

Tariffs 101

An outline of tariffs as economic tools, Donald Trump's plans to utilize tariffs, and how they will impact domestic consumers and the international economy

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Introduction to tariffs



What is a tariff?

- Tariffs are taxes placed on imported goods, and paid by the business that is importing the good to the country that has placed the tariff
- As a tax, tariffs can generate revenue for the federal government, and can be utilized as a tool to protect domestic industries from foreign competition

Who pays for tariffs?

- There are three parties involved that may shoulder the cost of tariffs
 - The importing business
 - The exporting business
 - The consumer
- Importing or exporting businesses could absorb the cost of the tariff for reduced profit margins for their goods, but studies show that typically the cost falls to the consumer

Company responses

- Companies can plan for future tariffs in several ways:
 - Stockpile goods before the tariffs are placed
 - Reroute supply chains away from countries impacted by the tariffs
 - Increase prices on goods so that consumers pay for the tariffs

Consumer impact

- Studies by the Tax Foundation, the Peterson Institute for International Economics, and the National Bureau of Economic Research all found that **tariffs typically impact US consumers the most**
- Businesses can raise prices so that consumers effectively pay for the tariffs that importing businesses must pay, making the tariffs feel inflationary to consumers

President-elect Donald Trump's tariff plans

How will Trump utilize tariffs?

Donald Trump plans to weaponize tariffs to achieve domestic victories, such as reduced drug trafficking, increased domestic manufacturing, and protecting US businesses from countries that have unfair trading practices. Both the Biden and Trump administrations levied tariffs on China to protect specific industries

Proposed tariff rates by President-elect Donald Trump



What are the impacts of Trump's tariff plans?

Pros

If the federal government pairs tariffs with subsidies to increase domestic manufacturing, then the tariffs would lead to increased domestic production, permanent jobs, and potential trade deals with countries to reduce tariffs from all parties involved

Cons

Prices on consumers could significantly increase before supply chains are rerouted or domestic manufacturing is built up. The US could face heavy retaliatory tariffs that impact the global economy

Congress has largely ceded the power to tariff to the Executive branch



Article One Section 8 of the US Constitution states that one of the powers of Congress is to “regulate commerce with foreign nations,” which would encompass tariffs. But since 1930, Congress has passed legislation that gives the President powers over tariffs

Smoot-Hawley Tariff Act of 1930

Increased hundreds of tariffs, worsening the effects of the Great Depression, and gave the President power to impose tariffs up to 50% on countries that discriminate against US products

Trade Expansion Act of 1962

Granted the President the broad power to change import rates if they were deemed to be a threat to US national security, which Trump used to implement tariffs during his first term

Trade Act of 1974

Authorized the President to enter trade deals as well as the ability to place tariffs up to 15%, but the tariffs are limited to just 150 days before needing congressional approval

International Emergency Economic Powers Act

Provides the President with the authority to deal with international economic emergencies, which could include tariffs

Can Trump carry out his tariff plans?

When it comes to **tariffs on individual countries**, Trump has **multiple options to impose tariffs and have them remain in place**. However, for a universal baseline tariff on all imports, Trump would need to argue that every US trading partner has discriminated against products made in the US and would likely see legal challenges. The baseline tariff would likely need to be passed through Congress

Recent presidential tariff increases

Trump-era tariff increases



Placed a 10% tariff on aluminum imports



Levied a 10% tariff on over 5,000 Chinese products that increased to 25% in March 2019, which consisted of agricultural goods and technology



Placed a 25% tariff on steel imports from most countries, with 50% on steel imports from Turkey



25% tariff on over 800 Chinese manufacturing parts, placed in July 2018

Biden-era tariff increases



Increased steel and aluminum tariffs on China to 25%



Increased tariffs on China's semiconductor wafers to 25%



Placed a 100% tariff on imports of electric vehicles from China

How could tariffs impact prices?

Prices before tariffs are enacted:



A factory in Mexico produces jeans



The jeans are shipped to the US to be sold at stores



The jeans are sold to consumers for \$60

Prices after tariffs are enacted:



A factory in Mexico produces jeans



The jeans are shipped to the US, and the importing company must pay a **25% tariff**



The jeans are sold to consumers for \$75

Who will help implement Trump's tariff policies?

Jamieson Greer

Nominee for US Trade Representative



Greer was the Chief of Staff to Robert Lighthizer, the trade representative during Trump's first administration, and looks to take over the role and lead Trump's tariff agenda. Since 2000, Greer has been a partner with the international trade team at King & Spalding, an international law firm. With King & Spalding, he has represented clients in trade remedy litigation before the International Trade Commission and the Department of Commerce

Howard Lutnick

Nominee for Secretary of Commerce



Chairman and CEO of Cantor Fitzgerald, a financial services firm, Lutnick has been tapped to "lead our tariff and trade agenda," by President-elect Donald Trump. Lutnick is the co-chair of the Trump-Vance transition team and has praised the pre-income tax era, when the US relied heavily on tariffs to fund the government

Scott Bessent

Nominee for Secretary of the Treasury



Founder of Key Square Capital Management, an investment firm, Bessent was an unofficial adviser for Trump's 2024 campaign and has been tapped to lead the Department of the Treasury. In the role, Bessent will be tasked with defending the Trump administration's economic affairs both domestically and internationally. He supports Trump's tariff plan for positioning the US into strong negotiations with foreign powers like China and achieving more economic growth through deregulation and domestic production