American consumers, not China, are paying for Trump's tariffs

By Jeanna Smialek and Ana Swanson
January 6, 2020 – *The New York Times*

American businesses and consumers, not China, are bearing the financial brunt of President Trump's trade war, new data shows, undermining the president's assertion that the United States is "taxing the hell out of China."

"U.S. tariffs continue to be almost entirely borne by U.S. firms and consumers," Mary Amiti, an economist at the Federal Reserve Bank of New York, wrote in a National Bureau of Economic Research working paper. The other authors of the paper were David E. Weinstein of Columbia University and Stephen J. Redding of Princeton.

Examining the fallout of tariffs in data through October, the authors found that Americans had continued paying for the levies — which increased substantially over the course of the year. Their paper, which is an update on previous research, found that "approximately 100 percent" of import taxes fell on American buyers.

The findings are the latest evidence that voters and American businesses are paying the cost of Mr. Trump's penchant for using tariffs to try to rewrite the terms of trade in favor of the United States.

Manufacturing is slumping, a fact economists attribute at least partly to uncertainty stemming from the trade spats, and business investment has suffered as corporate executives wait to see how — or if — the tensions will end.

The United States and China have reached a trade truce and are expected to sign an initial deal this month, but tariffs on $360 billion worth of Chinese goods will remain in place. The levies, which are as high as 25 percent, have forced some multinational businesses to move their operations out of China, sending operations to countries like Vietnam and Mexico.

Mr. Trump and his supporters say that the United States had no choice but to resort to tough tactics to try to force China to abandon unfair economic behaviors, like infringing on American intellectual property and providing state subsidies to Chinese firms. And Mr. Trump has continued to incorrectly assert that China — not American companies and consumers — is paying the cost of the tariffs.

Tariffs may have worked as a negotiating chip to get China to the table, but recent academic research shows that leverage has come at a steep price for some American businesses and consumers.

The authors of the latest study used customs data to trace the fallout, examining import values before and after the tariffs. The research showed that the tariffs had little impact on China.

"We're just not seeing foreigners bearing the cost, which to me is very surprising," Professor Weinstein said in an interview.

They also found a delayed impact from the tariffs, with the decline in some imports roughly doubling on average in the second year of the levies.

That is because "it takes some time for firms to reorganize their supply chains so that they can avoid the tariffs," the authors write.

Reaction to the tariffs has varied across business sectors, however. In the steel industry, for example, companies that export to the United States have dropped their prices — suggesting that other countries are in fact paying “close to half” of the cost of tariffs, according to the paper.

Because China is only the 10th-largest steel supplier to the United States, though, exporters in the European Union, Japan and South Korea are most likely bearing much of that cost. And as foreign prices drop, domestic steel production has barely budged, which bodes poorly for hiring in the United States steel industry, the authors note.

“The steel industry isn’t getting that much protection, as a result,” Professor Weinstein said.

In previous research, the authors found that by December 2018, import tariffs were costing United States consumers and importing businesses $3.2 billion per month in added taxes and another $1.4 billion per month in efficiency losses. They did not update those numbers in the latest study.

Their analysis joins a growing body of research examining the effects of the escalating tariffs Mr. Trump has imposed since the beginning of 2018.

A study released in late December by two economists at the Fed, Aaron Flaaen and Justin Pierce, found that any positive effects that tariffs offered American companies in terms of protection from Chinese imports were outweighed by their costs. Those costs include the higher prices companies must pay to import components from China, and the retaliatory tariffs China placed on the United States in response, the economists said.

Another study, published in October by researchers at Harvard University, the University of Chicago and the Federal Reserve Bank of Boston, also found that almost all of the cost of the tariffs was being passed on from businesses in China to American importers.

The October study found that the situation was not the same for the tariffs that China has placed on American goods in retaliation. The researchers found that American businesses had less success passing on the costs of those tariffs to Chinese importers, most likely because of the types of goods being sold.

Many of the products that the United States sells to China are undifferentiated commodities, like agricultural goods, but China sends many specialized consumer goods like silk embroidery, laptops and smartphones to the United States. China can easily swap Brazilian soybeans for American ones, but the types of goods that China sends to the United States are harder for American businesses to substitute, the researchers said.

Ms. Amiti’s colleagues at the New York Fed have traced the costs of tariffs in other research. Their study similarly found that import prices on goods coming from China had remained largely unchanged as tariffs rolled out, and argued that already-narrow profit margins — ones that leave no room for cutting — and a dearth of competitors could be among the factors insulating Chinese exporters.