A Progressive Explainer on Tariffs

International trade is not inherently good or bad — it is a means to achieve an end. Ideally, if the rules are designed appropriately, that end is a prosperous society where people work with dignity and enjoy a healthy environment. In the same way, tariffs are not inherently good or bad. They are a tool that can be used to achieve various objectives.

When used strategically, tariffs are an important tool for protecting American jobs and industries from unfair competition. But tariffs alone do not build new production capacity or ensure Americans have reliable access to goods.

Revitalizing U.S. manufacturing and creating good-paying jobs requires combining tariffs with tax, investment, procurement and other industrial policy tools. Trump's reckless tariff plan will do more harm than good.

What Trump is doing is totally irrational and it is destabilizing the entire world economy.

Would you use tariffs as president?

Yeah of course, if it is used in a rational way within the context of a broad, sensible trade policy. Tariffs are one tool that is available.

What is a tariff?

A tariff is a tax on an imported product. The importer of the good pays the tariff, not foreign countries or foreign companies, as Trump suggests. The importer can either choose to absorb the cost of the tariff or pass it along to the consumer. The tariff applies to the wholesale price that the importer pays, not what the consumer pays.

Tariffs have long been used by governments to support infant industries and help spur economic development. A neoliberal orthodoxy that became dominant under Ronald Reagan, however, created the trade policies of the last 40 years, which pushed for "free trade" at all costs. Both main political parties embraced this philosophy, which has enabled corporations to offshore production to low-wage countries knowing that they would face low tariffs when they imported those goods back for sale here.

Senator Bernie Sanders speaking in 2019.

For example, let's say it costs Calvin Klein $2 for each pair of bluejeans it has made in Vietnam and imported into the United States, where they sell to consumers for $50. If a new 20% tariff is set on imported clothing, that does not mean the price for the jeans automatically becomes $60. Instead, the importer pays $2.40 per pair of jeans — the original $2 to the exporter plus the $0.40 tariff, which goes to the U.S. government.

If Calvin Klein chooses to pass along the entire additional cost of the tariff to the consumer, the final price for the shopper becomes $50.40.

Today, the U.S. has relatively low tariffs — below that of most other nations[1] — and a bipartisan rethink of the so-called Washington Consensus is well underway. Shortages during COVID-19 and the war in Ukraine increased awareness of the need for diverse and dependable supply chains for key goods, including via domestic production.

If applied strategically and as part of a broader industrial policy package, tariffs are part of the solution. But tariffs alone will not build the factories needed to increase domestic production. Investments — like the CHIPs Act and Inflation Reduction Act — plus other industrial policy tools are also needed.

Do tariffs always increase consumer prices?

It depends how they are applied and is influenced by factors including whether there are domestic goods or non-tariffed imports to substitute for tariffed goods, whether a good has a large wholesale-to-retail markup, and whether there is price competition in a sector. Imposing large across-the-board tariffs on all goods from all nations, including goods we will never produce here at scale like coffee and bananas, is much more likely to raise consumer prices.

The ultimate goal of tariffs — when used strategically — is to address market failures by influencing company and consumer behavior. When tariffs are targeted to hit specific goods or countries, companies can shift to buy domestically or from a non-tariffed country. To level the playing field as effectively as possible, tariffs should target imports that are made under abusive labor conditions, that ignore environmental standards, or that otherwise put American workers and producers at an unfair disadvantage.

Didn’t Biden use tariffs too?

Yes, in fact, President Biden’s tariffs were both higher and more targeted than those in Trump’s first term. Trump’s tariffs, which were generally around 10% - 25%, hit not just China, but also Canada, Europe, and other American allies.[2]

Biden kept most of Trump’s tariffs in place, but targeted China, with particular focus on industries with unfair practices. And Biden increased tariffs on key technologies made in China: up to 50% for solar panels and 100% for electric vehicles.[3]

This strategy was part of the Biden administrations’ model of “worker-centered trade” that eschewed the “free trade agreements” of the past that sought to slash tariffs and eliminate regulations to increase efficiency at all costs.

And importantly, Biden paired those tariffs with massive investments to support domestic manufacturing and clean energy jobs. Trump talks a big game about stopping offshoring, but his first term saw more outsourcing of U.S. jobs than under any previous president. Under Biden there were more manufacturing jobs than at any point during Trump’s presidency — with thousands more on the way.[4]

Do tariffs generate revenue?

Certainly not enough to make up for eliminating the income tax or to pay for the massive corporate tax cuts that Trump has proposed. In 2023, the U.S. imported more than $3 trillion worth of goods. In order to replace the amount raised by income tax, you would need 70% across-the-board tariffs.[5]

And that’s assuming there are no changes in market behavior. In reality, tariffs operate similarly to a “sin tax” on cigarettes, where the goal is at least as much to decrease consumption of a certain good as it is to raise revenue. So assuming all goes well and the tariff succeeds in shifting the market enough to support increased domestic production, the revenue generated would decline over time, as less and less of the tariffed good is imported. (The conservative estimate of 70% also sets aside other factors like retaliatory tariffs from other countries and currency valuation changes.)

Moreover, Trump and his pick for Commerce Secretary, crypto billionaire Howard Lutnick, have talked about tariffs as bargaining chips. They describe using tariffs to leverage other countries to drop their own tariffs or enter a free trade agreement or rescind a regulation that U.S. big tech companies don’t like. Under these scenarios, the tariffs would be short-term and again would not significantly raise revenue or support domestic industry.

And Trump has even threatened 25% across-the-board tariffs to pressure Mexico and Canada to block undocumented immigrants and illegal drugs from crossing the border. Bullying countries, particularly in pursuit of an anti-humanitarian agenda or for policies that they do not have control over, is not an appropriate or strategic use of tariffs.

Trump's tariff plan presents opportunities for grift.

Keep a close eye on who ends up benefiting from Trump's tariffs or exceptions to them. It is easy to foresee how individual billionaires or favored companies could appeal to Trump for specific tariffs or exceptions in return for other favors.

In the first Trump administration, members of Congress presented evidence that companies with connections to the Trump family or his top executives were more likely to be granted exceptions.[6] In one notable example, Trump's Commerce Department granted tariff exemptions for millions of dollars of aluminum imports to a sanctioned Russian company owned by an oligarch with close ties to President Vladimir Putin.

According to a recent economic study, lobbying firms used the opaque and messy tariff exemption process to reward supporters and punish opponents. In Trump's first term, companies with executives that donated to Republicans were almost twice as likely to have their tariff exceptions granted compared to companies with executives who donated to Democrats.[7]

The exemption process is run by career employees rather than political appointees -- but that could change under Trump's proposed evisceration of the federal workforce, presenting even greater opportunities for Trump to reward his friends and punish his enemies.

How did the tariff debate influence the election?

People view tariffs as evidence that their government is looking out for them. Despite the many problems with Trump's tariff plan, a nationwide poll from just before the election showed that 56% of people supported it.[8] And that number is much higher in the swing states that decide modern elections. In Michigan, Wisconsin, and Pennsylvania, 66% of voters said the economy was in bad shape — and of that group, 70% voted for Trump.[9]

As a result, Kamala Harris' labeling of Trump's tariffs as a "sales tax" did not go over well with voters. This fed the broader dissatisfaction with the economy, which left the door open for Trump to exploit working-class frustration and scapegoat vulnerable communities. To regain the public's trust on the economy, progressive messengers should avoid a reflexive condemnation of all tariffs and take a more honest and nuanced approach.

Endnotes

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