

National Foundation for American Policy

May 12, 2016

Contact: Stuart Anderson, 703-351-5042, press@nfap.com

Research: Trump Tariffs Against Chinese and Mexican Imports Won't Work, Would Need to Expand to Tariffs Against Imports Worldwide, Hurt Low-Income Americans the Hardest

Tariffs Would Impose Tax of \$11,000 over 5 Years on Typical U.S. Household; If Tariffs are Worldwide, Tax Would be \$30,560 Over 5 Years

Arlington, Va. – Presidential candidate Donald Trump's proposed tariffs on China, Japan and Mexico would be ineffective in shielding American workers from foreign imports, since producers from other countries would export the same products to the U.S., and such tariffs could impose a regressive consumption tax of \$11,000 over 5 years on the typical U.S. household, conclude researchers at Suffolk University in a new report released by the National Foundation for American Policy (NFAP), an Arlington, Va.-based policy research group. The research finds the impact could hit poor Americans the hardest: A tariff of 45% on imports from China and Japan and 35% on Mexican imports would cost U.S. households in the lowest 10% of income up to 18% of their (mean) after-tax income or \$4,670 over 5 years.

"Donald Trump's tariffs won't protect U.S. workers from imports unless expanded to all countries and doing so would have an even more devastating impact, equivalent to a \$30,560 tax increase over 5 years for the typical U.S. household," said NFAP Executive Director Stuart Anderson "Low-income households would spend between 18% to 53% of their after-tax income on tariffs and higher prices, hardly the way to make America great again."

The report, "The Trump Tariffs: A Bad Deal for Americans," is available at www.nfap.com.

The study was authored by David G. Tuerck, professor and chairman of Department of Economics, Suffolk University, and executive director of the Beacon Hill Institute at Suffolk University, Paul Bachman, director of research at the Beacon Hill Institute at Suffolk University, and Frank Conte, the Director of Communications and Information Systems at the Beacon Hill Institute.

Why would the Trump tariffs be ineffective? The analysis examined 30 randomly selected cases over the past 15 years when the U.S. government imposed anti-dumping or countervailing duties on goods and found that, in the aggregate, imports of those goods rose by 25 percent from the year before the duty order was issued, meaning producers from countries not affected by the duties exported similar goods to the United States. As a result, the duties did not protect U.S. workers or industries from foreign competition. This finding indicates that Donald Trump's proposal to impose tariffs on China, Mexico and Japan would meet a similar fate.

The ineffectiveness of Trump's tariffs on China, Mexico and Japan in protecting U.S. workers from foreign competition means to achieve his goal the only logical alternative would be to impose a similar set of tariffs on all other countries that export to the United States.

Table 1: Effect of Trump Tariffs on China, Mexico and Japan on Households over Five Years

Item	All households (\$56,437 mean after-tax Income)	Lowest 10 % (\$5,348 mean after-tax Income)	Second 10 % (\$15,182 mean after-tax Income)	Fifth 10% (\$38,735 mean after-tax Income)	Ninth 10% (\$97,430 mean after-tax Income)	Highest 10% (\$172,669 mean after-tax Income)
Tariff burden (\$)	\$11,100	\$4,670	\$4,830	\$8,430	\$17,390	\$25,005
Percentage of mean after-tax Income	4%	18%	6%	4%	4%	3%

Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2015. Calculation of cost increase for imported goods.

A Trump tariff levied on imports from all countries would cost the average U.S. household \$6,112 annually and \$30,560 over a five-year period. This “worldwide” tariff would cost households in the lowest income decile \$2,826 annually or \$14,130 over five years and households in the highest income decile \$12,514 annually, and \$62,570 over five years.

The study finds that a Trump tariff proposal against all countries would cost U.S. consumers \$459 billion annually and \$2.29 trillion over five years. The analysis finds that the Trump tariffs would manifest themselves as a 30.5% increase in the price of competing domestic producer goods and, therefore, as a cut in real wages.

Table 2: Effect of Trump Tariffs on All Countries on Households over Five Years

Item	All households (\$56,437 mean after-tax Income)	Lowest 10 % (\$5,348 mean after-tax Income)	Second 10 % (\$15,182 mean after-tax Income)	Fifth 10% (\$38,735 mean after-tax Income)	Ninth 10% (\$97,430 mean after-tax Income)	Highest 10% (\$172,669 mean after-tax Income)
Tariff burden (\$)	\$30,560	\$14,130	\$15,155	\$24,780	\$46,285	\$62,570
Percentage of mean after-tax Income	11%	53%	20%	13%	10%	7%

Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2015. Calculation of cost increase for imported goods.

When calculating the burden as a percentage of household income, the researchers find that households in the lower income deciles would surrender a higher portion of their income under a Trump tariff than higher income households. A Trump tariff against all countries costs households in the lowest decile 53% of their annual income, while it would cost households in the highest decile 7% of their incomes. The tariffs would cost households in the second income decile 20% of their annual income – a figure that declines as one moves up the income deciles. In other words, a

Trump tariff against all countries (or even one against only China, Mexico and Japan) would be a regressive tax that burdens lower income households more than higher income households.

The analysis included calculations of the dead loss (net loss to the economy) of potential tariff increases using standard methodology. That included first estimating the reduction in U.S. imports from China, Mexico and Japan for 97 categories of goods under the two-digit Harmonized Tariff Schedule (HTS) and determining the Armington elasticities for each of these 2 digit HTS category codes. (The Armington method is based on an assumption that the country of origin of a product distinguishes it from other countries.) The increase in the tariff rates discussed by the Trump proposal were multiplied by the Armington elasticities. This allowed a calculation of the loss to the U.S. economy for each commodity category and each of the three countries. The methodology was also used to calculate the impact of a worldwide tariff and the effect on U.S. households at different income levels under both the three country scenario and a worldwide tariff.

The estimates by income decile are conservative in that they do not take into account imports that serve as intermediate goods (goods used to produce other goods). In addition, tariffs targeted against imports from China, Japan and Mexico, as well as a worldwide tariff, would be certain to bring retaliation in the form of tariffs on U.S. exports, which would carry additional economic impacts. Even without retaliation, exports to the three countries would fall by 78% as a result of business losses that the three countries would incur as U.S. imports from them declined.

In total, Trump's proposed tariffs against just China, Japan and Mexico would impose a dead loss on the U.S. economy of \$170 billion annually and \$850 billion over five years. The U.S. economy would suffer a total annual burden in the form of a \$278 billion loss in household purchasing power – akin to a general 3.9% new tax on after-tax income. The annual benefits to producers would be only \$43 billion, or 15% of the loss experienced by consumers.

If Trump decided to impose worldwide tariffs on the products exported by the three countries in order to shut down imports of those products once and for all, then the results would be truly catastrophic for the poor. It would be as if the United States imposed a new tax of 53% on the lowest 10% income decile and a 20% tax on the next lowest decile. It would be equivalent to an 11% flat tax on the after-tax income of U.S. workers. The total burden on consumers would be \$760 billion annually. The dead loss to the U.S. economy would be \$459 billion annually. That would not seem to be a recipe to “make America great again.”

About the National Foundation for American Policy

Established in the Fall 2003, the National Foundation for American Policy (NFAP) is a 501(c)(3) non-profit, non-partisan public policy research organization based in Arlington, Virginia focusing on trade, immigration and related issues. The Advisory Board members include Columbia University economist Jagdish Bhagwati, Ohio University economist Richard Vedder, former U.S. Senator and Energy Secretary Spencer Abraham and other prominent individuals. Over the past 24 months, NFAP's research has been written about in the *Wall Street Journal*, the *New York Times*, the *Washington Post*, and other major media outlets. The organization's reports can be found at www.nfap.com.

2111 Wilson Blvd., Suite 700, Arlington, VA 22201
phone: (703) 351-5042 fax: (703) 351-9292 www.nfap.com