



The Daily Dish

Tariffs, Taxes, and Inflation

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In his current run for the presidency, former president Donald Trump has proposed a new **10 percent tariff** on all goods imported into the United States. Trump has described his proposal as “putting a ring around the collar” of the economy to discourage foreign competition and boost domestic production and manufacturing. The proposal is sweeping and dramatic, but has received relatively little public comment and scrutiny. This is a bit surprising because the implications are important in several dimensions.

First, it is a tax increase. Tariffs are simply taxes on the purchase of imported goods. This particular tax increase is **\$300 billion** annually, or \$3 trillion over the 10-year budget window. That is roughly the same scale as letting the 2017 Tax Cuts and Jobs Act (TCJA) sunset entirely at the end of 2025. If the latter is unthinkable, why is a tariff-based tax increase of roughly the same size, which also taxes low and middle-income families, desirable tax policy?

Second, it is focused on goods and manufacturing. In this way, it is a mirror of Bidenomics’ misplaced focus. Can someone sit these two geezers down and explain that it is 2024, not 1954, and less than 10 percent of Americans are employed in manufacturing? All the tariffs will do for most workers is lower their real wages while making goods more expensive. Ronald Reagan used to say that the nine most terrifying words in the English language are, “I’m from the government and I’m here to help.” This is a good example of that phenomenon.

Third, there is the issue of the tariffs making things more expensive – aka inflation. Defenders of the tariff proposal will quickly note it applies only to goods and not services purchases. This is true, and it makes the initial impact narrower. But it is also true that tariffs are imposed on all sorts of business inputs, including things that go into providing services. So the tariffs are simultaneously broader than they appear.

The other feature – which gets stressed even more – is that the 10 percent tariff would be a one-time change. They then argue that even if it raises the price level by 10 percent, there is no continued increase. The problem is, for example, that the American Rescue Plan was a one-time stimulus that kicked off an inflation that is sticky and still embedded in the economy. There is no guarantee that the tariff wouldn’t have a lasting impact on underlying inflation.