TAX FOUNDATION Since 1937

FISCAL FACT
No. 625
Dec. 2018

The Economic and Distributional Impact of the Trump Administration's Tariff Actions

Erica York
Analyst

Key Findings

- The Trump administration has imposed $42 billion worth of new taxes on Americans by levying tariffs on thousands of products.
- Outstanding threats to impose further tariffs mean Americans could see additional tax increases up to $129 billion.
- Tariffs are regressive, placing a higher burden on lower-income households.
- The $42 billion of tariffs imposed so far are estimated to reduce after-tax incomes by 0.30 percent on average. This negative effect is more pronounced for households in the middle and lowest quintiles, reducing their after-tax incomes by 0.33 percent.
- For taxpayers in the middle quintile, this represents a decrease of $146 in after-tax income.
- If threatened tariffs are all imposed, after-tax income for households in the bottom and middle quintiles would fall by an additional 1.04 percent, higher than the average decrease of 0.92 percent.

Editor, Rachel Shuster
Designer, Dan Carvajal

Tax Foundation
1325 G Street, NW, Suite 950
Washington, DC 20005

202.464.6200

taxfoundation.org

Introduction

The Trump administration has imposed new tariffs on steel, aluminum, washing machines, and thousands of other products that American businesses and consumers buy from China. Tariffs have been imposed as the result of various trade investigations that concluded injury to U.S. industries, national security threats, and unfair trade practices.[1] These tariffs will increase the tax burden on Americans, falling hardest on lower and middle-income households, and reduce economic output, employment, and wages.

Background

Tariffs are a type of excise tax that is levied on goods produced abroad at the time of import. They are intended to increase consumption of goods manufactured at home by increasing the price of foreign-produced goods.

Though tariffs may afford some short-term protection for domestic industries by shielding them from foreign competitors, they do so at the expense of others in the economy, including consumers and other industries, resulting in less economic output on net.

A recently published study which reviews tariff changes across 151 countries from 1963 to 2014 provides modern-day evidence of the negative effects of tariffs. The research finds that tariff increases lead to less output and productivity and more unemployment and inequality.[2] These negative effects are magnified when tariffs are increased during expansions and in advanced economies.[3]

Ultimately, tariffs result in net decreases in productivity, output, and income; consumers lose more than producers gain, resulting in a net loss to the economy.

1 Chad P. Bown and Melina Kolb, "Trump's Trade War Timeline: An Up-to-Date Guide," Peterson Institute for International Economics, Dec. 1 2018, https://piie.com/blogs/trade-investment-policy-watch/trump-trade-war-china-date-guide.

2 Davide Furceri, Swarnali A. Hannan, Jonathan D. Ostry, and Andrew K. Rose, "Macroeconomic Consequences of Tariffs," International Monetary Fund, October 2018, https://www.imf.org/en/News/Seminars/Conferences/2018/02/08/~/media/86D385E4118244D88B2D6C1DADAF29C8.ashx.

3 Ibid.

Overview of Trump Administration Tariffs

The Trump administration has increased taxes on Americans by imposing nearly $42 billion worth of tariffs. These include the following:[4]

- 25 percent tariff on imported steel, which amounts to about a $7.3 billion tax increase.
- 10 percent tariff on imported aluminum, which amounts to a nearly $1.7 billion tax increase.
- Doubled steel and aluminum tariffs on Turkey, which is a tax increase of roughly $0.34 billion.
- 25 percent tariff on $50 billion worth of imports from China, which amounts to a $12.5 billion tax increase.
- 10 percent tariff on $200 billion worth of imports from China, which amounts to a $20 billion tax increase.
- Tariffs on washing machines, which amount to about a $0.15 billion tax increase.[5]

The administration has also threatened to impose $129 billion in additional import duties, which would include new tariffs on automobiles and auto parts as well as escalated tariffs on imports from China.[6] These include:

- 25 percent tariff on Chapter 87 auto imports, which amounts to a roughly $73.1 billion tax increase.
- 25 percent tariff, up from the 10 percent tariff, on $200 billion worth of imports from China, which amounts to a tax increase of $30 billion.
- 10 percent tariff on approximately $267 billion of additional imports from China, which amounts to a $26.7 billion tax increase.

Economic Impact of Trump Administration Tariffs

The imposition of a tariff diverts resources away from more efficient producers to less efficient producers. Tariffs can raise the cost of parts and materials, which would raise the price of goods using those inputs and reduce private-sector output. Tariffs also result in consumers paying more for goods than they would have otherwise. Price increases such as these reduce the after-tax value of both labor and capital income; as tariffs reduce the return to labor and capital, they incentivize Americans to work and invest less, which leads to lower output.

4 See Erica York and Kyle Pomerleau, "Tracking the Economic Impact of U.S. Tariffs and Retaliatory Actions," Tax Foundation, June 22, 2018, https://taxfoundation.org/tracker-economic-impact-tariffs/.

5 The administration has also imposed tariffs on solar panels and washing machine parts, which are not included in the $0.15 billion figure.

6 Erica York and Kyle Pomerleau, "Tracking the Economic Impact of U.S. Tariffs and Retaliatory Actions."

According to the Tax Foundation model, the tariffs imposed so far by the Trump administration would reduce long-run GDP by 0.12 percent ($30.4 billion) and wages by 0.08 percent and eliminate 94,300 full-time equivalent jobs.

TABLE 1.

Impact of Tariffs Imposed by the Trump Administration

Tariff Revenue (billions $2018)	$41.95
Long-run GDP	-0.12%
GDP (billions $2018)	-$30.43
Wages	-0.08%
FTE Jobs	-94,300

Source: Tax Foundation Taxes and Growth Model, April 2018

If the administration moves ahead with its threats to impose additional tariffs, long-run GDP would fall by 0.38 percent ($94.4 billion) and wages by 0.24 percent, and 292,600 full-time equivalent jobs would be eliminated. These losses would be in addition to those in Table 1.

TABLE 2.

Impact of Tariffs Threatened by the Trump Administration

Tariff Revenue (Billions $2018)	$129.83
Long-run GDP	-0.38%
GDP (Billions $2018)	-$94.38
Wages	-0.24%
FTE Jobs	-292,600

Source: Tax Foundation Taxes and Growth Model, April 2018

Distributional Impact of Trump Administration Tariffs

The distributional effects of a tariff (the economic burden it places on households across income levels) tend to be regressive, burdening lower-income households more than higher-income households.

Tariffs are taken out of business revenue before it is distributed as compensation to factor inputs (workers and capital). This creates a wedge between what workers and capital produce and the amount they receive; in other words, a wedge between the consumer price and the producer price.

Tariffs ultimately fall on the factors of production and reduce taxpayer labor and capital income. This occurs either by raising prices or reducing wage and capital income. Tariffs tend to be regressive because the average shares of income sources burdened by tariffs are higher for lower-income taxpayers.[7]

Our estimates of the distributional impact of the Trump administration tariffs show that lower and middle-income households experience relatively larger drops in after-tax income.

So far in 2018, the Trump administration has imposed $42 billion worth of tariffs, which we estimate will reduce after-tax incomes by 0.30 percent on average. This negative effect is more pronounced, however, for households in the lowest and middle quintiles, reducing their after-tax incomes by 0.33 percent. This represents a decrease in after-tax income of $146 for taxpayers in the middle quintile (40% to 60%). The reduction for households in the top 1 percent income range is a smaller 0.23 percent.

TABLE 3.

Distributional Impact of Imposed U.S. Tariffs

Income Percentile	Change in After-Tax Income
Lowest Quintile (0% to 20%)	-0.33%
Second Quintile (20% to 40%)	-0.32%
Middle Quintile (40% to 60%)	-0.33%
Fourth Quintile (60% to 80%)	-0.32%
Top Quintile (80% to 100%)	-0.28%
All	-0.30%
Addendum:	
80% to 90%	-0.31%
90% to 95%	-0.30%
95% to 99%	-0.29%
99% to 100%	-0.23%

Source: Tax Foundation Taxes and Growth Model, April 2018

If the administration further escalates by imposing the threatened tariffs of $129.8 billion, after-tax incomes would drop further, falling by 0.92 percent on average. Again, households in the lowest and middle quintiles would see a larger drop in their after-tax income, which would fall by 1.04 percent if the threatened tariffs were imposed. For households in the middle quintile (40% to 60%) this represents a decrease in after-tax income of $453.

7 Joseph Rosenberg, "The Distributional Burden of Federal Excise Taxes," Tax Policy Center, Sept. 2, 2015, 15, https://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000365-the-distributional-burden-of-federal-excise-taxes.pdf.

TABLE 4.

Distributional Impact of Threatened U.S. Tariffs

Income Percentile	Change in After-Tax Income
Lowest Quintile (0% to 20%)	-1.04%
Second Quintile (20% to 40%)	-1.00%
Middle Quintile (40% to 60%)	-1.04%
Fourth Quintile (60% to 80%)	-0.99%
Top Quintile (80% to 100%)	-0.86%
All	-0.92%
Addendum:	
80% to 90%	-0.94%
90% to 95%	-0.94%
95% to 99%	-0.89%
99% to 100%	-0.72%

Source: Tax Foundation Taxes and Growth Model, April 2018

Table 5 combines imposed and threatened tariffs to show the distributional impact of all the Trump administration tariffs.

TABLE 5.

Combined Distributional Impact of Imposed and Threatened U.S. Tariffs

Income Percentile	Change in After-Tax Income
Lowest Quintile (0% to 20%)	-1.37%
Second Quintile (20% to 40%)	-1.32%
Middle Quintile (40% to 60%)	-1.37%
Fourth Quintile (60% to 80%)	-1.31%
Top Quintile (80% to 100%)	-1.14%
All	-1.22%
Addendum:	
80% to 90%	-1.25%
90% to 95%	-1.24%
95% to 99%	-1.18%
99% to 100%	-0.95%

Source: Tax Foundation Taxes and Growth Model, April 2018

Conclusion

The burden of higher tariffs will fall disproportionately harder on lower and middle-income households than on upper-income households. The administration has already imposed a $42 billion a year tax increase on Americans, which will reduce after-tax incomes by 0.33 percent on average. Acting on the threats to impose an additional $129.8 billion in annual tariffs would further reduce after-tax incomes, falling by an average of 0.92 percent.

Modeling Notes

The Tax Foundation modeled the impact of tariffs with our Taxes and Growth model.[8] In the Tax Foundation's model, tariffs are treated as a targeted excise tax on the tradable sector which ultimately fall on U.S. labor or capital and result in lower output. To model the distributional impact, we passed the tax backwards as reductions in factor income, which reduced the returns to both labor and capital income. In modeling the tariffs, we did not account for the potential reaction of foreign countries, nor the additional losses in welfare from having taxes with uneven impacts across sectors, both of which could result in additional economic effects.

8 Tax Foundation, "The Tax Foundation's Taxes and Growth Model," April 11, 2018, https://taxfoundation.org/overview-tax-foundations-taxes-growth-model/.