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Trump's Washing Machine Tariffs Stung Consumers While Lifting Corporate Profits

New research shows how a move meant to aid domestic manufacturers instead padded profits and raised prices on a wide variety of laundry items.

Companies raised both washer and dryer prices last year, by 11.5 percent each, a new study says. Only washers were subject to President Trump's tariffs.

By Jim Tankersley

President Trump's decision to impose tariffs on imported washing machines has had an odd effect: It raised prices on washing machines, as expected, but also drove up the cost of clothes dryers, which rose by $92 last year.

What appears to have happened, according to new research from economists at the University of Chicago and the Federal Reserve, is a case study in how a measure meant to help domestic factory workers can rebound on American consumers, creating unexpected costs and leaving shoppers with a sky-high bill for every factory job created.

Research to be released on Monday by the economists Aaron Flaaen, of the Fed, and Ali Hortacsu and Felix Tintelnot, of Chicago, estimates that consumers bore between 125 percent and 225 percent of the costs of the washing machine tariffs. The authors calculate that the tariffs brought in $82 million to the United States Treasury, while raising consumer prices by $1.5 billion.

And while the tariffs did encourage foreign companies to shift more of their manufacturing to the United States and created about 1,800 new jobs, the researchers conclude that those came at a steep cost: about $817,000 per job.

Mr. Trump imposed the tariffs last year in response to a complaint by the Michigan-based manufacturer Whirlpool, which claimed foreign competitors were cornering the American washing machine market with cheaper models that threatened domestic manufacturers. The tariffs started at 20 percent per imported washer and rose to 50 percent late in the year, after total imports exceeded a quota set by the administration.

Mr. Trump, a self-proclaimed lover of tariffs, hailed the move as a way to help American production and jobs. The president, who has also imposed tariffs on imported steel, aluminum, solar panels and a wide variety of products from China, has repeatedly — and falsely — asserted that America's trading partners foot the bill.

That is not the case. The costs of tariffs are paid by some combination of consumers, in the form of higher prices for the products they buy, and companies, which sometimes accept lower profit margins in order to avoid losing sales when tariffs are applied.

In the case of washing machines, Mr. Trump seems to have found a policy that forces consumers to pay the full cost of tariffs — and then some.

The new tariffs ended a yearslong decline in the price of washers in the United States, which rose about $86 per unit because of the tariffs last year, the authors calculate. But tariffs also raised prices for dryers, largely because manufacturers of laundry equipment used the tariffs as an opportunity to raise prices on things that were not, in fact, affected by the tariffs.

Consumers, Mr. Tintelnot noted in an interview, often shop for a new washer and dryer at the same time. Their costs are similar. Rather than raise prices by 20 percent on washers and throwing off that balance — no one likes an unbalanced washing machine — companies instead raised both washer and dryer prices, by 11.5 percent each.

"Given that many consumers buy these goods in a bundle, the price increases were partially hidden by raising the price of dryers," Mr. Tintelnot said. "That's very clearly visible."

It is hardly surprising that the tariffs drove up the price of foreign washers. Perhaps more unexpectedly, they also prompted American manufacturers to raise their prices.

Companies that largely sell imported washers, like Samsung and LG, raised prices to compensate for the tariff costs they had to pay. But domestic manufacturers, like Whirlpool, increased prices, too, largely because they could. There aren't a lot of upstart domestic producers of laundry equipment that could undercut Whirlpool on price if the company decided to capture more profits by raising prices at the same time its competitors were forced to do so.

The researchers do not think that Mr. Trump's other tariffs, on metals used in washing machine manufacturing, contributed to the higher price of American products.

"It's unlikely that the domestic manufacturers' price increase we document here are due to higher input costs — due to tariffs on other inputs such as steel — since we use other appliances with similar steel content as a comparison group," Mr. Tintelnot said. "Instead the price increases are likely due to domestic firms exploiting their market power."

Of course, consumer costs are only half the equation in trade policy. There is also the question of job creation: How much the policy appears to have shifted production, and employment, of the good in question from foreign countries to the United States. The authors explore that question also, and they emerge with evidence of the striking degree to which previous American efforts to shield domestic manufacturers from foreign competition ended up pushing washing machine production across borders, almost overnight, in order to avoid American import duties.

Presidential efforts to protect domestic washing-machine makers pre-date Mr. Trump's time in office. President Barack Obama's administration announced in 2012 that it would place anti-dumping duties on Mexican and South Korean washing machines; the move spurred an almost-immediate shift in production to China, which the authors find actually saved consumers money, because Chinese-made washers were even cheaper. Mr. Obama placed similar duties on Chinese washers in 2016, which led to a surge of imports from Thailand and Vietnam — countries that had not previously exported more than a handful of washers to the United States.

The goal of all those moves was to push production not around the Pacific Rim, but to America. The study authors credit Mr. Trump's tariffs with 200 new jobs at Whirlpool's plant in Clyde, Ohio, and a further 1,600 jobs for a Samsung factory in South Carolina and an LG factory in Tennessee. That's 1,800 new jobs, at the cost — net of tariff revenues — of just under $1.5 billion for American consumers.

Or, as the authors calculate, $817,000 per job.

There are more expensive ways for the government to subsidize hiring in the United States; a Brookings Institution study found Mr. Obama's notorious "Cash for

Clunkers" program, which helped Americans buy new cars in the aftermath of the 2008 financial crisis, cost $1.4 million per job. But most job-creation programs are vastly more efficient. Mr. Obama's signature economic stimulus program, the American Recovery and Reinvestment Act, which was much-derided by conservatives, cost about $125,000 per job, according to research by the Federal Reserve Bank of San Francisco. For every one job that Mr. Trump's washer tariffs supported, in other words, Mr. Obama's stimulus supported 6.5.

Other studies support the idea that tariffs are an expensive way to <u>bolster job-creation in the United States</u>. A study by the Peterson Institute found that tire tariffs imposed by Mr. Obama cost about $900,000 per job created. A more recent one found that Mr. Trump's steel tariffs raised prices on steel users by $650,000 for every job they supported. For a few thousand workers, those tariffs, across administrations, have been a boon. And consumers have picked up the bill.