Donald Trump has floated big tariffs. What could the impact be?

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It hasn't gotten the same amount of attention as some of his more controversial comments, but one of the policy proposals Donald Trump has floated -- imposing double-digit tariffs on goods from such countries as China and Mexico -- is quietly giving a lot of economists heartburn.

Trump's proposal springs from an understandable concern -- that the U.S. manufacturing base has weakened dramatically over the past few decades, as companies have moved operations to lower-cost countries.

But a policy of imposing tariffs would bring significant side effects, said economists from a range of ideological backgrounds. Not least would be a passing on of the costs of the tariffs to American consumers -- consumers who in recent years have benefited from cheaper goods, an important development in a time of stagnating incomes for many.

We decided to take a closer look at the potential impacts of a tariff hike under a President Trump.

What has Trump said?

Trump has been intrigued by the idea of tariffs for years. In his 2011 book, *Time to Get Tough*, he proposed a 20 percent tax on imported goods.
More recently, Trump has floated even bigger tariffs as a possible remedy for the nation's international-trade malaise.

• During his presidential announcement speech, Trump suggested that if a company like Ford built a factory in Mexico, he would respond by calling Ford's CEO to say, "Every car and every truck and every part manufactured in this plant that comes across the border, we're going to charge you a 35-percent tax."

• In an interview with the *New York Times* editorial board, Trump said he would support a 45 percent tariff on Chinese exports to the United States.

• In a Republican debate, his then-presidential rival Ted Cruz brought up his past comments on trade. Trump responded, "The 45-percent is a threat that if they don't behave, if they don't follow the rules and regulations so that we can have it equal on both sides, we will tax you. It doesn't have to be 45, it could be less. But it has to be something because our country and our trade and our deals and most importantly our jobs are going to hell."

How tariffs are supposed to work

The idea behind imposing tariffs is to make American companies more competitive with their foreign counterparts. As those companies prosper, the thinking goes, they can hire more workers and pay their employees better. Those workers, in turn, would have more money to spend, and that helps spread those dollars around the economy more broadly.

Dean Baker, an economist with the left-leaning Center for Economic and Policy Research, said the risks of tariffs are sometimes overplayed.

He suggested that if the United States could reduce the nation's trade deficit by either half a percentage point or one percentage point of gross domestic product, it could help create 500,000 to 1 million new manufacturing jobs. (Currently, the trade deficit is a little under 3 percent of domestic product.) An employment gain of that size "doesn't look too bad," Baker said. Meanwhile, even a free-marketer like Dan Mitchell of the Cato Institute said that Trump's course could have a happy ending if he managed to win concessions from some of its foreign trading partners by threatening -- but not actually imposing -- tariffs.

"Trump has at times said the purpose of talking about tariffs is to compel other nations to lower trade barriers, so I suppose there's some small possibility that we might get a good outcome," Mitchell said.

What are the risks?

In general, though, most economists say that imposing substantial tariffs carries many more risks than benefits. Here are some of the problems experts cited:

• **Consumer costs would almost certainly rise**. The increased cost caused by tariffs would be borne to some degree -- and probably a large degree -- by consumers.
In his exchange with Trump at the Miami debate, Cruz raised this point. "The effect of a 45 percent tariff would be when you go to the store, when you go to Walmart, when you are shopping for your kids, the prices you pay go up 45 percent," he said. "A tariff is a tax on you, the American people."

Of course, the scale of the impact would vary depending on the scope of the tariffs -- narrower tariffs, and smaller tariff rates, would generally be easier for the economy to stomach than blanket tariffs of higher rates. Still, economists agreed that there would be some impact regardless.

"Retail prices for imported goods into the U.S., and for domestic goods that are reasonable substitutes for imported goods, would increase," said Lawrence J. White, a professor at New York University's Stern School of Business. "This surely does mean a higher cost of living."

• **Many production costs could also rise**. A lot of materials that are used to make products sold in the United States could see their prices rise as well, depending on the item in question and where it comes from.
The enactment of tariffs could produce delays or price spikes that spiral across the economy, since the economy is now tightly interwoven into complex and time-sensitive "supply chains," said Caroline Freund, a senior fellow at the Peterson Institute for International Economics.

"Production today, especially among the big companies, is so integrated, whether it's cars or planes or tractors," Freund said. "All of a sudden if there's a tariff affecting the wrong input, it would mess up the entire production process."

And any slowdown in the supply chain could mean layoffs for producers and a hit to the broader U.S. economy.

• **The stock market would fall and interest rates could rise**. "On the day it becomes clear that a tariff will pass Congress, there will be a very big change in stock prices," said Simon Johnson, a professor of entrepreneurship at MIT's Sloan School of Management. "Presumably there will also be a change in interest rates. The credit risk would go up. All of this would be negative for the economy."

• **A trade war**. So far, the impacts we've discussed could all happen even if America's trading partners don't retaliate against the United States. But those trading partners' cannot reasonably be expected to endure tariffs against them without imposing some of their own. Just look to history: This also happened during the Great Depression.
And if other countries do raise trade barriers against the United States, that would hurt U.S. companies that export to the rest of the world. "Everyone will be worse off if American tariffs produce a trade war," Mitchell said.

• **In many cases, the United States would be breaking international accords**. If the United States were willing to go back on its word on trade policy, its international reputation more generally could suffer. "This would be a really stupid policy if he were just to slap on high tariffs on exports to us, both because it would violate lots of trade agreements," Baker said. And turmoil over trade could spill over into the nation's foreign-policy and military relationships, as happened in the lead-up to World War II.

• **Lower-income Americans would be hurt the most**. "There's a lot of (scholarship) showing that lower-income households spend a much larger fraction of their income on goods, and especially goods produced abroad," Freund said.
Indeed, way tariffs operate obscure the public's full understanding of how they work, said William L. Silber, a professor of finance and economics at NYU's Stern School.

"In general, the problem with seeing the benefits of free trade is that they are diffuse, such as lower prices across the board, while the costs -- such as unemployment in the textile or steel businesses -- are narrowly focused and easier to spot," he said.

How bad could the impact be?

There’s no way to know for certain how big a problem tariffs or a trade war would be. But most experts say it would represent a significant hit to the economy.

Peter Petri, a Brandeis University professor of international finance, told Reuters in March that it could take "years" to rebuild the supply chains hit by sudden tariff hikes on China or Mexico. He estimated that such a move could result in a permanent annual reduction in U.S. national income of more than $100 billion, or 0.8 percent.

MIT’s Johnson told PolitiFact that the impact would be "much worse than a recession" and more on the scale of a financial crisis. He predicted that the fall in real incomes would be "bigger than 2008" -- the start of the Great Recession. "People would be able to afford less," he said. "Those who buy imported goods would be hit very hard."

History shows that trying to protect jobs with tariffs doesn’t really work, added Tara Sinclair, an economist at George Washington University and the jobs site Indeed.

The jobs being protected "eventually do disappear," she said. "But new and different jobs have appeared in their stead, and this has made our economic pie much bigger, with the potential for everyone to have a bigger slice."

Retraining the workforce to adapt to these changes is crucial, she said. "Resistance to changes in the jobs mix is futile," Sinclair said. "But more than that, it’s counterproductive."