



Donald Trump's economic agenda is 'imposing massive taxes on the American people,' Ted Cruz claims

Linda Qiu

May 1, 2016

Sen. Ted Cruz, looking to gain momentum against GOP presidential frontrunner Donald Trump ahead of the Indiana primary, contended that Trump's economic policies would hurt Hoosiers and Americans across the country.

Cruz said on NBC's *Meet the Press* that his top priority is to bring manufacturing jobs back to Indiana, and he has a "real policy agenda" to do it, unlike Trump.

"Donald's only economic agenda is imposing massive taxes on the American people with a 40 percent tax hike of a giant tariff," Cruz said. "That would send us into a recession. It would drive jobs overseas. It would kill small businesses."

Is Cruz right that the only idea up Trump's sleeve is a giant tax on imports?

Trump has certainly floated the idea of imposing tariffs on goods made overseas, but it's not the only item on his economic agenda. And though it's not entirely clear whether the tariffs would amount to 40 percent tax hike, experts agree that the costs would be passed onto U.S. consumers and businesses.

Let's begin with what Trump has proposed.

Trump's plan to correct 'stupid trade'

First, Trump has outlined a few other economic proposals beyond tariffs like declaring China a currency manipulator, upholding intellectual property law, ending China's export subsidies (more on this later) and lowering the corporate tax rate to incentivize American companies to stay at home. He's also suggested renegotiating or pulling out the North American Free Trade Agreement (NAFTA) and stopping the Trans-Pacific Partnership.

But Cruz has a point that Trump has talked at length about imposing tariffs on imported goods as a remedy for trade imbalances and lost American jobs. He's specified a 35 percent tariff on some goods coming from Mexico and 45 percent tax on all Chinese products, which he said in the last Republican debate is a "threat" that he'd only enact it if "they don't follow the rules."

Here are some of the comments Trump has made regarding tariffs:

- Candidacy announcement speech, June 16, 2015: Trump said he'll tax China "until they behave properly" and charge a 35 percent tax on "every truck and every part manufactured in (the Ford plant in Mexico) that comes across the border."
- Interview with the *New York Times* editorial board, Jan. 7, 2016: "I would tax China coming in, products coming in. I would do a tariff. And they do it to us. ... I would do a tax. And let me tell you what the tax should be. The tax should be 45 percent. That would be a tax that would be an equivalent to some of the kind of devaluations that they've done. They cannot believe that we haven't done this yet."
- GOP primary debate in South Carolina, Feb. 13, 2016: Trump said he'll tell Carrier, the American air conditioner company that announced a move to Mexico, "we're going to tax you when those air conditioners come. So stay where you are or build in the United States because we are killing ourselves with trade pacts that are no good for us and no good for our workers."
- GOP primary debate in Miami, March 10, 2016: "If you don't tax certain products coming into this country from certain countries that are taking advantage of the United States and laughing at our stupidity, we're going to continue to lose businesses and we're going to continue to lose jobs. ...The 45 percent is a threat that if they (China) 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."

Making Americans pay for the haul

Trump's tariff proposals have been called "uneducated," "worrisome" and "entirely ridiculous," and many economists (though not all) say they would hurt Americans. However, Cruz may be overstating the impact.

"The biggest losers would be U.S. consumers and companies," said Scott Lincicome, an international trade law and policy expert at the libertarian Cato Institute.

Tariffs at the level Trump is suggesting would cause prices of cheap products like air conditioners and intermediate goods like auto parts to soar and could cost U.S. jobs. But as some of the costs would be absorbed by Chinese and Mexican exporters, a 40 percent tariff doesn't translate directly into a 40 percent tax hike.

"You would have to do some analysis to determine how much of a tax hike it is, but it is probably significantly less than 40 percent," said Joel Trachtman, a trade law specialist at the University of Maryland.

Trachtman noted, however, that the sum of all Trump's trade proposals — including the rejection of free trade agreements — may get you to a 40 percent hike.

Trump's tariffs would also see push back from the World Trade Organization, Lincicome pointed out, as Mexico City and Beijing wouldn't take them lying down.

"The WTO sanctions these types of duties targeting export markets with the stroke of a pen. That's just insane," he said. "It's a blatant violation of WTO rules. He would get us involved with a bunch of litigation and retaliation."

For example, the 35 percent tariff the United States imposed on Chinese tires in 2009 cost American consumers \$1.1 billion in 2011 and the U.S. chicken industry \$1 billion, according to analysis by the nonpartisan Peterson Institute for International Economics.

The price of Chinese-made car tires rose by 26 percent, so the United States imported from countries like Thailand, Indonesia and Mexico instead and paid a premium for the shift. China also retaliated by slapping a tariff on American poultry, reducing chicken exports by 90 percent.

Looking ahead, Trump's suggested tariffs for Mexican imports would significantly affect the U.S. auto industry and would-be American car buyers. For example, the base price of a Chrysler Ram pick-up truck, which is currently assembled in Mexico, would increase by \$9,000, according to Reuters. And like China, Mexico could return the favor by taxing U.S. goods as they've done in the past.

Our ruling

Cruz said Trump's "only economic agenda is imposing massive taxes on the American people with a 40 percent tax hike of a giant tariff."

Tariffs are not Trump's "only" economic proposal. But Trump has trumpeted taxing Mexican and Chinese imports by 35 and 45 percent respectively.

Most economists agree that American consumers and manufactures would bear some of the cost of these tariffs, though it's not entirely clear if prices would increase by 40 percent, as Cruz says.

Cruz's claim is partially accurate. We rate it Half True.