EconoFact Chats: Assessing the Impact of the 'Liberation Day' Tariffs
Chad Bown, Peterson Institute for International Economics
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I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:
Trade policy has been a central focus of the second Trump administration. President Trump claims that his tariffs will revive manufacturing in the United States and lead to an economic boom. Economists tend to disagree. Widespread and high tariffs are not seen as a sound economic policy because they raise prices for consumers, hurt companies that depend upon supplies from abroad, and promote relatively inefficient industries to the detriment of those that are more competitive in world markets. We now have more than six months of experience with tariffs since the so-called Liberation Day in April, when the President introduced high tariffs across a wide range of countries. What have been the effects of these tariffs to date? How has the volatility of tariff policy affected businesses? Have the tariffs raised significant revenues, and if so, from whom? Americans or foreign exporters? To address these questions and others, I'm very pleased to welcome back to EconoFact Chats Chad Bown of the Peterson Institute for International Economics. Chad is a widely recognized expert on international trade, and one of the most cited economists in the popular press on this issue. He served as Chief Economist in the State Department, a senior economist for international trade and investment in the White House and the Council of Economic Advisors, and he's been a Lead Economist at the World Bank. Chad, welcome back EconoFact Chats.

Chad Bown:
Thanks, Michael.

Michael Klein:
So, international trade has been a long standing concern of the President. He has often voiced the view that a trade deficit with another country means that the United States is being treated unfairly. How would you respond to the claim that a bilateral trade deficit is evidence of unfair trade?

Chad Bown:
I would say, international trade has been a long standing concern of mine as well, so I'm glad that he and I have this in common. But I guess where I would come down is, while trade is an incredibly important and complicated issue – there are winners and losers that are created by trade, generally, trade does create benefits for countries as a whole, but not everybody gains from trade. There are some people and some companies in your country that will be worse off. But the issue that bilateral trade deficits tell us something about the unfairness of trade really isn't there. Many countries with which the United States has a bilateral trade deficit, so it's selling less to this country than it's buying from that country, maybe for a very good reason. Maybe because of comparative advantage. In the United States, we're really good at

making sophisticated products and exporting those types of goods as well as services, and a lot of those are very expensive. A lot of poorer countries out there in the world may be good at producing clothing or consumer electronics, but they have populations that are not at the level of income that could necessarily afford the types of goods and services that the United States is good at making. And so that's just one example where you take any two particular countries, and their bilateral trade may not necessarily even out. You might not get the same amount of exports as imports going in the same direction. There's lots of ways in which trade may be unfair, but a bilateral deficit with a country is not really going to tell you much about that issue.

Michael Klein:
And yet, those bilateral deficits were the source of the size of the tariffs that were placed on countries in April, correct?

Chad Bown:
Absolutely.

Michael Klein:
So Chad, can you remind us of the trade policies undertaken during the first Trump administration?

Chad Bown:
President Trump the first time around, and so this was between 2017 and early 2021, did a lot of things on trade. He put tariffs on steel and aluminum imports. But to be fair, for something like that, most US administrations, most US presidents, provide protection to the steel sector in particular. So that wasn't particularly novel. President Trump renegotiated NAFTA, the North American Free Trade Agreement – this is the trade deal between the United States, Canada and Mexico. He threatened to rip it up. There was a lot of controversy. Ultimately, he renegotiated it into something called the USMCA. But the things that he did to that agreement were mostly minor tweaks, it was not that big a deal. What he did that was really big was to put tariffs on China. Before his administration started back in 2016, the average US tariff on stuff coming in from China was about 3%. By early 2021 when he left office, the average US tariff had increased all the way to 19%. And so that was a really big deal. This was the introduction of the idea that the United States and China, their economies might start decoupling, at least through trade, and it was really the US-China tariffs that were the emphasis of his administration the first time around.

Michael Klein:
How have the policies that have been undertaken since the inauguration in January differed or not differed from those in Trump's first term?

Chad Bown:
I think, based on his first administration, and what he campaigned on in 2024, coming into the inauguration the world was ready for something really big to happen this time around. We might see tariffs right away, but right after the inauguration, the administration kind of threw us a head fake. They said they were going to be doing studies and they would report back to everybody, basically the public, in April, with what their long term plans would be. But that being said, they did start ramping up tariffs right away anyway. So they put 10% tariffs on everything coming in from China in February, and then another

10% again in March. So this combined 20 percentage point increase within the first six weeks of the new US administration raised tariffs on China even more than they had been increased over the full four years of the first administration, right? In the first six weeks. So that was a pretty big deal. The President restored a number of tariffs that the Biden administration had, kind of, dialed back on steel and aluminum. They imposed some tariffs on Canada and Mexico, but really only for certain types of goods coming over the border in North America. But the really big deal, the really big thing they did on tariffs in the first, by say, March, was the announcement that they were going to impose a tariff on cars of 25%.

Michael Klein:
Why was the tariffs on automobiles such a big deal, Chad?

Chad Bown:
In the first Trump administration, the President had threatened, almost incessantly, that he was going to do this…that he was going to put 25% tariffs on cars coming in from everybody. In the United States, we import a lot of vehicles from Europe, Japan, Korea, and so these countries were on notice, but he never did. There were a lot of threats, but he never did. This time around, he did impose those tariffs, and let me give you a quick example of what this actually meant. In April, suddenly cars coming in from Japan, Korea, and Europe were going to be hit with a 25% tariff. But we also import a lot of vehicles from Canada and Mexico. Some of those cars come over the border because of the USMCA agreement, the free trade agreement between our three countries…they come over the border without having to pay any tariffs at all. But some of them do have to pay a tariff. They don't satisfy something called the Rules of Origin requirement, and they therefore have to pay what's called the normal tariff, or the MFN tariff, of, before President Trump, 2 ½ percent.

Michael Klein:
What are the Rules of Origin?

Chad Bown:
Rules of Origin are a legal requirement to ensure that enough content of a product, like a car, when it crosses a border, enough of the content is actually created by the countries that are part of the free trade agreement. So let's go back to the example of cars. Under the USMCA agreement, a car has to have 75% of the value of the content come from either the United States, Canada or Mexico. So you need to add up the value of all of the inputs that go into a car. So, an engine, the transmission, the wheels, the steering wheel, the windows, glass, all that kind of stuff. If more than 75% of that is from one of those three countries, then it can come into the United States, even if the cars assembled in Mexico, duty free. But if not, then you have to pay a tariff. Again before President Trump, if you didn't qualify for those rules of origin, the tariff you had to pay was only 2 ½ percent. It wasn't that big of a deal, so many companies decided not to bother to source their engine or their transmission not from North America. They might buy it still from Germany or from Japan. But now, with President Trump in 2025, two things have happened. First, because of his tariffs on all automobiles, the tariff on that vehicle coming in from Mexico suddenly went from 2 ½ percent to 27 ½ percent. But second, when I said earlier that President Trump put tariffs on certain types of goods coming in from Canada or Mexico, these were those types of goods, the ones that did not satisfy the Rules of Origin requirements. So suddenly, the US tariff on some models of cars coming in from Mexico went, not from 2 ½ percent to 27 ½ percent, but to 52 ½ percent. And so if

an automaker doesn't reduce the price they're willing to receive for selling a car, that puts the price to an American consumer of a car that might have otherwise been, say, $30,000 to suddenly, $45,000 for the same car, right? That's just a huge, huge price increase.

Michael Klein:
I'm impressed you're doing all this arithmetic in real time, Chad. I would imagine that these Rules of Origin may be really hard to enforce, given how extensive and complicated international supply chains are, especially for things like autos or electronics, where there are lots and lots and lots of inputs to, you know, a car.

Chad Bown:
So the answer is, sometimes yes, it's complicated–it's definitely complicated. But sometimes, the companies spend a lot of effort to figure it out, right? And the reason why is it can make a big difference, especially for, you know, the ultimate tariff that you pay on something like a car. And this Rules of Origin issue has been around for such a long time, especially when it comes to automobiles, that a lot of the big multinational companies, especially that make these cars, they have the incentives to figure it out. So they'll know exactly what the share of the content of their particular model is coming from North America. But you're correct, for other products that aren't made by really big companies, and where this might not have been an issue before, now if they need to know exactly where their inputs are coming from in order for the good to qualify for a lower tariff, figuring out that information is a lot more work for them, it's more paperwork and a lot more cost.

Michael Klein:
So, I already alluded to the so-called Liberation Day in April, and mentioned that the tariff rates were determined through this kind of odd bilateral trade deficit formula. What happened with tariffs in the wake of that decision, and those actions in April?

Chad Bown:
The President essentially did two things on April 2. He said, for everybody, all countries out there in the world, you're going to get a baseline tariff on everything you sell to the United States of 10%. That is going to apply to everyone. And then if you're a special country, a country, as you said, that runs a trade surplus with the United States, meaning they sell more exports to the United States than they're buying from the United States, you get an extra special tariff. In addition to the 10%, you get a tariff specially designed for your country, depending on how large your trade surplus with the United States is. So, that was the first thing. Then second, what the President said was, but we'll negotiate, let's negotiate. And so his administration then set off and began to negotiate with lots and lots of countries. Early in this period, in fact, his officials were saying 130 countries had contacted them to negotiate deals.

Michael Klein:
So, to begin with, that schedule of tariffs comes up with some ridiculous things, like, apparently, there's this island populated by penguins, where the penguins will not sell anything else to the United States because the tariffs were so high. And a less ridiculous example is Vietnam was hit very hard by tariffs, right?

Chad Bown:
Yeah, there was a lot of very strange numbers when you looked under the hood, what certain countries got, what other countries didn't get. Yeah, the penguins were the good example. I gave the example before about poorer countries maybe, you know, running trade surpluses with the United States, because they just don't buy a lot of what the Americans are good at. Well, I think it's probably the same with penguins, right? Maybe we don't, you know, make a lot of stuff that they enjoy consuming.

Michael Klein:
Well, you know, if maybe we produce more herring or something like that, that could help.

Chad Bown:
Exactly.

Michael Klein:
So, you also mentioned that all these countries were said to have contacted the administration to negotiate, but that seems impractical. A large number of these bilateral negotiations, it's incredibly cumbersome, and very different from the way things existed before, correct?

Chad Bown:
Absolutely, and also it's important to think about the timing of when this was happening, right? So, April 2 is Liberation Day. April 9, there was a slight modification, the President says, let's negotiate. At this stage of the administration, there are very, very few senior officials that have been put in place, right? The administration inauguration is January 20, it takes a number of months for any administration to get all of their senior team confirmed by Congress. Why is that a problem? Because, if you think about what negotiations are going to look like from the American side, what President Trump wanted was to get all of these other countries to reduce their trade barriers toward the United States. Some of those trade barriers are tariffs, fine, those are the easy ones to kind of take care of. But many of them are not. If US exporters are going to benefit from these agreements, they may need to not just lower tariffs, but reduce barriers to trade that may be regulatory in nature, or, you know, not allowing American farm products in because they don't meet certain standards that have to be worked out by veterinarians. But the point is, that information is incredibly detailed, right? If you don't work every day in trade policy, you're not going to know, if you go to any given country, why it is that a particular product–American product–can't get into that market. So, it's American expertise in government that needs to be put to work in those instances. And here, it was not only that the administration didn't have their team up and running yet, but their other priority during this time period, under Elon Musk and the Department of Government Efficiency, was to fire a bunch of American civil servants, right? Well, those are the folks that have the decades of expertise, and know the details of why American exporters can't get their products into foreign markets, right? So all of this stuff going on at the same time did not really put the United States in a great position to be well informed, to know exactly what it wanted out of these negotiations with 130 other countries.

Michael Klein:
So it seemed like President Trump thought he had a cudgel, and he had the upper hand, and other countries would just accept the tariffs, and the conditions he demanded to have the tariffs lowered or the

trade policies changed. But, that wasn't the case with one of our biggest trade partners, China. What happened there?

Chad Bown:
I think China had learned a lot from the first Trump administration, right? Where, as we talked about earlier, they were the main country that had to deal with US tariffs at the time. And the world is very different from the Chinese perspective today than it was back in, certainly 2017, the first Trump administration when they started, or even when they left office in 2021. So this time around, lots of tariffs on China. China retaliates with tariffs of their own. President Trump responds to that by raising the tariffs on China even further, and China does reciprocal. And so by April, each side now has tariffs on the other of well over 100%. Again, for a 100% tariff, what that means is, if the foreign exporter doesn't lower their price, and the tariff is essentially passed along to the end consumer, 100% means the doubling of a price of a good to the end consumer. So these are just really, really, really high tariffs.

Michael Klein:
And it wasn't just tariffs, right? I was in North Dakota a month or two ago, and people there were very concerned, because, basically China bought no more soybeans from America as a consequence of the trade war. So it was kind of multi-dimensional, wasn't it, Chad? It wasn't just tariffs, but it was other kinds of export restrictions or import restrictions with regard to the United States as well.

Chad Bown:
Yeah, so there's, I think, two pieces to that. One, China's not a market economy in the same way that the United States is, so it is able to affect even its imports of products without having to use tariffs. So in China, a lot of state owned enterprises are the companies that would buy American soybeans. And so, if the Chinese government tells those companies that aren't private firms, stop buying American soybeans, they will. They're state owned enterprises. You don't have to put a tariff on to get those sales to stop.

Michael Klein:
They will, and they did, right?

Chad Bown:
They will, and they did. The second thing that China did, though, is they didn't just use import restrictions, as you said, they also used export restrictions. And they restricted exports of a lot of different items, critical minerals, but one really, really important one is rare earths. Rare earths are not something that before this year, many people had ever heard of. They are not all that rare, they're found all over the world, but there are a lot of them in China. But the challenge is, they're really tricky to mine. It's expensive to get them out of the ground, and it's also difficult and expensive to process them into the types of things that companies need. So what China has is market dominance in the world of these rare earth elements. It has…over 90% of the world's supply of rare earths come out of China. And when China said we're not going to sell these things to you anymore, that could be a big deal, because there aren't any other providers out there. And, when somebody puts a tariff on your product, well, okay, you can't sell it to them anymore, but you can still sell it to other countries. You might still be able to sell this thing to your own consumers, but when somebody cuts you off with an export restriction from rare earths, an input, that affects your ability to make things, and rare earths go into what are called permanent magnets,

and they're used in a lot of different things. They're using consumer electronics, but the really important thing that they're used in is automobiles. They're used in a lot of different parts that go into cars. And so, if car companies can't get these inputs, they have to shut down their production. They have to furlough a lot of workers, and that's when governments start to pay attention and get worried.

Michael Klein:
Yeah, I learned a lot about rare earths when we worked on, and ultimately published, a memo on them. And it's really interesting to me how limited the supply from outside of China is, and how environmentally damaging and expensive it is to both mine and process these. So does the importance of rare earth elements explain why the threat of restricting their exports ratcheted down tariffs when the retaliatory tariffs did not seem to have this effect?

Chad Bown:
I think it was exactly that. That was where China had leverage, and it was leverage over, most likely, the American auto industry, which is very politically important in the United States. And when they alerted government officials that they were running short on these essential inputs, and that meant they were going to have to shut down production, that led, I think, the US government, to change its position in the negotiations and to go back to China and say, Okay, let's get a deal.

Michael Klein:
Chad, this reminds me a little bit of what you've written about and others…in the first Trump administration, there were tariffs on China. China said they weren't going to buy any agricultural exports from the United States. Then, there was this deal that China was supposed to buy agricultural exports. They never actually followed through with that, did they?

Chad Bown:
Yes and no. In January of 2020, so this was, you know, after a year and a half of tit-for-tat tariffs between the two countries, the US and China did sign an agreement. It's called the phase one agreement, where there were elements that are kind of standard in any trade agreement – China agreed to open up its market to American financial services, protect intellectual property rights better. But the novel part of that agreement that everybody remembers is what you just said. China agreed to purchase an additional $200 billion of US exports over the next two years, and one thing that we did at Peterson was to track that. How close did China get to fulfilling those legal commitments as part of that agreement? And when we added it up at the end, yes, China did start buying a lot of American farm products again. So, you know, they bought American soybeans, but they didn't get anywhere close to buying the additional $200 billion of US exports that were promised in the underlying agreement.

Michael Klein:
So this is one set of bilateral negotiations, and the administration was announcing a lot of other bilateral deals as well. What do we know about them?

Chad Bown:
We lack a lot of the details on what are actually in these agreements, and part of that is because some of them aren't finalized yet. What we do know is countries have said they will provide a bit more opening to

American exports. But exactly what products, and how much that's going to be, and the form that that's going to take, whether it's reducing tariffs or reducing non-tariff barriers to trade, is still a little bit unclear. And every day, there seems to be stories in the press about the administration following up with a country and saying, hey, you know you said you were going to open up to American exports, but we haven't seen it yet. Where's the deliverables? So that's one part, hopefully more exports for the United States. There's a bit about commitments by certain countries, especially high income rich countries–Japan, Korea, Europe–to do more investment in the United States, especially in manufacturing and energy, and there actually is a commitment in a number of these agreements to reduce those automobile tariffs. They're not going to go back to where they were before President Trump, so they're not going to go back to 2 ½ percent, but for countries like Japan, South Korea, and even Europe, the tariff that they have to pay to get their automobiles into the United States is going to be 15%.

Michael Klein:
So I'll use the phrase antebellum, bellum here, referring to trade wars rather than the Civil War. So, the tariffs are not going to be reduced to their antebellum levels, right?

Chad Bown:
Correct. And in fact, even aside from all the tariffs that we have been talking about so far, the steel and aluminum and automobiles and the Liberation Day tariffs, and all of these agreements, there are a number of other industries that the administration has been looking into, doing investigations, and ultimately, in each case, has decided to impose tariffs specifically for that industry. So we've seen that happen so far in copper, for wood and lumber products, for heavy duty trucks, tractor trailers and things like that, and they're also doing investigations for pharmaceuticals, critical minerals, semiconductors and others. So there's still more tariffs to come. When you add it all up, from what we have seen so far, and these are all those that have been announced and implemented so far, the average US tariff on the world is now probably over 25%, up from 7% or so at the beginning of the administration. So nearly 20 percentage points higher in a really, really short period of time.

Michael Klein:
So Chad, we've been focusing on sort of the benefits to US exporters or import competing firms. And one of the things that struck me when I was doing research in this area some time ago was work by Andy Bernard, who is at Dartmouth, on how few US companies actually export. And so, there are consequences of this trade war, not just on US exporters, but on US consumers, other kinds of American companies, and the economy more broadly. What do you think some of those consequences are?

Chad Bown:
I think what the exact consequences are, that's the big question that everybody is interested in right now, and one that's going to keep economists working in misery figuring out for years. So we don't know yet is, I guess, the short answer to this story. But what we do know from research that looked at the first Trump administration, is that those tariffs back then hurt a lot of different parts of the US economy. They raised prices for Americans. Either the companies that imported the goods, the ones that you were just talking about… they had to pay higher costs for their inputs that they use to make stuff, and oftentimes they passed along those costs to American consumers in the form of higher prices. In terms of jobs, any benefits that might have arisen to protected industries, those that don't have to face as much foreign

competition because of the tariffs, any benefits there were more than offset by losses to some other industry facing higher costs that would have used a lot of those inputs. The tariffs in the first administration hurt US exporters, making them less competitive. So, I guess what I would say this time around is, it's still early days, and we have a lot of challenges at the moment here in the United States, one of which is the recent government shutdown, which means that we're lacking information and data from a lot of the government agencies and statistical folks that would normally apply it. But if you haven't yet, I would have a look at the work by Alberto Cavallo at Harvard Business School. He has a real time tracker looking at retail price data and the impact of the tariffs on prices this time around, and he's kind of tracking that and updating that in real time to see how quickly these prices, the tariffs, the effects on prices, are being passed through into the US economy. And, my read of his work suggests that it seems to be growing almost by the day.

Michael Klein:
Yeah, I actually interviewed Alberto back in September for an EconoFact Chats podcast, and then he and some colleagues wrote a memo for us. And at that time, the pass through was a certain amount, but lately I've seen references to more recent work. And I guess the most recent was that, of the 3 percentage point inflation rate, 0.7, so, what is that, about a quarter of it, was due to import prices. But also, importantly, not just the price of imports, but domestically produced goods that compete with imports, they can raise prices as well, and unlike imports, there's no revenue that is received by the government for those higher prices. So, yeah, this is something that is evolving, and Chad, your work, and the work of other people at Peterson really helps us understand what's going on. So, I appreciate both the work that you do and that your colleagues do at Peterson, and especially you coming onto EconoFact Chats once more to talk about this really important issue. So, thanks for joining me today Chad.

Chad Bown:
You are absolutely welcome, thanks for having me.

Michael Klein:
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