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Biden Could Provide Business &Household Relief by Eliminating Trump Tariffs

By Erica York

One of President Donald Trump's signature policy actions has been to engage in a tit-for-tat tariff war with America's trading partners, and one of the big questions is what President-elect Joe Biden will do about that.

First, a brief review of where things stand. Relying on rarely used sections of trade law, President Trump used executive authority to impose tariffs on the import of solar panels, washing machines, steel and aluminum, Chinese products, and other types of goods. These tariffs invited retaliation from other countries. According to analysts Tom Lee and Jacqueline Varas's tabulations of 2019 import values and 2018 export values, more than $460 billion worth of traded goods are caught up in the trade war.

Tariffs raise prices and reduce the quantity of goods available to U.S. businesses and consumers, which results in lower incomes, reduced employment, and lower economic output in the United States. Using the Tax Foundation General Equilibrium Model, we estimated (based on import levels when tariffs were put in place) that the Trump administration tariffs would amount to an annual tax increase of $80 billion. If left in place permanently, all else equal, the tariffs would reduce long-term output by 0.23 percent, reduce wages by 0.15 percent, and eliminate nearly 180,000 full-time equivalent jobs. The 0.23 percent reduction in long-run GDP is about 13.5 percent of the total long-run impact of the Tax Cuts and Jobs Act (TCJA), which we estimated would raise long-term GDP by 1.7 percent. Also important to note is that tariffs are regressive, meaning their tax burden falls hardest on lower- and middle-income households.

Biden has not specified how he would approach the Trump tariffs, though his advisers have said he will at least review them.

The road ahead for many of Biden's agenda items, including more economic relief and stimulus, is uncertain. As my colleague Garrett Watson explained, "A Biden administration may have to work with a Republican Senate majority (pending the results of runoff elections in Georgia) and a Democratic-controlled House to navigate various tax policy issues in the coming year, including another round of pandemic-related economic relief."

In contrast, reducing or eliminating the Trump tariffs, which a Biden administration could do without congressional authorization, would be a relatively quick form of relief to businesses and households, with outsized benefits to lower- and middle-income households (recall that tariffs are regressive).

Some might argue that even though tariffs are damaging, the Trump administration had good reason to impose them, and a Biden administration should continue them. The evidence on tariffs in general and Trump's tariffs in particular show that the negative effects outweigh any small, temporary protection that may be afforded to specific industries. For example:

- **A recently published study by Davide Furceri, Swarnali A. Hannan, Jonathan D. Ostry, and Andrew K. Rose ("Macroeconomic Consequences of Tariffs," 2018) provides evidence of tariffs' negative effects by reviewing tariff changes across 151 countries from 1963 to 2014. The research finds that tariff increases lead to less output and productivity and more unemployment and inequality and that the negative effects are magnified when tariffs are increased during expansions and in advanced economies.**
- **Fernando Leibovici of the St. Louis Fed ("How Could Higher Tariffs Affect American Manufacturers," 2018) analyzed how tariffs on Chinese imports impact the U.S. manufacturing sector, supporting the idea that raising tariffs on intermediate goods will hurt manufacturers more than it helps because tariffs significantly increase costs of production across the U.S. manufacturing sector.**
- **Ana Maria Santacreu and Makenzie Peake of the St. Louis Fed ("The Economic Effects of the 2018 U.S. Trade Policy: A State-Level Analysis," 2020) analyzed the correlation between trade exposure and economic activity, finding "states that were very exposed to trade at the onset of the trade war experienced worse outcomes in terms of employment and output growth." The Cato Institute's Scott Lincicome notes this study also pokes a hole in the idea that protectionist policies are politically helpful.**
- **Aaron Flaaen and Justin Pierce of the Federal Reserve Board ("Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected U.S. Manufacturing Sector," 2019) find that "U.S. manufacturing industries more exposed to tariff increases experience relative reductions in employment as a positive effect from import protection is offset by larger negative effects from rising input costs and retaliatory tariffs. Higher tariffs are also associated with relative increases in producer prices via rising input costs."**
- **Scott Lincicome summarizes a litany of tariff research, including evidence on the failure of steel tariffs: "After two-plus years of 'national security' tariffs and quotas on a wide range of steel imports from almost all major sources, Big Steel is once again hurting (pain that began before COVID-19) and going back to the government for help. …What they don't mention, however, is what might actually work: eliminating the tariffs, which have been shown to hurt U.S. manufacturing and even several domestic steelmakers, and imposing long-term market discipline on Big Steel—a discipline it hasn't faced in decades (if ever)."**

While there is wide agreement that concerns over unfair trading practices ought to be addressed, the tariffs imposed by Trump are not the appropriate policy tool. Ultimately,

tariffs result in net decreases in productivity, output, and income. Consumers lose more than producers gain from tariffs, resulting in a net loss to the economy. Tariffs also have a negative effect on America's global relationships.

President-elect Biden reducing or eliminating the Trump administration tariffs would provide immediate relief to U.S. businesses and households as imports would no longer face those taxes, though business adjustments may take some time. It would also signal the end of the era of trade uncertainty caused by the Trump administration and would be a positive move toward rebuilding damaged trading relationships while working with allies to address unfair trading practices.