

Evaluating the Impact of Tariffs

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About the Tax Foundation

We've worked for 81 years on objective research, data, & analysis at the federal, state, & local levels.

About the Tax Foundation

INTRODUCING
FACTS & FIGURES
FOR YOUR SMARTPHONE

State and Local Sales Tax Rates

STATE AND LOCAL SALES TAX RATES
As of January 1, 2016

STATE NAME	STATE SALES TAX RATE	AVG LOCAL SALES TAX RATE	COMBINED STATE/LOCAL SALES TAX RATE
Ala.	4% (38)	4.97%	8.97% (4)
Alaska	0%	1.78%	1.78% (44)
Aliz.	5.6% (28)	2.60%	8.25% (11)
Ark.	6.5% (3)	2.8%	9.3% (2)
Calif.	7.5% (1)	0.98%	8.48% (10)



How do the 2016 Presidential Tax Plans Compare So Far?

	Bush	Carson	Cruz	Paul	Rubio	Santorum	Trump
10-Year GDP Growth	10%	16.0%	13.9%	12.9%	15%	10.2%	11.5%
10-Year Capital Investment Growth	28.8%	46.6%	43.9%	40.5%	48.9%	29%	29%
10-Year Wage Rate Growth	7.4%	10.9%	12.2%	11.4%	12.5%	7.3%	6.5%
Added Jobs (millions)	2.7	5.2	4.9	4.3	2.7	3.1	5.3
10-Year Static Revenue Estimate (billions)	-\$3,665	-\$5,617	-\$3,666	-\$1,797	-\$6,055	-\$3,223	-\$11,980
10-Year Dynamic Revenue Estimate (billions)	-\$1,610	-\$2,472	-\$768	+\$737	-\$2,401	-\$1,093	-\$10,135

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2017 STATE BUSINESS TAX CLIMATE INDEX

INTERNATIONAL TAX COMPETITIVENESS INDEX 2016

BY KYLE POMERLEAU



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Agenda

- Economics of trade and tariffs
- Tariff tracker
- Overview of the taxes and growth model
- Evaluating the impact of tariffs

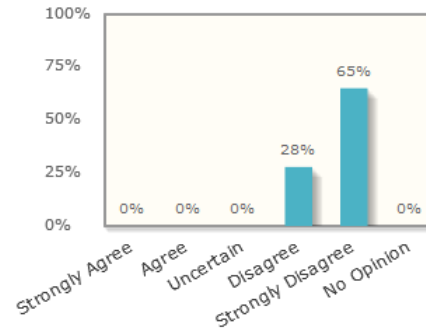
Economics of Trade and Tariffs

- Tariffs
- Tariff investigations
- Balance of payments

Steel and Aluminum Tariffs

Imposing new US tariffs on steel and aluminum will improve Americans' welfare.

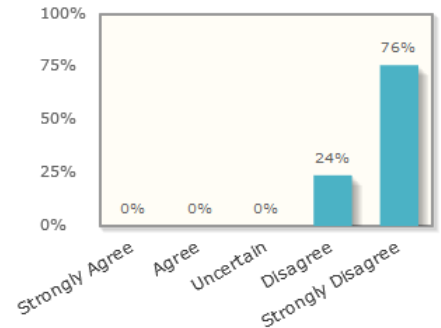
Responses



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Source: IGM Economic Experts Panel
www.igmchicago.org/igm-economic-experts-panel

Responses weighted by each expert's confidence



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Source: IGM Economic Experts Panel
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Economics of Trade and Tariffs

Tariffs

- Are a tax on imports
- Lead to a net loss in production and jobs and lower levels of income
- Reduce trade

Tariffs can damage the economy by:

- Being passed on to producers and consumers through higher prices
- Causing the U.S. dollar to appreciate, partially offsetting price increases, but hurting exports

Economics of Trade and Tariffs

- But what about the trade balance?
 - Current trade deficit: \$54 billion for September
- The balance of payments system is:
 - An accounting identity
- The balance of payments system is NOT:
 - A predictor of economic well-being
 - A measure of profit or loss

Economics of Trade and Tariffs

Production and exchange – regardless of the trade balance – generate wealth



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Tariff Tracker

Two ways to think about the current tariff situation

- Product or issue
 - Washing machines and solar panels
 - Steel and aluminum
 - China's trade practices
 - Automobiles
- Implementation status
 - Enacted U.S. tariffs
 - Threatened U.S. tariffs
 - Retaliatory tariffs

Tariff Tracker

January 2018: washing machine and solar panel tariffs imposed

Washing Machines

	Year 1	Year 2	Year 3
First 1.2 million imported washers	20 percent	18 percent	16 percent
All subsequent imported washers	50 percent	45 percent	40 percent
Tariff of washer parts	50 percent	45 percent	40 percent
Washer parts excluded by tariff	50,000 units	70,000 units	90,000 units

Solar Cells and Modules

	Year 1	Year 2	Year 3	Year 4
Tariff increase	30 percent	25 percent	20 percent	15 percent

Note: First 2.5 gigawatt of imported cells are excluded from the increased tariff.

Tariff Tracker

Steel and aluminum imports as national security threat (Section 232 tariffs)

U.S. imposed tariffs March 2018, exemptions ended June 2018

- 25% steel tariffs
- 10% aluminum tariffs

Retaliation

- China
- European Union
- Canada
- Mexico
- India
- Turkey
- Russia

Tariff Tracker

Chinese Trade Practices Conflict (Section 301)

- Began in August 2017 with USTR investigation
- Investigation results in March 2018
- Lots of threats, lists, and revisions
- U.S. currently has around \$510 billion in annual imports from China

Tariff Tracker

Chinese Trade Practices Conflict

- U.S., July 2018: 25% on \$50 billion
- China, July 2018: 25% on \$50 billion
- U.S., September 2018: 10% on \$200 billion
- China, September 2018: Varied rates on \$60 billion
- U.S., Jan. 2019: 25% on \$200 billion
- If China responds, U.S. will tax the remaining \$260 billion

Tariff Tracker

Automobiles

- May 2018: U.S. Commerce Department investigation into automobiles and parts as a national security threat
 - Possibly 25% on all imports
 - \$73.25 billion tax increase

Tariff Tracker

Tariffs are impacting about 10,000 products traded across the globe

Tariff Tracker

- EU
 - One-third are steel and aluminum
 - Agriculture and food products
 - Bourbon, motorcycles, and blue jeans
 - Corn
 - Peanut butter
- Canada
 - Half are steel and aluminum
 - Agriculture and food products
 - Consumer goods
- India
 - Chemical and metal products

Tariff Tracker

- Mexico
 - Steel
 - Aluminum
 - Pork, apples, potatoes
- Turkey
 - Coal
 - Whiskey
 - Rice
- Russia
 - Road construction, drilling, oil, and gas equipment

Tariff Tracker

- United States
 - 1,102 products from China
 - Semi-conductors
 - Plastics
 - Intermediates
 - Capital equipment
 - Steel
 - Aluminum

Tariff Tracker

- China
 - \$2.4 billion worth of goods
 - Aluminum waste and scrap
 - Pork, fruits, and nuts
 - \$50 billion worth
 - Soybeans
 - Medical equipment
 - Coal
 - \$60 billion
 - Machinery and equipment
 - Chemicals
 - Stone and cement
 - Base metals

Taxes and Growth Model

- Dynamic tax model
- Evaluates the impact on
 - GDP
 - Wages
 - Jobs
 - Revenue

Economic Impact of Tariffs

Table 1. Impact of Trump Administration Enacted Tariffs

Tariff Revenue (Billions of 2018 Dollars)	\$41.95
Long-run GDP	-0.12%
GDP (Billions of 2018 Dollars)	-\$30.43
Wages	-0.08%
FTE Jobs	-94,303

Economic Impact of Tariffs

Table 2. Impact of Trump Administration Threatened Tariffs

Tariff Revenue (Billions of 2018 Dollars)	\$129.83
Long-run GDP	-0.38%
GDP (Billions of 2018 Dollars)	-\$94.38
Wages	-0.24%
FTE Jobs	-292,648

Economic Impact of Tariffs

Table 3. Impact of Retaliatory Tariffs

Tariff Revenue (Billions of 2018 Dollars)	\$0
Long-run GDP	-0.09%
GDP (Billions of 2018 Dollars)	-\$23.51
Wages	-0.06%
FTE Jobs	-72,864

Economic Impact of Tariffs

Table 4. Total Impact of Enacted and Announced Tariffs

Tariff Revenue (Billions of 2018 Dollars)	\$171.77
Long-run GDP	-0.59%
GDP (Billions of 2018 Dollars)	-\$148.33
Wages	-0.38%
FTE Jobs	-459,816

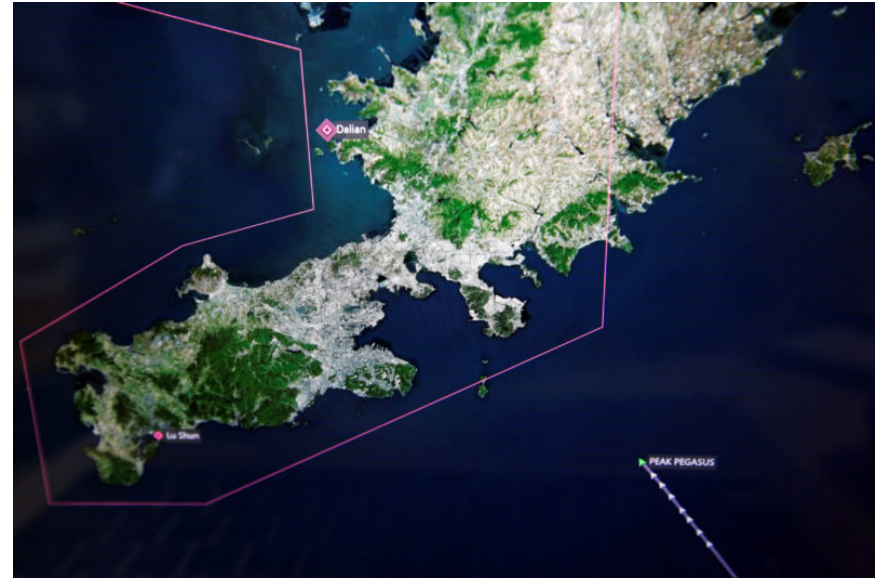
Economic Impact of Tariffs

Table 3. Economic Impact of the Tax Cuts and Jobs Act

Change in long-run GDP	1.7%
Change in long-run capital stock	4.8%
Change in long-run wage rate	1.5%
Change in long-run full-time equivalent jobs	339,000
Source: Tax Foundation Taxes and Growth Model, November 2017.	

Economic Impact of Tariffs

- Cargo ship with \$20 million of soybeans raced to China
- The value of American soybean exports more than doubled in May 2018 from a year ago
- Q2 food, feed, and beverage exports spiked 80%
- Q2 exports up 9.3%, boosting Q2 GDP



Economic Impact of Tariffs

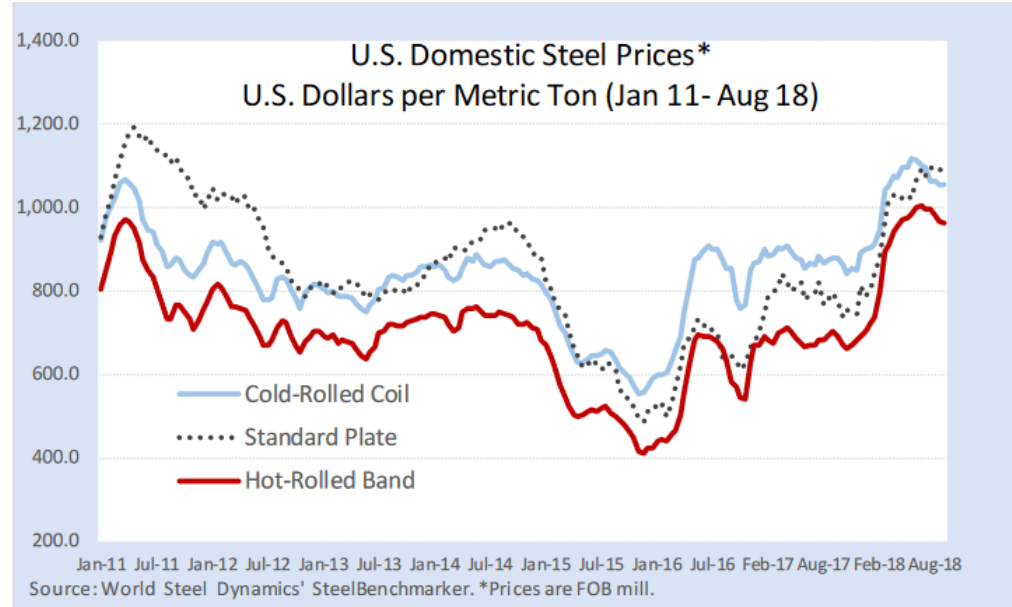
BUSINESS | LOGISTICS REPORT | WSJ LOGISTICS REPORT

Shipments to U.S. Ports Soar on Rising Retail Demand, Trade Worries

- *“Volume also is surging as companies, anticipating the coming changes to U.S. trade policy, have ramped up orders for parts and products from their overseas manufacturers to reduce the financial impact of new tariffs.”*
- Steel and aluminum import surge:
 - Steel imports from Mexico, Canada, and the EU rose by about 25% from previous year, through May
 - Aluminum stockpiled in warehouses in anticipation of tariffs: record 2.3 million metric tons as of March 2018

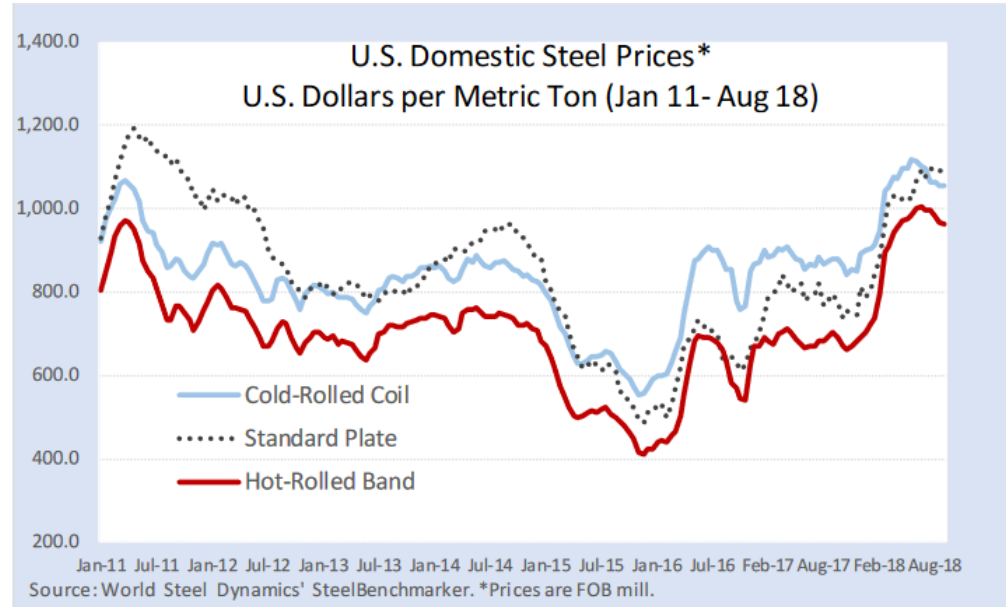
Economic Impact of Tariffs

- Hot-rolled band prices up 39 percent
- Cold-rolled coil prices up 35 percent



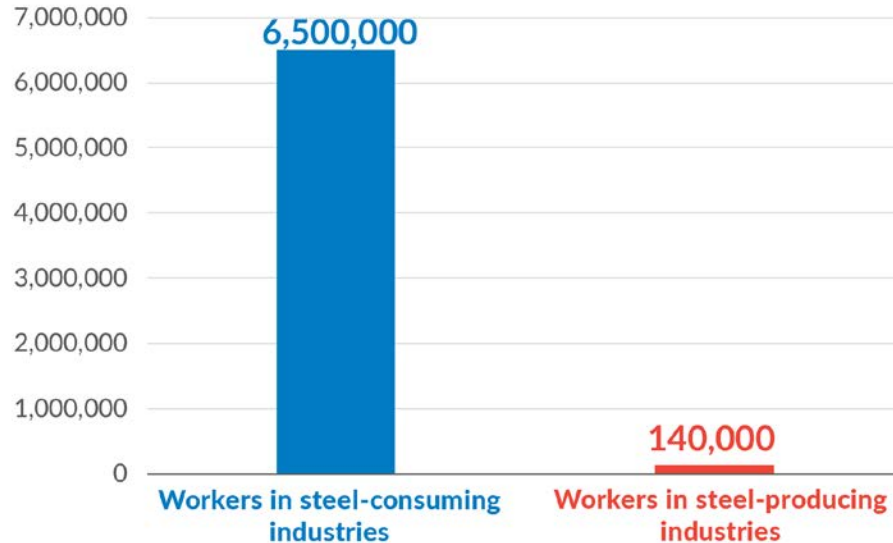
Economic Impact of Tariffs

- Firms will look to pass these costs along. This could happen in numerous ways.
 - Higher prices for consumers, both final and immediate goods
 - Fewer job opportunities
 - Fewer investments and expansions



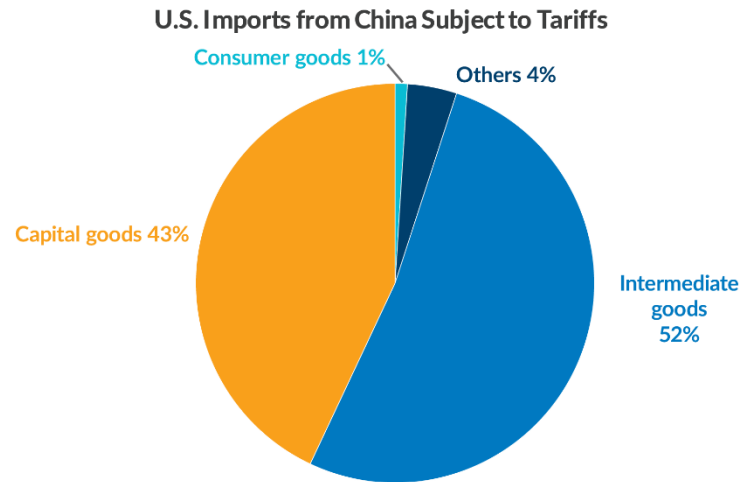
Economic Impact of Tariffs

Number of workers in steel-consuming versus steel-producing industries



Economic Impact of Tariffs

U.S. manufacturers source at least 10% of their intermediate inputs internationally



Conclusion

- Trade increases productivity, employment, output, and incomes for all countries involved
- Barriers to trade have negative economic consequences
- Tariffs result in higher prices, lower employment, and less economic output
- Tariffs reduce trade
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