trade rejoinder by Lassman (2023). For those who are not familiar with it, *Project 2025* was issued by the ultra-right-wing Heritage Foundation in 2023 to lay out a blueprint for a future conservative presidency after the 2024 election, and its recommendations have been widely followed in Trump's second term.

"Vectors of Communist China's Economic Aggression in the Technology and IP [Intellectual Property] Space" (Table 6, p. 788). He argued that to maintain the US position as "the world's dominant superpower and remains the world's arsenal of democracy ... it is critical that the United States strengthen its manufacturing and defense industrial base at the same time that it increases the reliability and resilience of its globally dispersed supply chains. That will necessarily require *the onshoring of a significant portion of production currently offshored by American multinational corporations* (pp. 765–766, emphasis added). Asserting that efforts to bargain with China are "fruitless and dangerous" (p. 787), Navarro urged the next president (clearly hoping it would be Trump) to adopt unilateral measures against China of the types listed in Table 2.

Table 2. Unilateral presidential actions against China advocated by Peter Navarro in *Project 2025*

- Strategically expand tariffs to all Chinese products and increase tariff rates to levels that will block out "Made in China" products, and execute this strategy in a manner and at a pace that will not expose the U.S. to lack of access to essential products like key pharmaceuticals.
- Provide significant financial and tax incentives to American companies that are seeking to onshore production from Communist China to U.S. soil.
- Stop Communist China's abuse of the so-called de minimis exemption, which allows it to evade the tariffs for products valued at less than $800.
- Prohibit Communist Chinese state-owned enterprises from bidding on U.S. government procurement contracts (for example, contracts for subway and other transportation systems).
- Prohibit the use of Communist Chinese–made drones in American airspace.
- Ban all Chinese social media apps such as TikTok and WeChat, which pose significant national security risks and expose American consumers to data and identity theft.
- Prohibit all Communist Chinese investment in high-technology industries.
- Prohibit U.S. pension funds from investing in Communist Chinese stocks.
- Systematically reduce and eventually eliminate any U.S. dependence on Communist Chinese supply chains that may be used to threaten national security such as medicines, silicon chips, rare earth minerals, computer motherboards, flatscreen displays, and military components.
- Sanction any companies, including American companies like Apple, that facilitate Communist China's use of its Great Firewall surveillance and censorship capabilities.

Source: Navarro (2023, pp. 789–790).
Note: The bullet points in this table are a selection of direct quotes from the source.

Aside from his apocalyptic portrayal of the Chinese threat—and the evident hypocrisy in a 2020 election denier claiming to want to defend "democracy"—there are two notable elements in

Navarro's arguments. First, he admitted that the president has no legal authority to impose the kind of tariffs he advocates unilaterally: "Under current United States laws and regulations, an American President has limited ability to fight back against the higher MFN tariffs now being levied against American workers, farmers, ranchers, and manufacturers" (Navarro, 2023, p. 770). This was a stunning admission in light of the second Trump administration's claim that the International Emergency Economic Powers Act (IEEPA) of 1977 gives the president unlimited authority to impose tariffs merely by asserting, at his sole discretion, that they are in response to anything he deems to be an "emergency." Navarro was a trade adviser to Trump during the latter's first term, at which time no one thought that the IEEPA conveyed such sweeping presidential authority.[9]

Second, Navarro (2023, pp. 768–770) asserted a concept of "reciprocal" tariffs that is strikingly different from (and inconsistent with) how "reciprocity" has been defined in international trade law and trade agreements since at least the 1930s (see Cohen et al., 2003). Navarro's definition of reciprocal tariffs seems require that the rates must be exactly equal for the same product between any pair of bilateral trading partners, or on average for all products between a given country pair. He also urged passage of the United States Reciprocal Trade Act (USRTA), which had been proposed by Trump in 2019 but was never passed, stating that: "Under the USRTA, the President would have the authority to bring any American trading partner that is currently applying higher nonreciprocal tariffs to the negotiating table. If that trading partner refused to lower tariffs to U.S. levels, the President then would have the authority to raise U.S. tariffs to match or 'mirror' the foreign partner's tariffs."[10] (Navarro, 2023, p. 770.)

Such a standard has never been used in global or regional trade agreements. Under the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), reciprocity has meant that concessions on reductions in tariffs or other trade barriers are negotiated among the member nations, but they usually involve trading off concessions on *different* goods and never require exact equality of the rates. For example, the US could offer to reduce its tariff on automobiles to 2% in exchange for, say, India lowering its tariffs on soybeans to 5%. It is true that these rates must then be applied to imports of the same goods from all other member countries under the most-favored nation (MFN) principle, but there is no expectation that the rates must be equal either by product or by country.

[9] In this respect, as in many others, Trump's two terms can be seen as reversing Marx's famous dictum that history repeats itself "first as tragedy, second as farce." In fact, Trump is adopting far more extreme policies and making more aggressive assertions of presidential power in his second term than in his first—and, arguably, doing far more economic damage.

[10] Navarro complains, for example, about the unequal tariff rates on automobiles: "As a poster child for the kind of nonreciprocal tariffs that American manufacturers often face, the MFN tariff for automobiles applied by the U.S. is only 2.5 percent. In contrast, the EU charges 10 percent, Communist [sic] China 15 percent, and Brazil 35 percent." He forgets that consumers in these other countries would be unlikely to want to buy US-produced automotive products, which tend to be larger vehicles like SUVs and light trucks, regardless of the tariffs.

It would make no sense to uphold Navarro's standard, because different countries have different priorities in regard to which industries they want to protect or liberalize more. For example, if Kenya has a 25% MFN tariff on coffee, which it did as of 2019 (International Coffee Organization, 2020, Table 6, p. 7), it would make no sense for the US to insist on reciprocity in Navarro's sense, because the US has no coffee growers to protect, so imposing similar tariff rates for US imports of coffee from Kenya would merely raise coffee prices for US consumers (which is exactly what has happened as a result of Trump's tariffs on coffee-exporting countries like Kenya, Brazil, and many others). There is no point in demanding that Kenya lower its own tariff, since there are no US exporters who would benefit (at least for raw coffee beans). It would make far more sense for the US to offer to lower its tariff on a product Kenya exports (which could be coffee) in exchange for Kenya lowering its tariff on a *different* product that the US exports (for example, medical equipment), and equality of the tariff rates would be a non-issue for different goods.

In fact, the second Trump administration has not adopted Navarro's definition of reciprocal tariffs, but instead invented yet another unprecedented definition of "reciprocity": that trade in goods must be balanced bilaterally between the US and every other individual trading partner. This was the standard applied, rather haphazardly, when (pursuant to his claimed authority under the IEEPA) Trump ordered so-called "reciprocal tariffs" on most other countries in 2025 to supposedly "correct" for their trade surpluses with the US (although, bizarrely, such tariffs were also applied to some countries with which the US has a surplus, such as Brazil). Even if one thinks that the overall trade balance is of macroeconomic significance and that avoiding a large current account deficit can be a legitimate policy objective (for example, because of concerns over net international debt accumulation), there is no logical reason why one would insist on trade being balanced bilaterally with every other country or exclude trade in services from the policy target.

Alone among Trump's advisers, Miran (2024) forthrightly addresses some of the key economic challenges and trade-offs involved in imposing a system of broad-based tariffs. The core of his analysis is the idea of "currency offset," which is the potential for tariffs to cause an appreciation of the dollar that would completely or partially offset the costs of the tariffs to US importers and consumers—and effectively make foreign countries "pay" for the tariffs to a greater or lesser degree. The conventional theory of why the currency of a tariff-imposing country would tend to appreciate is very simple: a higher tariff reduces home-country demand for imports and (supposedly) improves its balance of trade, thereby decreasing demand for foreign currency in the foreign exchange market, and hence causing the foreign currency to depreciate and the home currency to appreciate. As a result, the upward pressures that tariffs put on domestic prices of imported goods are relieved, either fully or partially, and foreigners bear at least some of the cost of the tariffs to the extent that their purchasing power and real incomes are reduced.

In this optimistic view, Trump's tariffs would not be inflationary, even in the short run, and the burden of paying the tax would fall more on foreign countries than on US firms and consumers.

Furthermore, since imports would continue unabated, the US government would receive large tax revenue from the tariffs. However, there is an important caveat, which Miran (2024) candidly admits. That is, to the extent that domestic prices of imported goods do not rise, domestic businesses and households will not switch their expenditures away from imports toward domestically produced goods. Hence, the key TMR policy objectives of rejuvenating the US manufacturing sector and balancing US goods trade would not be accomplished. Thus, the US can either protect the manufacturing sector and balance its trade, or it can push the burden of paying the tariffs onto foreigners while raising a lot of tax revenue, but it cannot accomplish both sets of goals simultaneously (Miran, 2024, p. 17).

Furthermore, Miran also admits that there are reasons why the dollar could fall rather than rise as a result of the tariffs. After all, he also argues (as discussed previously) that the dollar's value is driven mostly by financial flows that are unrelated to goods trade, especially its role as the chief international reserve currency and its preeminence in global financial markets. In this regard, he admits the potential for tariffs to increase volatility:

> A sudden shock to tariff rates of the size proposed[11] can result in financial market volatility. That volatility can take place either through elevated uncertainty, higher inflation and the interest rates required to neutralize it, or via a stronger currency and knock-on effects thereof....
>
> to help minimize uncertainty and any adverse consequences of tariffs, the Administration can use credible forward guidance, similar to what is used by the Federal Reserve across a range of policies, to guide expectations. The U.S. Government might announce a list of demands from Chinese policy—say, opening particular markets to American companies, an end to or reparations for intellectual property theft, purchases of agricultural commodities, currency appreciation, or more.
>
> The U.S. can proceed to gradually implement tariffs if China does not meet these demands. It might announce a schedule, for instance, a 2% monthly increase in tariffs on China, in perpetuity, until the demands are met. (Miran, 2024, pp. 21–22.)

In reality, of course, Trump paid no attention to this advice once he was back in office, and instead did exactly the opposite of what Miran had recommended. His tariff policies have been chaotic and impulsive rather than orderly or predictable. By ordering high initial tariff rates, then offering pauses or reductions in exchange for other countries being willing to negotiate, while imposing additional tariffs on specific goods like automobiles, aluminum, and steel (with more to come on pharmaceuticals, lumber, and other products)—and also granting numerous exceptions and exemptions to US firms that curried favor with him (such as Apple) and being unclear

[11] Recall that, in the 2024 presidential campaign, what Trump proposed was a 10% across-the-board tariff on all imports, except a 60% rate on imports from China—not the much higher and more erratic tariffs he actually ordered in 2025.

on what the US was seeking in its negotiations with other countries—Trump's actions have fostered chaos, worsened financial market volatility, and increased uncertainty.

In addition, other administration actions, including its failure to uphold the rule of law and the passage of a budget bill that is expected to increase the fiscal deficit and federal debts, have further lessened confidence in the US as a destination for international investment (see Hassan et al., 2025). The upshot has been that long-term bond prices have fallen, yields on those bonds have risen, and the dollar has depreciated instead of appreciating. In this situation, there is no currency offset to the higher costs of imports resulting from the tariffs, and foreigners are not likely to bear the tax burden (unless exporting firms cut prices in their own currencies to maintain US market share). Depreciation of the dollar could help to improve the US trade balance, but at the cost of raising prices yet further for domestic firms and consumers, over and above the direct impact of the tariffs.

In spite of what might be considered a reasonable economic analysis, Miran (2024) then offers an more expansive wish list of potential demands in trade negotiations than what Navarro (2023) had proposed, with less of a focus on China. As shown in Table 3, Miran's list includes not only economic objectives such as opening of foreign markets and discontinuation of allegedly unfair foreign trade practices, but also broader foreign policy and national security goals consistent with the TMR vision. He argues that countries that meet or agree to US objectives should get lower tariff rates, while countries that fail to comply should get higher ones. Such an approach would seem quite at odds with targeting tariffs on economic objectives such as reindustrialization or balancing trade, which would seem to require targeting tariffs on specific goods and countries based on economic criteria rather than extraneous political or security objectives.

In the end, the rationales for the tariffs offered by different TMR officials remain unclear, inconsistent, and self-contradictory. Perhaps in the end, the main point is to use the tariffs (actual and threatened) to leverage bargaining power with (or, less politely, to intimidate and bully) other countries to achieve some market opening abroad combined with other administration objectives, above all asserting a new and brutal form of US dominance over other nations and undermining foreign leaders who conflict with Trump (Lula, Modi, etc.). The laundry lists of demands issued by Navarro and Miran are emblematic of the administration's refusal to stick to a coherent set of economic objectives for the tariffs. It is no wonder that foreign trade officials who have attempted to negotiate with their US counterparts have often complained that the latter don't know what they want. Of course, they cannot know until Trump personally decides what he's willing to accept, which again demonstrates the strong authoritarian element in the tariff policy. These concerns notwithstanding, in the following sections we return to the likely economic impact of the tariffs and the prospects for them to achieve the principal goals of reindustrialization and balanced trade touted in the MAGA vision for the US economy.

Table 3. Trade and security criteria and negotiating objectives for tariffs recommended by Stephen Miran

- Does the nation apply similar tariff rates to their imports from the U.S. as America does on their exports here?
- Does the nation have a history of suppressing its currency, for instance via the accumulation of excessive quantities of foreign exchange reserves?
- Does the nation open its markets to U.S. firms in the same way America opens its markets to foreign firms operating stateside?
- Does the nation respect American intellectual property rights?
- Does the nation help China evade tariffs via re-export?
- Does the nation pay its NATO obligations in full?
- Does the nation side with China, Russia, and Iran in key international disputes, for instance at the United Nations?
- Does the nation help sanctioned entities evade sanctions, or trade with sanctioned entities?
- Does the nation support or oppose U.S. security efforts in various theaters?
- Does the nation harbor enemies of the United States, e.g. terrorists or cybercriminals?
- Do the nation's leaders grandstand against the United States in the international theater?

Source: Miran (2024, p. 23).
Note: The bullet points in this table are all direct quotes from the source.

3. Economic estimates of tariff costs and distributional impact

Economic theory teaches that a tariff, which is a tax on imports, is also equivalent to a tax on consumption, a subsidy (or transfer) to domestic producers, and (in general equilibrium) a tax on exports. In addition, tariffs have distributional consequences, which depend on the incidence of the effects on different social classes, industrial sectors, business firms, and income quantiles. For a large country like the US, a tariff can possibly also effectively serve as a tax on foreign exporters by inducing them to lower their export prices, which causes them to "pay for" part of the tariff costs (this is known in the literature as a "terms-of-trade" gain). Most conventional estimates of tariff effects have focused on the impact on consumers and firms. In this section, we focus mainly on estimates of the consumer costs and the related impacts on firms' profit margins, household income distribution, and foreign export prices (pre-tariff US import prices); effects on export quantities are considered in section 4, below.

3.1 Price effects and tariff incidence

In a widely-cited study written during the 2024 presidential campaign,[12] Clausing and Lovely (2024) used a standard consumer-cost-of-protection methodology to estimate the likely impact of the tariffs Trump was proposing at that time: a 10% across-the-board tariff on all countries, except a 60% rate on China. They estimated that these tariffs would have imposed costs on consumers equivalent to 1.8% of GDP, which would have come out to $1,700 annually for the median household. The Budget Lab at Yale (2025) estimates consumer costs of a similar order of magnitude, based on the tariffs actually implemented as of September 3, 2025 (which were mostly higher than those promised in Trump's campaign, except for China): "an average [annual] per household income loss of $2,300 in 2025$."[13]

Clausing and Lovely (2024) stated that their predicted $1,700 loss for the median household was a "lower bound" estimate, because it took into account only government tax revenue from the tariff plus the "deadweight" efficiency losses in production and consumption; they did not attempt to include the part of the consumer loss from tariffs that constitutes a transfer to producers. Although their estimate is conservative in this sense (and also because it does not take into account the higher tariffs imposed by Trump in 2025), Clausing and Lovely also made two strong assumptions that could bias their estimate upward: (1) import prices remain constant (there are no terms-of-trade effects on foreign export prices); and (2) there is 100% pass-through of the tariff costs to ultimate consumers (profit margins of retailers, distributors, and other "middlemen" are assumed to be unaffected).

While it is impossible to know whether the downward or upward biases in the Clausing–Lovely estimate are larger, it is possible to get a sense of whether assumptions (1) and (2) are plausible by examining studies of the tariffs from Trump's first term and new studies of his current ones. In regard to a possible terms-of-trade gain for the US (a negative effect on foreign export prices and pre-tariff US import prices), Amiti et al. (2019) found that there was no statistically significant effect of Trump's 2018 tariffs on foreign export prices, and hence concluded that no such gain was reaped. This can be thought of as the case of "full pass-through" of the tariffs into (after-tariff) prices of US imports. This result implies that the entire cost of Trump's 2018–2019 tariffs was borne by US *importers*; Amiti et al. (2019) did not estimate how much of this cost was passed through to consumers and how much was paid by firms (retailers or others in the distribution chain) in the form of lower profit margins.

Cavallo et al. (2021) reached a similar conclusion about foreign exporter prices for US tariffs on imports from China[14] in Trump's first term, but with an important qualification. When they dis-

[12] Most prominently, former Vice President Kamala Harris cited their estimate in her televised debate with Trump.

[13] Allowing for consumer substitution away from affected imports, the estimated average annual consumer loss falls to $1,900 per household (The Budget Lab at Yale, 2025).

[14] This estimate covers the vast majority of Trump's first-term tariffs, because "China-facing import tariffs account-

aggregated US imports from China into differentiated and undifferentiated goods, they found that Chinese export prices *were* depressed by US tariffs for the latter category (which consists of primary commodities and very basic manufactures), but not for the former. Thus, foreign exporters did pay *some* of the tariff cost (roughly one-quarter) for those types of goods. The reason why this effect was not found for Chinese export prices overall is that undifferentiated goods accounted for only about 10% of the US imports affected by Trump's tariffs on China. In contrast, foreign retaliatory tariffs did have a significant negative effect on US export prices overall, precisely because undifferentiated goods constituted a much higher portion (more than half) of affected US exports. For that reason, US firms (largely agricultural producers) paid part (about 20–33% in two alternative estimates) of the cost of foreign retaliatory tariffs.

Alviarez et al. (2025) dispute the finding in these earlier studies that most prices of foreign exporters (pre-tariff US import prices) were not depressed by the 2018–2019 Trump tariffs. Alviarez et al. use a micro model of "two-sided market power in firm-to-firm trade," which refers to buyer firms in GVCs potentially having both oligopoly power over downstream customers and oligopsony power over upstream suppliers. Using a data set that is restricted to arms-length transactions between firms in intermediate goods and suppliers who sell to at least two competing buyers, the authors find that pass-through of the tariffs into US import prices was in the range of 65% to 75% (depending on the modeling specification), which suggests that foreign sellers absorbed approximately one-quarter to one-third of the tariff costs. Alviarez et al. (2025) also calculate that most of the adjustment in foreign export prices (US pre-tariff import prices) occurred through a cost channel (seller firms moving down and to the left along upward-sloping marginal cost curves due to diminishing returns to scale), rather than through a markup channel.

However, Alviarez et al. (2025) state that if a wider data sample is used—including finished goods and related-firm transactions, among other items excluded from their baseline estimates—the estimated range of tariff pass-through into import prices rises to about 93–95%. They thus explain the differences between their estimates and those of Amiti et al. (2019) and Cavallo et al. (2021) partly by the more comprehensive nature of the transactions covered by the latter two studies, and also by the fact that those earlier studies used unit value data for import prices instead of matched prices for individual firm-to-firm transactions. Unit value data "combine within-match price changes with shifts in the composition of transactions" (Alviarez et al. 2025, p. 40), thereby failing to identify the pure price change effects. While this is a valid point, nonetheless the baseline estimates of Alviarez et al. are less than comprehensive, and hence may reflect the impact of tariffs only on a limited range of US import prices.

Turning to pass-through from US import prices into prices for ultimate consumers, econometric tests by Cavallo et al. (2021) using price data for two (unnamed) "large US retailers" showed no significant effect of the 2018–2019 tariffs on retail prices. This seemed to imply that *all* of the

ed for 94.8% of employment-weighted industry tariff exposure as of December 2019...." (Autor et al. 2024, p. 1n1).

costs of those tariffs were borne by US retailers[15] through reduced profit margins, not by ultimate consumers. However, this finding could suffer from selection bias, if the two firms were big discount chains, such as Walmart or Target, whose marketing strategies hinge on holding down prices for consumers, and which are not representative of all US retailers.

Using a more comprehensive data source, Minton and Somale (2025) find, to the contrary, that the tariffs in Trump's first terms were fully passed through to consumer prices, measured by the price index for personal consumption expenditures (PCE) by product type. The price effects predicted by their model (assuming 100% pass-through of import prices to consumer prices, no reduction in import prices, and constant dollar markups of firms) for the May 2019 tariffs on China are closely correlated with the excess inflation in each category of goods (relative to the previous trend). This finding is corroborated by a linear projection analysis that incorporates dynamic effects of all the Trump tariffs in 2018–2019, using monthly PCE data. The authors find that the 2018–2019 tariff increases "were passed through fully and quickly—within two months of tariff implementation—to consumer good prices" (Minton and Somale, 2025). In fact, they find that those tariffs were *more* than 100% passed through,[16] which could indicate that the tariffs were used as "coordination devices" to allow firms to pass through increases in other costs (or profit markups). For the February–March 2025 tariffs, Minton and Somale find a smaller pass-through coefficient (about 0.5), and they acknowledge that this had only a minuscule effect on core PCE inflation (about 0.08 percentage points) at that time.

Additional evidence on the short-run price impact of Trump's second-term tariffs comes from Cavallo et al. (2025), who exploit new data sources to analyze daily price changes for highly disaggregated products following the imposition of new tariffs in 2025. They find that, as of September 8, "prices rose by 5.4 percent for imported goods and 2.6 percent for domestic goods," relative to pre-tariff trends (Cavallo et al., 2025, p. 9). The positive (but smaller) impact on prices of domestic goods probably reflects two factors: (1) higher costs of imported inputs for US producers; and (2) higher demand for domestic goods as a result of consumer substitution away from more expensive imports. Intriguingly, Cavallo et al. (2025) find that prices also rose (to a lesser degree) for domestic goods not directly affected by the tariffs as well as for directly affected goods, which could indicate that (among other possible explanations) firms were raising profit margins on the former to compensate for lower profit margins on the latter.

In a separate set of estimates using an event study methodology, Cavallo et al. find that "The pre-treatment [pre-tariff] coefficients are flat and insignificant," while "The series rises shortly after the tariff date and becomes statistically significant by approximately day +7. Effects then accu-

[15] Cavallo et al. ignore the possibility that distributors and other "middlemen" could have absorbed some of the tariff costs, rather than all of these costs falling on retailers. However, for some "big box stores" and online vendors, such as Walmart and Amazon, the retailer is also the importer, distributor, and wholesaler, and this is probably the type of firm whose price data they used.

[16] However, full (100%) pass-through lies within a 95% confidence band, so it cannot be ruled out.

mulate smoothly," rising to "about 2.0 to 2.5% by days 60 to 90" (Cavallo et al., 2025, p. 18). Overall, they conclude that "Imported goods [prices] rose by about 4% since early March—or 5% relative to a counterfactual based on pre-tariff trends" (Cavallo et al., 2025, p. 19).

However, the authors caution that all of these price increases "remain moderate relative to the size of some announced tariff rates, particularly on Chinese products," and that "the time horizon covered in this paper is much shorter than in previous papers" (Cavallo et al., 2025, p. 9). Cavallo et al. explain the reasons why the price adjustments to tariffs have, according to their estimates, been "moderate" in both the first and second Trump administrations as follows:

> The limited pass-through at the time [2018-19] was connected to a range of short-run retailer adjustment mechanisms, including [profit] margin reductions, inventory front-loading [shipping imports before tariffs take effect], and trade diversion [shifting imports to unaffected source countries, especially countries other than China]. The same mechanisms, coupled with the growing uncertainty over the tariffs [sic] announcements, can help explain why the magnitude of these price increases are still small relative to the size of the tariff announcements. (Cavallo et al., 2025, p. 9).

As noted earlier, Minton and Somale (2025) also find only partial pass-through of new tariff costs in 2025, even though they found full (or more-than-full) pass-through for the 2018–2019 Trump tariffs. In addition, The Budget Lab at Yale (2025a) calculates a range of about 61–80% partial pass-through using price data for June–July 2025. If all these studies are correct, then the estimated "consumer costs" of Clausing and Lovely (2024) are biased upward by their assumption of full pass-through, and a significant portion of those costs were paid instead by firms (either producers, retailers, or "middlemen" in the distribution chain). But as noted earlier, Clausing and Lovely's estimates are also biased downward by other assumptions and limitations of their analysis, so their estimates could still be reasonable orders of magnitude if the biases in the two directions roughly cancel each other out.

To summarize on price effects, we may draw the following conclusions:

- Regarding terms-of-trade effects (pass-through into US import prices), most estimates suggest that there were only minimal gains for the US from Trump's first-term tariffs. One exception is the 10% of imports from China that consisted of undifferentiated goods, where some terms of trade gains were reaped (and there were bigger gains to foreign countries from retaliatory tariffs on US exports), according to Cavallo et al. (2021). Another exception is for arms-length, firm-to-firm transactions in imported intermediate goods, as found by Alviarez et al. (2025). These exceptions notwithstanding, it appears that the lion's share of the costs of the 2018–2019 tariffs was paid by US firms or households; at most, only a small portion of the tariff costs were paid by foreign exporters.

- The evidence is much more mixed on the degree to which retail prices for consumers were increased by the tariffs, especially for Trump's first term where the findings in the literature range from no significant effect (Cavallo et al., 2021) to full (or possibly more-than-full) pass-through (Minton and Somale, 2025). For the second-term tariffs, the available evidence shows that they have had significant positive effects on consumer prices (Cavallo et al., 2025), but the pass-through has been less than complete as the price increases attributed to the tariffs are modest relative to the tariff rates.

For all of Trump's tariffs, therefore, the safest conclusion seems to be that they have been paid mostly by some combination of US consumers and firms, and only to a small degree (if at all) by foreign exporters.[17] However, caution is advised in extrapolating this finding to his second-term tariffs, for two reasons. First, the new tariffs in 2025 cover a much wider range of countries, and hence affect higher percentages of undifferentiated goods and more intermediate goods compared with the earlier tariffs, which were levied more heavily on finished consumer goods from China. Second, the new tariffs are generally at higher rates, which raises the possibility of non-linear effects (stronger for higher tariffs). The Budget Lab at Yale (2025a) acknowledges this possibility, but notes that there was no evidence of pre-tariff US import prices falling as of June–July 2025. Also, given that more of the 2025 tariffs have been imposed on imported inputs like aluminum, copper, and steel, and on intermediate goods more generally from a wider range of countries, these later tariffs are more likely to shave profit margins for US manufacturing firms, such as automobile producers, who rely on such imported inputs (or domestic substitutes for them), compared with the earlier tariffs that were more likely to affect profit margins of retailers or distributors.

3.2 Distributional impact

Most analysts have concluded that the burden of the consumer costs of Trump's tariffs has been unequally and regressively distributed, mainly because lower-income and working-class households spend a higher fraction of their income on consumption compared to higher-income and upper-class households, and a tariff functions as a consumption tax. In addition, the tariffs have tend to disproportionately affect goods that the former households consume. According to Clausing and Lovely (2024), for example, the lowest quintile of households would have experienced a loss of 4.2% of after-tax income, while the highest quintile would have lost 1.9% and the top one percent would have lost only 0.9%, with steadily diminishing percentages as one moves from the lower-income quantiles to higher-income ones, based on the tariff rates proposed in Trump's 2024 campaign (10% overall, except 60% for China).

[17] Here, we refer specifically to potential losses for foreign exporters from lower export prices and profit margins on exported goods. Even if such losses have not occurred, as found by Amiti et al. (2019) for all US imports and Cavallo et al. (2021) for imports of differentiated goods from China in 2018–2019, foreign exporters can still lose in other ways, especially reduced export volumes, sales revenue, and employment.

The Budget Lab at Yale (2025b) obtains qualitatively similar results, based on the tariffs actually applied in Trump's second term as of September 3, 2025 (see Table 1). In these estimates, as shown in Figure 1, the lowest percentile experiences the largest proportional loss (−3.5% of disposable income), deciles 2 to 9 face smaller and gradually diminishes losses (from −2.1% to −1.5%), and the highest percentile gets the smallest proportional loss (−1.0%). However, as Figure 2 shows, the absolute losses are generally increasing by decile, owing to the much higher incomes as one moves up the income scale. Thus, middle- and upper-class households also lose significantly from the new Trump tariffs.

The Budget Lab (TBL) at Yale also points out two other important qualifications. First, the long-run distributional impact could be very different. The TBL short-run estimates assume that wealthy owners of capital save the "rents" from (above-normal) corporate profits, but in the long run the life-cycle theory of consumption implies that they would spend would spend all of these rents, so the tariff effects would be much larger. In the TBL's view, the long-run effects of the tariffs are therefore more likely to be distributionally neutral. We can add that, if the tariffs remain in place in the long run, they would also be likely to induce significant changes in the US industrial structure, which in turn would alter factor demands in ways that would affect the distributional incidence of the tariff costs especially for wages of different strata of the labor force.

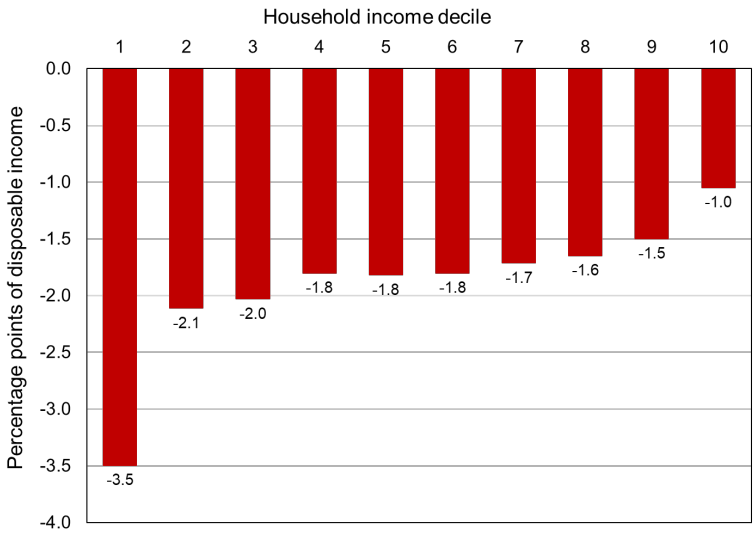

Figure 1. Short-Run Distributional Impact of 2025 Tariffs, in Percentage of Disposable Income by Household Income Decile

Source: The Budget Lab at Yale (2025b), Figure 7, https://budgetlab.yale.edu/sites/default/files/2025-09/TBL%20Data%20September%204%20Tariff%20Update%2020250904.xlsx, data retrieved September 20, 2025.

Note: Reflects all new tariffs in 2025 in effect as of September 3, including IEEPA tariffs under review by the Supreme Court.

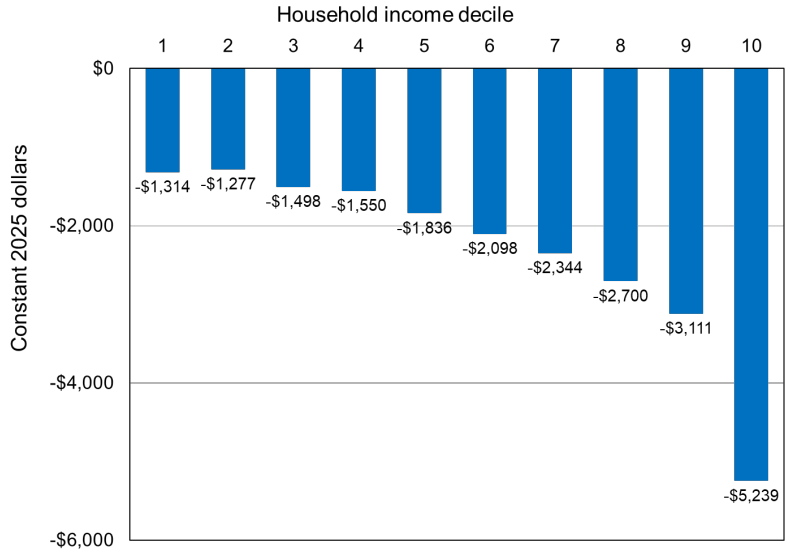

Figure 2. Short-Run Distributional Impact of 2025 Tariffs, Change in Average Annual Disposable Income in Contant 2025 Dollars by Household Income Decile

Source: The Budget Lab at Yale (2025b), Figure 7, https://budgetlab.yale.edu/sites/default/files/2025-09/TBL%20Data%20September%204%20Tariff%20Update%2020250904.xlsx, data retrieved September 20, 2025.

Note: Reflects all new tariffs in 2025 in effect as of September 3, including IEEPA tariffs under review by the Supreme Court.

Second, the distributional impact shown in Figure 1 depends on the pattern of protection in all of Trump's 2025 tariffs, which fall broadly on consumer goods from a wide range of countries, including many goods that the US does not produce (such as coffee). However, if the so-called "reciprocal" tariffs and trade "deals" enacted under the IEEPA are invalidated by the Supreme Court, the remaining tariffs (which are mostly section 232 "national security" tariffs on supposedly strategic materials like copper and steel) would more directly affect downstream producers, with a more even proportional impact on households across the income spectrum as higher input costs would feed into prices of domestically produced goods and services. But, at least in the short run, and taking all of Trump's 2025 tariffs into account, the impact seems to be highly regressive. If the TMR wants to use these sorts of tariffs to get more revenue to replace income taxes, which have also been made more regressive under Trump's tax legislation (the 2017 TCJA and 2025 OBBBA), the effect will only be to further worsen inequality in the after-tax distribution of income.

Another important distributional variable is the labor share of national income, which has exhibited an unprecedented decline in recent decades (de Loecker et al. 2020; Setterfield, 2023). Based on the evidence cited above, the new Trump tariffs are likely to have several offsetting effects on the labor share. On the one hand, the tariffs are allowing firms to raise prices and

markups on domestic products that compete with imports, while firms with sufficient market power are increasing markups on goods not affected by the tariffs to make up for lower markups on the affected ones. In addition, the estimates of greater consumer (household) losses in the lower and middle income quantiles suggest that real wages will be cut. Higher markups and lower real wages tend to reduce the labor share, holding other factors constant. On the other hand, tariffs are reducing profit margins and squeezing markups on downstream firms that face higher input costs, because tariffs are raising the prices of both imported inputs and domestic substitutes. Lower markups for these firms would tend to raise the labor share. Hence, the net impact on the labor share is ambiguous a priori, and will have to be the subject of future research.

3.3 Conclusions on price effects and consumer costs

In a moment of unusual honesty, Trump once admitted in a social media post that his tariffs might cause "some pain" for American consumers, but insisted that any such sacrifices would bring a huge payoff to the country:

> WILL THERE BE SOME PAIN? YES, MAYBE (AND MAYBE NOT!). BUT WE WILL MAKE AMERICA GREAT AGAIN, AND IT WILL ALL BE WORTH THE PRICE THAT MUST BE PAID. (Donald Trump, quoted in Boak, 2025, all caps in original.)

The studies discussed in this section are valuable for the estimates they provide of how much pain there will be, and who is likely to bear it. Although the precise estimates vary depending on the datasets and methodologies used as well as the particular tariffs considered, they offer a range of credible guides for how big the costs have been and how they have been (or will be) apportioned between foreign exporters, domestic firms (producers, retailers, and "middlemen"), domestic consumers, and household income quantiles. These studies also help us to identify those who are likely to gain from the tariffs, especially US firms and workers who produce goods that are close substitutes for imports subject to tariffs (for example, aluminum and steel producers).

Nevertheless, the literature that estimates price effects and welfare losses does not pay sufficient attention to the core claim of the TMR: that the costs and disruption engendered by the tariffs will be outweighed by purported gains from reindustrializing the US economy, balancing its trade, and reviving domestic manufacturing production and employment. This literature seem to implicitly assume that the status quo ante, with largely open US markets (and allegedly more closed foreign ones), was optimal and beneficial for the US economy and its workers and families, and leaves the impression that the best policy solution is simply to remove the tariffs. But additional analysis is required to determine whether in fact an open trading regime fostered the harm claimed by the TMR in terms of deindustrialization, trade deficits, and depressed economic opportunities for working-class families, and if a highly protectionist tariff regime—even one that would be more coherent and less chaotic than the current one, or which could successfully

pry open foreign markets—is a necessary or worthwhile tool for reversing the purported economic decline. In other words, did trade undermine US economic performance, and are the tariffs "worth the price that must be paid" to reverse US decline, as Trump asserted? These questions will be considered in the following sections.

4. What the Trump/MAGA argument gets right and wrong

4.1 Right

4.2 Wrong

5. Likely effectiveness of the tariffs and alternative industrial policies

6. Conclusions

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