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U.S. Consumers Are Paying for Donald Trump's Trade War

Daniel J. Ikenson

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With negotiations to remove sweeping U.S. tariffs and end the year-long trade war seemingly in the homestretch, President Donald Trump abruptly reversed course on Sunday and announced his intention to increase those tariffs and extend their application to all imports from China by the end of the week.

The president believes that depriving Chinese exporters of access to the U.S. market will compel Beijing to accept U.S. demands. Although raising tariffs certainly will tighten the vise, the squeeze will be felt most acutely by Americans because tariffs are nothing more than taxes on U.S. consumers, producers and investors.

Contrary to Trump's simplistic portrayal of trade, the United States doesn't purchase goods from China. Trade is not conducted between countries. Rather, trade is the culmination of billions of daily transactions between individuals around the world seeking to obtain the most value from that exchange — the biggest bang for their buck. By raising costs, tariffs ensure that consumers get less bang for their bucks.

Rather than get on an airplane to China to purchase goods from a local vendor, we avoid those transaction costs by letting our retailers do the heavy lifting. U.S. companies such as Walmart, Home Depot and Amazon purchase goods from Chinese manufacturers.

Those purchases are made not because the retailers have any interest in consuming those goods but because U.S. individuals — and U.S. companies requiring intermediate goods and machines to produce their own output — demand these goods. By virtue of the volume of their transactions, wholesalers and retailers have the market power and the logistics infrastructure in place to negotiate prices and purchase these products on our behalf.

When tariffs (or duties) are imposed at the U.S. border, those costs get factored into the prices paid for each transaction in the supply chain and, ultimately, by box store customers like you and me. China is not paying those tariffs. And trade wars are neither good nor easy to win.

In 2017, before the onset of the trade war, U.S. importers purchased $504 billion of goods from China and paid tariffs (or duties) of $13.5 billion to U.S. Customs and Border Protection — about 2.7%.

Last July, tariffs of 25% were imposed on approximately $50 billion of imports from China, and in September, tariffs of 10% were imposed on an additional $200 billion of Chinese goods.

Year-end figures show that in 2018, U.S. importers purchased $543 billion of goods from China and paid duties of $23 billion — 4.2%. That nearly $10 billion increase in tariffs paid came out of the wallets of American consumers.

If the president follows through with his plan to hit all imports from China with 25% tariffs, Americans should expect to have to absorb a consumption tax bill in the neighborhood of $100 billion — 10 times greater than they had to swallow this year, if their consumption patterns were similar.

Trump likes to remind audiences that he signed into law a tax bill last year that significantly reduced taxes, which he argues gives American households more spending power. His trade war is almost certain to wipe out the benefits of his much ballyhooed tax reform.

Daniel Ikenson is director of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies. You can follow him on Twitter: @dikenson.