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Testimony Before the Joint Economic Committee Hearing on "Trade Wars & Higher Costs: The Case Against Trump's Tariffs"
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Thank you, Representative Beyer, Vice Chairman Schweikert and members of the Committee.[1]

My name is Brendan Duke, and I am Senior Director for Economic Policy at the Center for American Progress. The Center for American Progress is an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans through bold, progressive ideas, as well as strong leadership and concerted action.

I'm honored to submit this testimony about President-elect Donald Trump's tariff proposals. I will make the following points:

- The sweeping, across-the-board tariffs Trump has proposed are not an effective manufacturing strategy. They are unlikely to lead to an increase in U.S. manufacturing employment, build out of key strategic industries, or create domestic supply chains that can improve our national security or economic competitiveness.

- Targeted tariffs, on the other hand, that focus narrowly on national security and key strategic aims can be combined with public investments as part of a larger industrial strategy to improve resilience by reducing excessive reliance on unreliable trading partners, as the Biden administration has emphasized.

- In contrast, the proposed across-the-board tariffs are intended to raise trillions in federal revenue. But they would cost families thousands of dollars and make the tax system more regressive. The combination of the 2017 tax law and its extensions along with 20 percent across-the-board tariffs would only benefit Americans in the top 1 percent.

- The across-the-board tariffs Trump has proposed would lead to a one-time burst of inflation at a time Americans are struggling with high prices. They would be 4 to 10

[1] I would like to think Kimberly Clausing, Emily Gee, Ryan Mulholland, and Ernie Tedeschi for thoughtful feedback.

times larger than the ones he enacted during his first term so the effects would be far larger than Americans experienced.

- Trump has floated using his considerable executive authority to enact tariffs without additional Congressional approval. Enacting unilateral tariffs along a similar size to the Trump tax cuts undermines the spirit of the separation of powers and could lead to rewarding politically connected companies, as the experience of his first term in office shows.

Trump's tariff proposals

It is first helpful to review the various tariff proposals Trump has floated during the campaign and the transition. These include:

- A 10 percent across-the-board tax on all imported goods entering the United States.[i] He later stated, "We're going to have 10 to 20 percent tariffs on foreign countries that have been ripping us off for years."[ii]

- A special 60 percent tax on all imported goods from China.[iii]

- A few weeks after the election, he vowed to "sign all necessary documents to charge Mexico and Canada a 25% Tariff on ALL products coming into the United States, and its ridiculous Open Borders" if the governments did not agree to demands around border policy. One the same day, he threatened an additional 10 percent tax on all imported goods from China.[iv]

- His latest post stated that BRICS (Brazil, Russia, India, China, and South Africa) countries "will face 100% Tariffs" unless they make a "commitment from these Countries that they will neither create a new BRICS Currency, nor back any other Currency to replace the mighty U.S. Dollar."[v]

My remarks will focus on the across-the-board and China proposals because there has been far more analysis of them than the others. He has not also tied them to other specific demands as he has with the Canada, Mexico, and BRICS tariffs.

Across-the-board tariffs are a revenue, not a manufacturing, policy

Trump and incoming Trump administration officials have provided varied justifications for his tariff proposals, sometimes stating that they are a tool for raising revenue while other times stating that they will reinvigorate U.S. manufacturing.[vi] But a tariff cannot simultaneously and effectively raise revenue and promote manufacturing.

A tariff that successfully increases U.S. manufacturing in a specific sector causes U.S. producers and consumers to switch from imported to U.S. produced goods. That very reduction in imported goods subject to the tax, however, causes the tariff to fail as a revenue collection mechanism. Similarly, a tariff that raises significant revenue fails to meaningfully promote production in the United States over production elsewhere since, by definition, raising revenue would mean the United States continues to import goods subject to the tax. A tariff can, of course, do a middling job at both simultaneously, which itself highlights the tension between the policy's opposing objectives.

The design of an across-the-board tariff is consistent with the purpose of raising revenue and fails to incent U.S. manufacturing for three reasons. First, it would apply to imported goods that the United States does not produce and does not have any reasonable hope of producing to meet domestic demand, such as coffee or bananas. Even some goods we can produce, such as tomatoes, would likely require high production costs like significant greenhousing, labor in an economy at full employment, and suitable farmland, so the United States would continue to mostly rely on imports. This failure of the tariff to promote U.S. production and reduce imports means it would succeed in raising revenue.

Second, it is not even clear that an across-the-board tariff would increase U.S. manufacturing, particularly if not supported by federal investment in U.S.-based production. Economic theory suggests and empirical evidence show that tariffs do not change the size of a country's trade balance because they also cause the currency to appreciate—the initial reduction in imports causes the value of the dollar to rise, which partially offsets the price increase and causes imports to fall less than they would without those currency effects.[vii] In fact, Trump's Treasury secretary nominee, Scott Bessent, has stated "historically 40-50% of the tariff is recovered in currency appreciation."[viii] At the same time, dollar appreciation makes U.S. exporters less competitive with foreign producers and causes exports to fall. Exports and imports as a share of the economy would both fall, but the trade balance would remain roughly the same.[ix]

U.S. exporters would also become less competitive with foreign producers because the across-the-board tariff would still raise the cost of the imported inputs they rely on for their U.S.-based production. More than half our imports are intermediate goods used by U.S. businesses.[x] Their input costs would rise as they paid the tariff or moved to more expensive domestic suppliers. One study found that the 2018–2019 Trump tariffs' increase in U.S. exporters' costs was the equivalent of an almost 2 percent tariff on U.S. goods abroad.[xi]

Finally, the across-the-board tariff would hurt U.S. exporters if it produces significant retaliation from our trading partners. An analysis by the Budget Lab at Yale found that a 10 percent across-the-board tariff and a 60 percent tariff on Chinese goods would reduce U.S. GDP by 0.5 percent, and retaliation would raise the negative GDP impact to 0.64 percent, with much of the additional impact felt directly by the U.S. exporters facing retaliation.[xii]

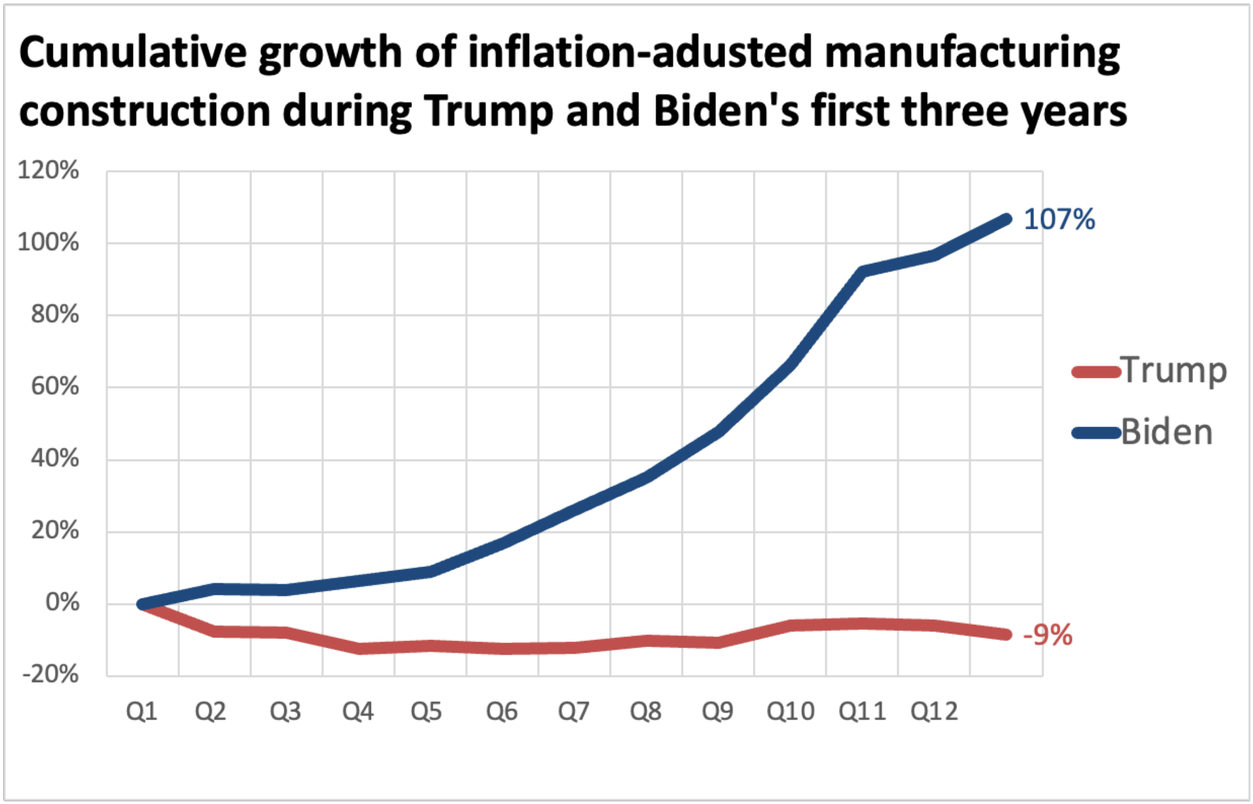
The main result of the across-the-board tariff is that—in addition to significant revenue—it reduces imports and exports as a share of the economy. By its very nature, it ignores many of the key rationales U.S. policymakers have for imposing tariffs such as protecting or growing a key industry on national security or economic competitiveness grounds. It does not exempt the imported inputs that U.S. manufacturers require to be competitive globally. It instead “lets the market decide” which imports and exports to reduce, almost certainly leaving these strategic rationales completely unfulfilled.

Strategic tariffs in carefully chosen sectors can be a useful tool as part of a country’s larger national security or industrial strategy. The Biden administration’s approach is a good template for how this can work: focusing on incentivizing industries of the future, like electric vehicles, with targeted tariffs and significant investment. This approach has resulted in a historic manufacturing construction boom.

More targeted tariffs recognize the fact that tariffs cannot change the size of the U.S. trade deficit but *can* shape its composition to fit our national security and economic competitiveness needs. Moreover, tariffs limited to specific categories of imports—instead of literally all of imports, which is what an across-the-board tariff does—do not have anywhere near the magnitude of currency appreciation that across-the-board tariffs do, sparing exporters much of the ensuing loss of competitiveness. Moreover, the currency appreciation affects all imports—not just the targeted ones—so avoids the problem of currency appreciation undoing a large part of the work of the more targeted tariff.

Importantly, tariffs alone are far less effective at reinvigorating manufacturing without domestic investment since then a “protective” tariff has little to actually protect. Even Trump’s tariffs during his first term—which were significantly more targeted than the ones he now proposes—failed to durably increase U.S. factory construction (Figure 1). In fact, the United States was already in a “manufacturing recession” before the COVID-19 pandemic.[xiii] Narrowly focused strategic tariffs can be a piece of the puzzle, but the Trump and Biden experiences show that they need investment to work.

Figure 1



Source: Center for American Progress analysis of Federal Reserve Economic Database, "Real private fixed investment: Nonresidential: Structures: Manufacturing," [*https://fred.stlouisfed.org/series/C307RX1Q020SBEA#0*](https://fred.stlouisfed.org/series/C307RX1Q020SBEA#0). Growth is measured relative to the fourth quarter of 2016 and 2021.

Across-the-board tariffs are a regressive form of revenue

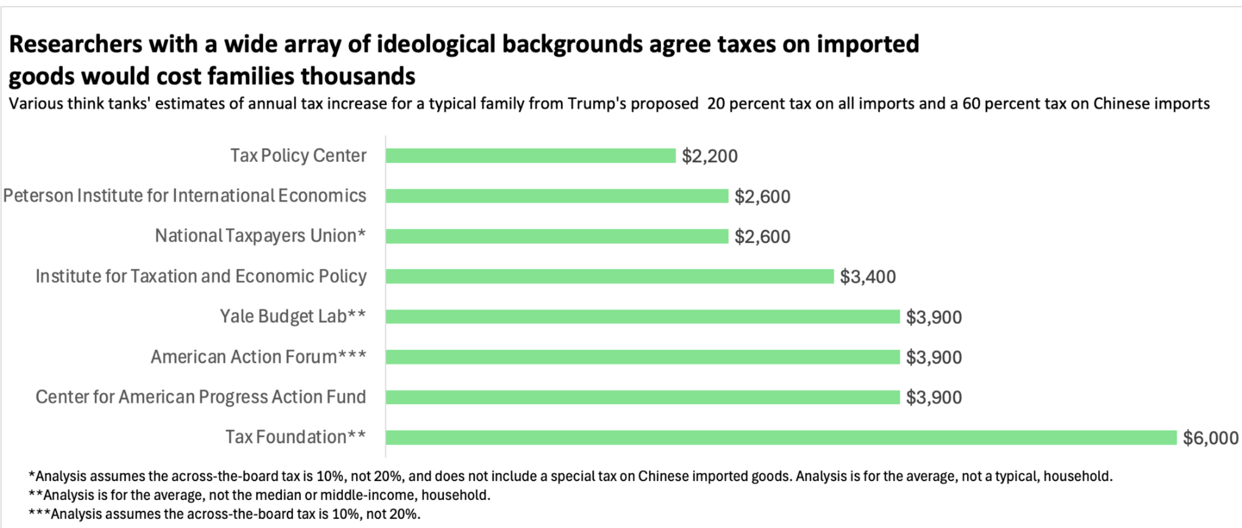
Given that the across-the-board tariffs would do so little to achieve manufacturing goals, it is proper to then move to discussing them as tax policy.

The across-the-board tariffs Trump has proposed will bring in significant amounts of revenue. Estimates by the Tax Policy Center suggest that a 10 percent tax on all imported goods and a 60 percent tax on all imported goods from China would raise $2.8 trillion over 10 years.[xiv] Doubling the across-the-board tariff to 20 percent would raise $4.5 trillion over 10 years, which is enough to offset the expiring provisions of the 2017 tax law. Importantly, these estimates do *not* account for revenue losses from retaliation. Estimates from the Budget Lab at Yale suggest that retaliation could reduce the revenue raised by about 15 to 25 percent without accounting for negative macroeconomic effects.[xv] These retaliatory effects are a reason why tariffs—even across-the-board tariffs—are a poor source of revenue: other countries do not retaliate when we raise our individual income tax rates, but they historically have when we raised tariffs.

Trump has repeatedly stated that other countries pay the tariffs.[xvi] Based on his statements, it would be easy for Americans to believe that the finance ministries of other countries would write a check to the U.S. government paying the tariffs. But the actual statutory payor of the tariff is the U.S. company importing the good. In theory, foreign companies could still bear the economic burden of the tariff in the form of lower export prices, but empirical analysis of Trump's tariffs during his first term demonstrates that U.S. firms and consumers bear the burden.[xvii] Moreover, if it is indeed the foreign exporter that "pays" the tariff then U.S. companies likely pay the tariff when other countries retaliate.

A wide range of researchers across the ideological spectrum have produced estimates of how much the most aggressive tariff Trump has laid out—the 20 percent across-the-board tariff—would cost the typical family. Each of these estimates suggest that a tariff of that magnitude would more than offset the $1,000 tax cut a typical family would receive from extending the expiring portions of the 2017 tax law.

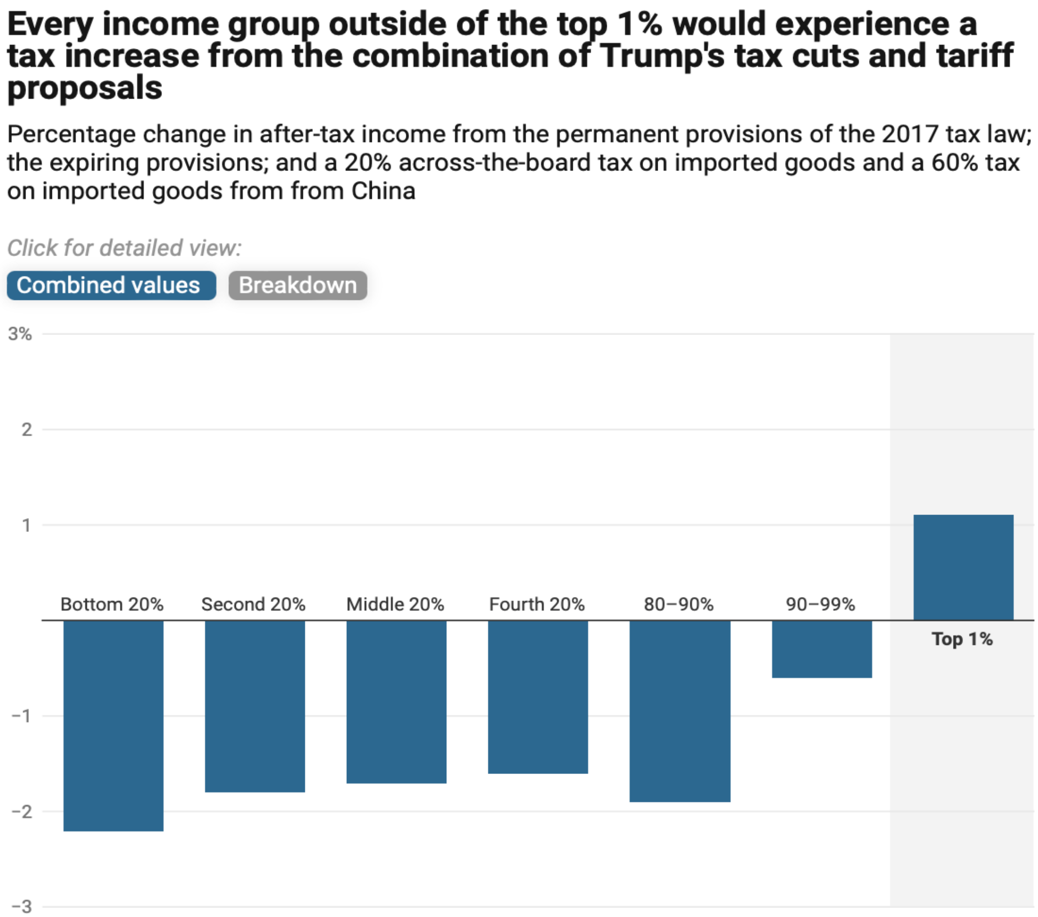
Figure 2



The reason taxes on imported goods should only be used to achieve strategic trade goals and not as a source of revenue is that they are one of the most regressive types of taxes.[xviii] For example, the Treasury Department assumes that the bottom 90 percent only pay about 20 percent of individual income taxes and about 30 percent of corporate taxes, but more than half of taxes on imported goods and excise taxes. Importantly, the Treasury Department's methodology is actually conservative in terms of describing the regressivity of tariffs since it does not account for the fact that, in the short run, the tariff would disproportionately harm those consuming today, and lower-income and elderly families spend a higher share of their income in a given year.[xix]

A key reason for their regressivity is, unlike the income tax, the tax is flat and does not allow policymakers to set different rates to ensure high-income families pay a higher rate than lower-income families. This makes the Trump tax plan of essentially swapping income tax cuts in exchange for higher taxes on imported goods even more regressive than tariffs on their own. Figure 3 displays the cumulative effect of the permanent tax provisions of the 2017 tax law (the cut in the corporate tax rate and slower adjustment of tax brackets for inflation), extending the expiring provisions, and a 20 percent tax on all imported goods. The cumulative result is a tax cut for the top 1 percent and tax increase for every income group in the bottom 99 percent.

Figure 3



Source: Center for American Progress analysis of data from Tax Policy Center, "Table T17-0316 - Conference Agreement: The Tax Cuts and Jobs Act; Baseline: Current Law; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2027," December 18, 2017; Tax Policy Center, "Table T24-0037 - Make Certain Individual Income, Payroll, and Estate Tax Provisions in the 2017 Tax Act Permanent, by ECI Percentile, 2027," July 8, 2024; Tax Policy Center, "T24-0079 – Enact 60 Percent Tariff on Imports from China and 20 Percent Tariff on Imports from All Other Countries, Distribution by ECI Percentile, 2025," October 25, 2024.

Tariffs and inflation

Another way of viewing the effect of tariffs on Americans is how much they would increase prices--in other words how much they would increase inflation. Several analyses by think tanks and Wall Street firms have estimated the effect of the tariffs on inflation:

- The Budget Lab at Yale estimates that a 10 percent across-the-board tariff combined with a 60 percent tariff on Chinese goods would increase PCE—the Fed's preferred gauge of inflation—by 1.6 percent. Doubling the across-the-board tariff to 20 percent would raise it to 2.4 percent.[xx]

- Goldman Sachs estimates that a 10 percent across-the-board tariff would increase PCE by 1.8 percentage points.[xxi]

- The Capital Group has estimated that Trump's 10 percent across-the-board tariff and 60 percent China tariffs would lead to a 2.5 percent increase in prices in 2025 (as measured by the Consumer Price Index).[xxii]

- Bloomberg Economics similarly estimated that both sets of Trump-proposed tariffs would ultimately raise consumer prices by 2.5 percentage points, pushing up the inflation rate (as measured by core PCE) to 3.7 percent by end of 2025. This is compared to expected inflation of 2.1 percent in 2025 according to a Bloomberg survey of economists.[xxiii]

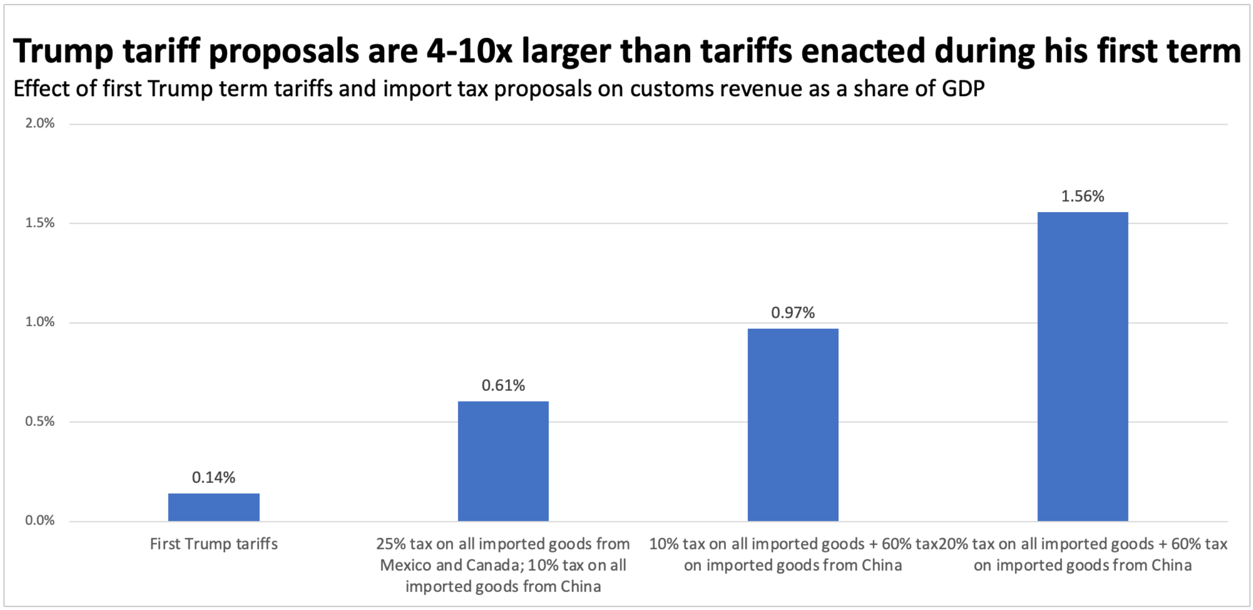
- Even a former chief economist of the Trump White House Council of Economic Advisers, Casey Mulligan, estimated that just the across-the-board tariff would add 1 percentage point to inflation.[xxiv]

These analyses assume that this is a temporary inflationary burst, resulting in a one-time increase in the price level as opposed to a persistent increase in the inflation rate.

Some have argued that tariffs are not inflationary because they depend on how the Federal Reserve responds to them—the Fed could tighten monetary policy to leave the overall price level unchanged as imported goods' prices rise while other goods and services' prices fall.[xxv] The Fed typically does not respond to one-time price increases so would likely let prices rise, but would face the challenge of figuring out what portion of inflation next year emanates from the tariffs—especially given that inflation remains above its 2 percent target—while being mindful of their effects on inflation expectations.[xxvi] Moreover, even if the Fed *did* try to offset the burst of inflation, there would still be significant costs to Americans due to higher interest rates and the resulting slowdown of economic activity. Many estimates assume that the overall price level does not rise, but Americans' nominal wages and investment income fall as a result of the tariff.

Another common argument is that inflation was low during his first term, which proved tariffs are not inflationary. This argument normally ignores the sheer magnitude of tariffs Trump is proposing, which are about 4 to 10 times the size of those he enacted during his first term (Figure 4). Evidence suggests that the first term's tariffs did raise prices, but the effects were likely too small to show up in an inflation reading—the sheer increase in magnitude being discussed would make them large enough to show up.

Figure 4



Center for American Progress analysis of Census, CBO, and Tax Policy Center data. First term Trump import taxes are the increase in customs revenue as a share of GDP between Obama's second term and 2019. The across-the-board proposals use TPC revenue estimates excluding income and payroll tax offsets. The Mexico/Canada/China tariffs use an import elasticity of -1.

Tax policy by executive action is open to corruption and undermines Congressional authority

We do not yet know precisely how President Trump plans to enact his tariffs. While there have been some reports that congressional Republicans will try to enact the tariffs in legislation as a formal offset for extending the expiring portions of the Trump tax cuts, this is unlikely given their small margin in the House of Representatives.

Trump himself has directly stated that he could pursue the tariffs using his substantial existing executive authority.[xxvii] Legal analysts believe that he could attempt to use the sweeping powers of the International Emergency Economic Powers Act to enact a single across-the-board tariff or use several versions of the Section 301 tariffs he used during his first term to effectively tax imported goods from a wide array of countries.[xxviii]

The executive branch has significant unilateral power to impose tariffs because these provisions were designed to be trade enforcement tools, not revenue raising tools. But the tariffs Trump has proposed have the revenue effect of a similar magnitude to a large tax bill: a 20 percent across-the-board tariff combined with a 60 percent tariff on Chinese imports would raise about as much revenue as extending the Trump tax cuts would lose. This would represent a significant shift in power over federal budget authority from Congress to the executive branch that undermines at least the spirit of the separation of powers in the Constitution.

Using existing tariff authority as a revenue tool is an especially flawed idea because it would introduce executive branch discretion into revenue collection that is unprecedented in modern America. This opens the door to using that discretion to favor politically aligned firms, giving them a leg up over their competitors. It is easy to imagine a major corporation with access to the Trump Administration petitioning for tariff exclusions that its competitors do not receive. Executive discretion is antithetical to good tax policy, which is why it is critical that revenue collection be carried out without the exemptions that are part of tariff policy.

Using tariffs primarily for revenue also opens the door to pay-for-play. A recent political science study found that this may have occurred during the first Trump administration when 50,000 applications for tariff exemptions were filed.[xxix] 7,000 exemption applications were filed by public companies and over 1,000 exemptions were granted. The article found that $35,000 in donations to Republican candidates by a company's PAC and executives increased the odds of an application being granted from roughly one in seven to one in five. A contribution of just $4,000 to Democrats, on the other hand, reduced the odds of success from one in seven to under one in 10. At stake were billions of dollars—an extra $57 billion in market capitalization for firms that succeeded in obtaining an exemption.

Expanding the scope of this revenue collection 4- to 10-fold as Trump has proposed would dramatically increase the opportunities for his administration to reward political allies while punishing enemies. Americans deserve a revenue collection system that is progressive and professionally administered, as opposed to the regressive and potentially politicized one Trump has proposed.

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[v] Megan Cerullo, "Why is Trump threatening a 100% tariff on the BRICS nations?," CBC, December 2, 2024, https://www.cbsnews.com/news/trump-tariffs-brics-nations-china-russia-brazil/

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[viii] https://www.youtube.com/watch?si=BeOfyUX-RemfK93&v=D18IRACRJio&feature=youtu.be

[ix] The exception is if the tariff revenue was put toward deficit reduction, which would increase government and overall saving thus reducing the gap between savings and investment that drives the trade deficit. Yet, Trump's policy proposals would increase 10-year deficits by $1.7 trillion to $16 trillion, so the net result of his policy would likely *raise* the trade deficit.

[x] Mihir Torsekar, "Intermediate Goods Imports in Key U.S. Manufacturing Sectors," U.S. International Trade Commission, 2017, https://www.usitc.gov/research_and_analysis/trade_shifts_2017/specialtopic.htm

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[xvi] Trump War Room, X, October 24, 2024, 3:58 PM, https://x.com/TrumpWarRoom/status/1849541060709712272

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