THE FINANCIAL PAGE

THE WHITE HOUSE IS GASLIGHTING AMERICANS ABOUT DONALD TRUMP’S TARIFFS

The Administration insists that its aggressive trade policies won’t hurt U.S. consumers, but data from Trump’s first term suggest otherwise.

By John Cassidy

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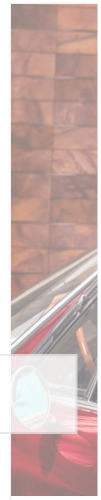
John David Rainey, the chief financial officer of Walmart, America's biggest company both in terms of annual revenue and number of employees, told the Associated Press last week that Donald Trump's tariff policy was already affecting its decision-making and creating a good deal of uncertainty. "We are one month into the year, and there's a lot that we don't know," Rainey said. Walmart executives aren't the only ones in the dark. Since taking office five weeks ago, Trump has made a series of announcements and reversals that have left even seasoned observers of trade policy struggling to keep up. (When I asked one trade expert where Trump's policies were heading, he laughed and said, "I haven't got a fucking clue.")

At the start of this month, Trump imposed a ten-per-cent tariff on all Chinese imports and duties of twenty-five per cent on imports from Canada and Mexico. The levy on Chinese products is now in effect, but the duties on Canadian and Mexican items are on hold, pending further negotiations. On February 11th, Trump ordered tariffs of twenty-five per cent on imports of steel and aluminum regardless of where they originate. Last week, he said that these levies, which are set to go into effect next month, will be extended to other goods, including automobiles, computer chips, and pharmaceuticals. He has also instructed his economic team to devise a series of "reciprocal tariffs" on any country that taxes U.S. exports. Enacting this proposal would be a major escalation in Trump's trade war, and it's not clear how seriously it should be taken. Speaking to reporters aboard Air Force One last week, the President, who has in the past referred to himself as a "Tariff Man," said "it's possible" that he will make some kind of trade deal with China's leader, Xi Jinping.



Through all this confusion, Trump's aides have insisted that his tariffs won't have a negative impact on U.S. consumers and businesses. Last week, Peter Navarro, the senior counsel for trade and manufacturing at the White House, said on the New York *Times*' podcast "The Daily," "It's not going to be painful for America. It's going to be a beautiful thing." Speaking to Fox News, Treasury Secretary Scott Bessent didn't go quite as far as Navarro, a longtime trade hawk who also served in the first Trump Administration. But Bessent did suggest that "the companies on the other side, the exporters, are going to eat a lot of the cost."

To grasp the argument that Navarro and Bessent are making, it's necessary to understand how tariffs work. Some imports, such as toys and cell phones, arrive in this country in their final form, ready to be shipped to stores. Other "intermediate" goods, such as steel or engine components, are bound for U.S. factories, where they are assembled into final products. In both cases, the tariff is an excise tax levied at the port of entry and collected by U.S. Customs and Border Protection. Paying the tax raises the cost of the goods to the importing party—the retailer or manufacturer—which, in turn, creates an incentive to pass on this increase to consumers in the form of higher prices.

But Navarro and Bessent are claiming that this won't happen because foreign exporters, concerned about losing market share as the prices of their goods go up, will "eat" some or all of the tariff by lowering the pre-tariff prices that they charge U.S. importers. In the case of China, Navarro insists that this isn't merely a possibility but an inevitability. "Tariffs do not cause inflation when they're imposed by the largest market in the world," he told the *Times*. The claim that exporters will cut their prices is "not an assumption," he said. "That's just a fact."

A Trump fact, perhaps. In 2019, Pablo Fajgelbaum, a professor of economics at U.C.L.A., and some colleagues published a paper that tracked the Chinese goods subjected to tariffs by the first Trump Administration. "What we found was that the prices charged by Chinese exporters did not go down in response to the imposition of tariffs," Fajgelbaum told me when I called him last week. The economist pointed out that other teams of researchers have also examined the impact of the first-term tariffs, using different data sets, and they also found that these levies were passed through to American firms and consumers in the form of higher prices. "From this body of research, the finding is that during Trump's first term there was complete pass-through," Fajgelbaum said.

One study, by three economists from the Federal Reserve Board and the University of Chicago, looked at the impact of tariffs on imported washing machines, which were imposed at the start of 2018. After the tariffs were imposed, the median prices of washers made by five big manufacturers—G.E., LG, Maytag, Samsung, and Whirlpool—and sold at five big U.S. retailers—Best Buy, Home Depot, JCPenney, Lowe's, and Sears—went up by eighty-six dollars, or about twelve per cent. Interestingly, the prices of companion dryers also rose, by ninety-two dollars. The authors remarked, "It seems plausible that the firms in our sample chose to split the effects of new tariffs on prices between washers and dryers, maintaining the convention of identical prices."

Navarro is dismissive of mainstream economists, because they were slow to recognize the harmful impact that free trade was having on American manufacturing plants and communities during the nineteen-nineties and two-thousands. That criticism is valid, but he is now making a parallel mistake by ignoring the costs that protectionism imposes on American consumers. The tariffs that Trump is proposing are much broader than the ones he introduced in his first term, so it's only reasonable to assume that the costs associated with them will be bigger. A study from the nonpartisan Tax Foundation finds that the proposed levies on China, Mexico, and Canada alone would reduce the after-tax purchasing power of American households by 0.8 per cent, on average, in 2025. This would be "the largest tax increase since 1993," according to the study. Another study, from the Peterson Institute for International Economics, estimated these same tariffs would cost a typical middle-income household more than twelve hundred dollars a year.

If Trump and his aides truly believe that his tariffs will regenerate American manufacturing and produce a boom in investment and employment, they could make the argument that these costs are worth bearing. In the case of washing machines, at least, the economic researchers found that Trump's first-term tariffs did encourage manufacturers to shift some production to the United States, which created about eighteen hundred jobs. But the researchers also found that the costs to consumers in price increases were high: more than eight hundred thousand dollars per new job.

The Biden Administration, when it maintained many of Trump's first-term tariffs and drastically raised some of them—to more than one hundred per cent in the case of Chinese electric vehicles—was basically making the case that the trade-off of higher prices for jobs is worth it. But Joe Biden's tariffs were much more targeted than the ones Trump 2.0 is proposing, and they were part of a broader effort to boost green energy and green manufacturing through the generous subsidies to businesses and consumers that the 2022 Inflation Reduction Act (I.R.A.) provided. This activist industrial policy led to a spate of big investments in new factories for things like electric-vehicle batteries, and it generated a surge in manufacturing construction. Rather than building upon its foundation, Trump is determined to dismantle parts of it. On his first day in office, he issued an executive order freezing some spending projects associated with the I.R.A. Simultaneously, Trump seems intent on imposing hefty tariffs on the United States' traditional trading partners while eying an agreement with China and a relaxation of economic sanctions on Russia as part of a deal to end the war in Ukraine. At times, he appears to envisage a future in which he, Xi, and Vladimir Putin—a global Dreikaiserbund for the twenty-first century—hash out a new economic order that the rest of the world will have to live with.

Of course, Trump says all sorts of things, and it pays to discount many of them. In 2020, his Administration reached a trade deal with Beijing in which China agreed to boost its purchases of American goods, including manufactured goods and agricultural and energy products, by at least two hundred billion dollars compared with 2017 levels. But, in fact, "China bought *none* of the additional $200 billion of exports Trump's deal had promised," Chad Brown, a senior fellow at the Peterson Institute, wrote in a 2022 article.

Brad Setser, a senior fellow at the Council on Foreign Relations who worked at the White House and Treasury Department during the Obama Administration, told me he fears that, even if Trump could reach a deal with Xi, it would prove similarly disappointing. "There is a risk that we settle for a bunch of new orders for energy commodities and agricultural products and planes, but without getting any real change in China's policies to make us less dependent on Chinese imports, or to boost U.S. manufacturing over all," Setser said. He also highlighted the strategic implications of such a deal by reminding me that, in 2022, after Russia invaded Ukraine, the United States responded to a global shortage of natural gas by expanding its exports to Europe. "Would the U.S. have been better off selling L.N.G. to Chinese state companies or to European allies to counter Russian aggression?" Setser asked. "It seems to me that, in times of stress, we would want to be supplying our friends and allies rather than the Chinese."

Setser's comments were a reminder that international economics can't be separated from geopolitics, and that Trump is creating a great deal of angst in both arenas. Before the Inauguration, many people on Wall Street and elsewhere assumed that some officials in the new Administration, particularly Bessent, a former hedge-fund manager, would act as restraining influences. At least in public, however, the Treasury Secretary has been supportive of Trump's tariff proposals, and a couple of weeks ago he travelled to Kyiv and delivered a document that reportedly demanded fifty per cent of Ukraine's mineral rights. (Negotiations between the two sides over the minerals are continuing.) "Right now, I don't see the pushback," Setser said. "And I don't think it can all be blamed on Peter Navarro, either. I think this is coming straight from the President. Unless the President shows some limits, it will carry on." ♦

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