



Trade Talk: The Latest on U.S. Tariffs

Ross Valley Rotary Club
San Rafael
 August 5, 2026

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About Tariffs



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What Is a Tariff?

- **A tariff is a tax on imports.**
 - Paid to the government by the importer.
- **A 10% tariff on all imports would mean that:**
 - Whatever the foreign exporter charges for a product,
 - US buyers will pay an extra 10% to the US government.
- **Domestic suppliers can also charge 10% more.**
 - And that's kind of the whole point.



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Economic Effects of a Tariff

- **A tariff is a tax on imports. It causes:**
 - A rise in the price of the imported good in the importing country,
 - A fall in the price of the imported good in the exporting country,
 - The quantity imported to fall, and
 - Revenue for the tariff-levying government.
- **Almost always: the rise at home is much larger than the fall abroad.**
 - That's especially true if importing country is small.
 - But it's also true if importing country is as large as the U.S.
 - We learned this from Trump's tariffs in 2018.
 - Trump's first administration tariffs caused US prices to rise, with hardly any perceptible fall in prices abroad.



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Effects of a Tariff

- **The rise in price in the importing country causes:**
 - A rise in the price of import competing goods.
 - Benefits to those producers.
 - Harm to buyers of both the imported and domestic goods.
 - Including producers that use the higher-priced goods as inputs.
 - Their prices also rise, hurting their buyers.
 - Employment changes:
 - Increase in the protected industry.
 - Decreases in industries that use the protected product as inputs.



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Are Tariffs A Good Idea?

- **Generally, economists don't think so, but there are some reasons for them:**
 - National Defense – strategic resource
 - Do we need the capacity to make our own computer chips, just in case?
 - What about steel and aluminum?
 - “Infant” Industry
 - Unfair trade practices of exporting countries



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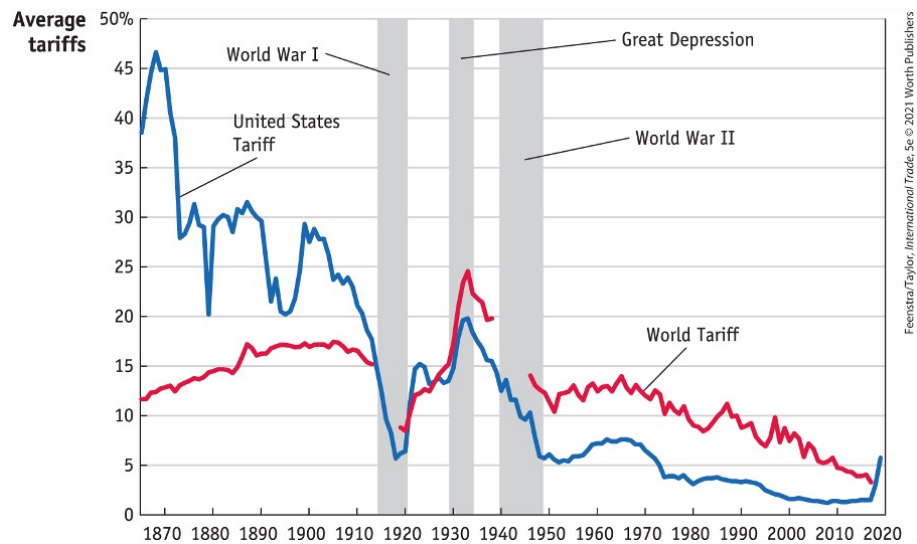
US Tariff History



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US Tariff History, 1860-2020



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Source: Feenstra/Taylor, International Trade, 5e

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Why Are We Even Talking About Tariffs Now?



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Recent Change In Tariffs

Customs duties as a share of import value

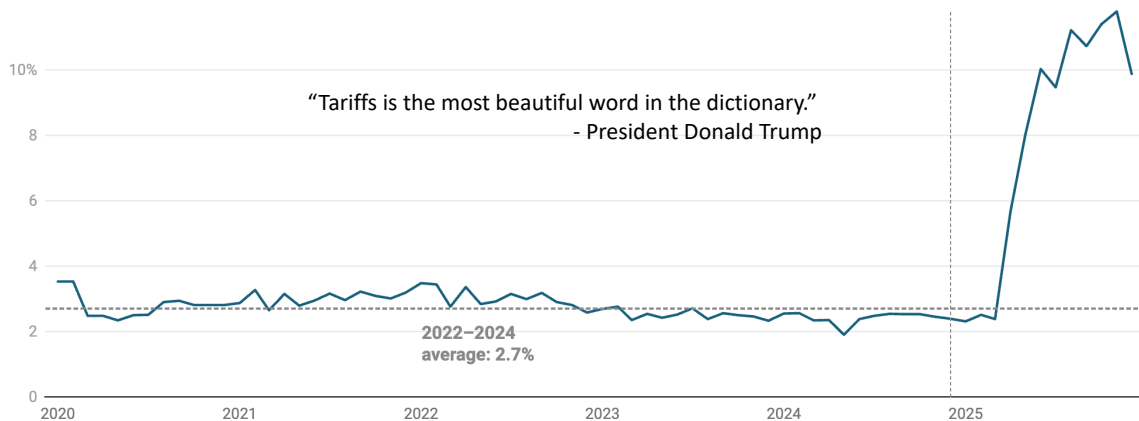


Chart: The Budget Lab • Source: U.S. Treasury, Census Bureau via Haver Analytics, The Budget Lab analysis • Created with [Datawrapper](#)



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Provisions of U.S. Tariff Law



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Provisions of U.S. Trade Law (part 1)

The Tariff Act of 1930, The Trade Expansion Act of 1962, and the Trade Act of 1974 describe conditions under which the United States can apply tariffs:

- Section 201 (of the Trade Act of 1974): Safeguard Tariff
- Section 232 (of the Trade Expansion Act of 1962): National Security
- Section 301 (of the Trade Act of 1974): Trade Agreements
- Section 122 (of the Trade Act of 1974): Balance of Payments
- Section 338 (of the Tariff Act of 1930): Discriminatory Trade



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Liberation Day Tariffs: IEEPA

• International Emergency Economic Powers Act (IEEPA)

- **Emergency Powers:** Grants the president authority to deal with unusual and extraordinary foreign threats upon declaring a national emergency.
- **Permitted Actions:** Allows for the regulation, blocking, or prohibition of international economic transactions and import/export property.
- **Taxation Exclusion:** Lacks explicit text or constitutional authorization for imposing revenue-generating tariffs or duties, which remain under Congressional purview.

• Liberation Day tariffs invalidated in Feb. 2026 by the Supreme Court.

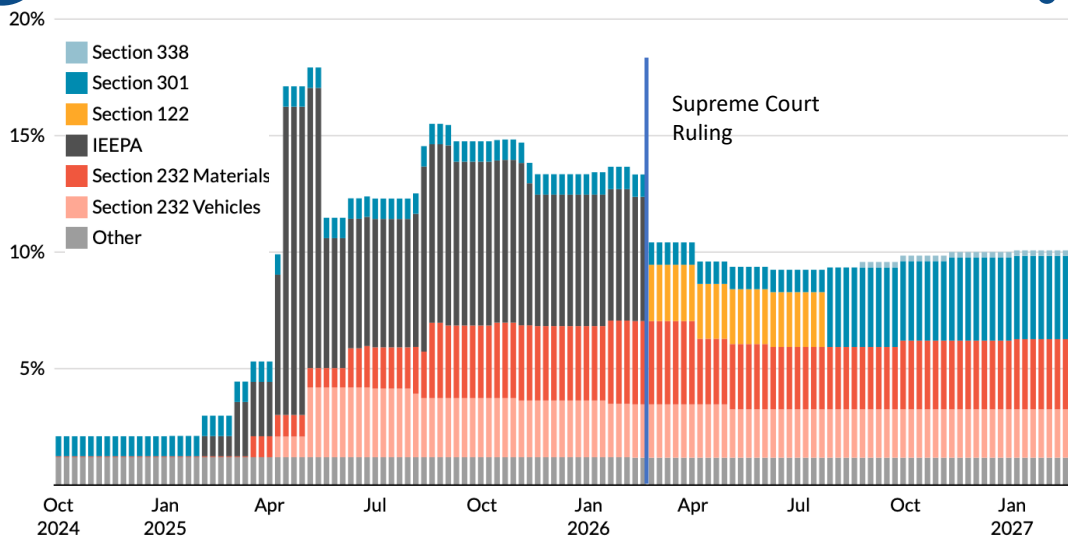


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Tariffs by Type



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Source: <https://taxpolicycenter.org/features/tracking-trump-tariffs>

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President Trump's Reasons for Tariffs

- Our exports are being treated unfairly.
- Bring back manufacturing employment.
- Raising revenue – replace the income tax?
 - Foreign companies would pay the tariffs (so he alleges).
- National security
- Foreign policy leverage



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Unfair Treatment



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Evidence of Unfair Treatment: Trade Deficit



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Is A Trade Deficit A Result of Unfair Treatment?

- **Intuitive, but no.**
- **Have to look at the whole picture.**
- **We trade not only goods and services, but also investment funds.**
 - The United States is a very attractive investment market.
 - Selling Treasury securities to foreigners is an **export**.
 - So we run an investment trade surplus.
- **Investment trade surplus = goods and services trade deficit**
 - Why? Exchange rates.
- **Will tariffs lower the trade deficit? No.**

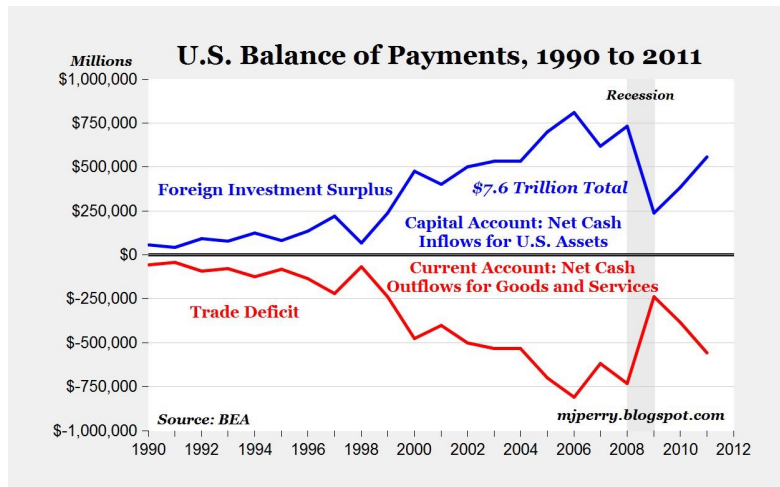


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Trade Deficits are Driven by Investment Flows and Tariffs Can NOT “Fix” Them



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Also... Exports

- Lower imports make exports more expensive in foreign markets.
- How?
 - If fewer people are buying imports, the dollar appreciates.
 - Fewer dollars available for those wanting to buy our exports.
 - If the dollar appreciates, it takes more foreign currency to buy U.S. exports.
 - Making exports more expensive.
- Tariffs:
 - Lower imports.
 - But they also lower exports.
 - Won't necessarily reduce the trade deficit.



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US Trade Deficit – Mixed Results with Tariffs



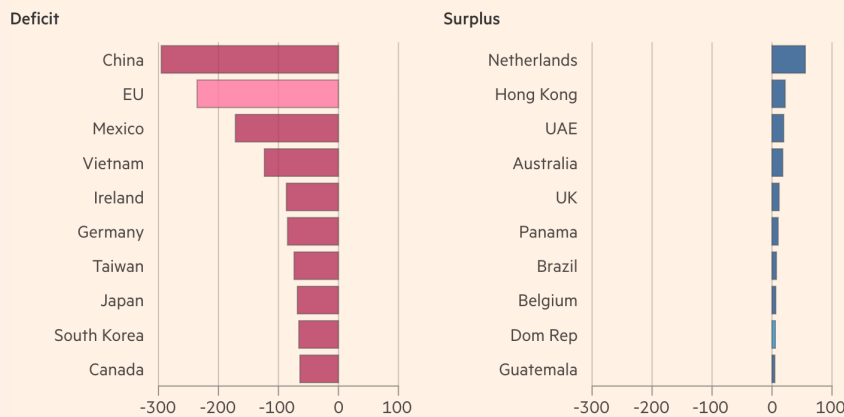
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Reciprocal Trade and Tariffs

Top 10 US deficits and surpluses, trade in goods, 2024 (\$bn)



© FT Source: US Census Bureau



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Bring Back Manufacturing

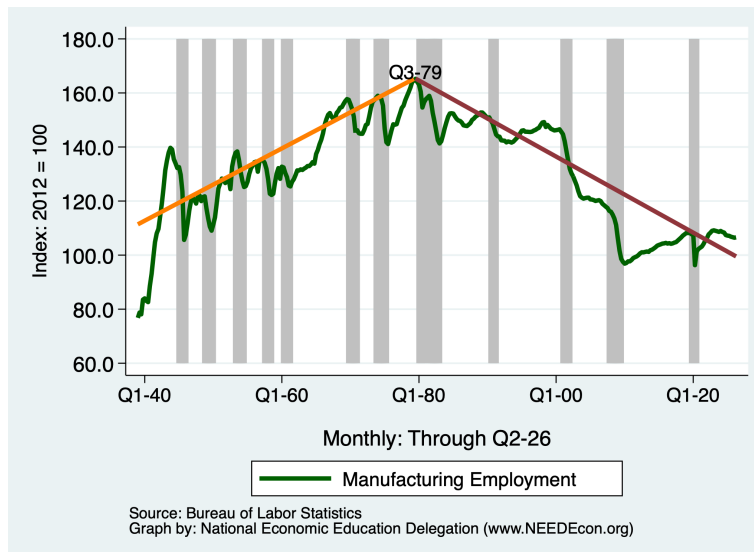


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Growth in Manufacturing Employment?

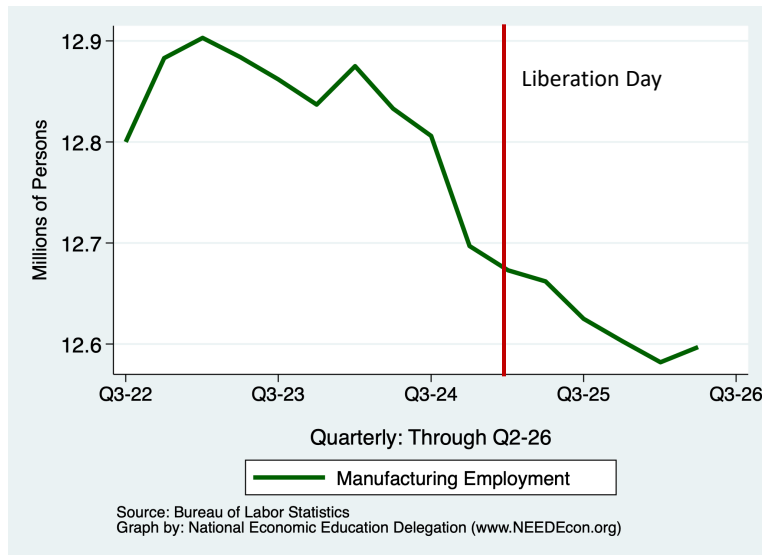


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Growth in Manufacturing Employment?



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Tariffs and Manufacturing?

- **The argument has intuitive appeal.**
 - But doesn't stand up to scrutiny.
- **Intuition: Making imports more expensive makes domestically produced goods more appealing.**
- **But... Exports.**
 - We import clothing, toys, and furniture.
 - We export airplanes and light trucks.
- **We can't just make more of the one without sacrificing some of the other – limited resources.**
- **And... Retaliation.**



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CHINESE SOYBEAN PURCHASES FROM U.S.
SOURCE: AMERICAN SOYBEAN ASSOCIATION

Quarter	Purchases (Billion)
Q2 2024	\$3.16
Q2 2025	\$0

U.S. LOSES OUT ON BILLIONS IN SOYBEAN SALES

NEWS NATION

DOW ▲24.04
45,858.26



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Raising Revenue



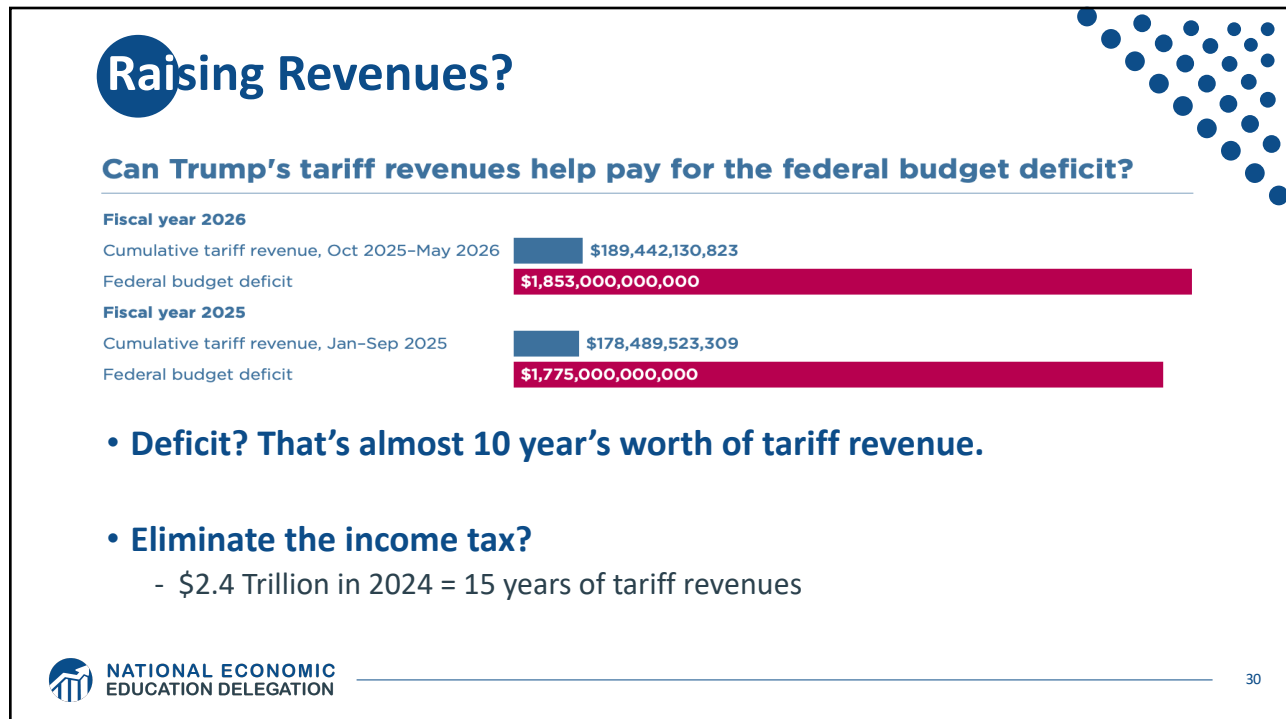
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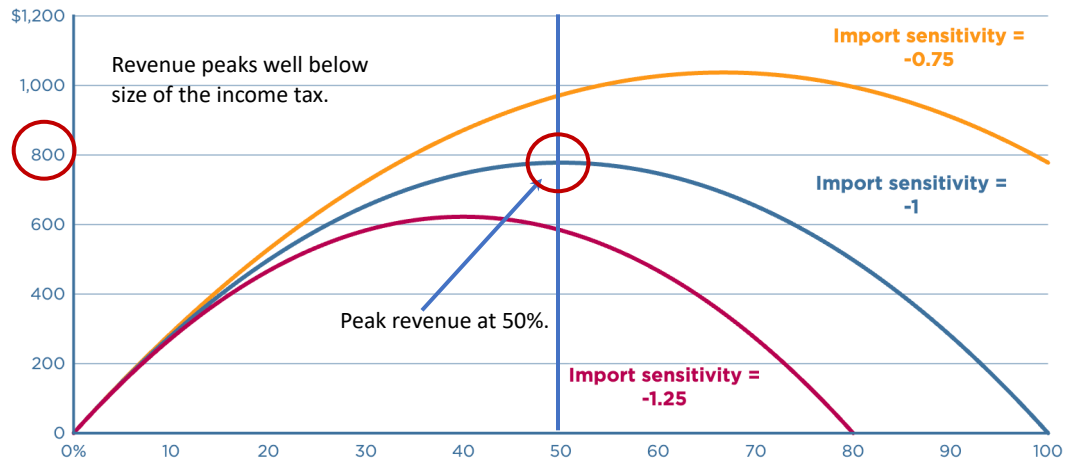
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Replacing the Income Tax?

Tariff revenue Laffer curves for different elasticity assumptions, annual revenue, billions of dollars, 2023



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<https://www.piie.com/blogs/realtime-economics/2024/can-trump-replace-income-taxes-tariffs>

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National Security



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Steel and Aluminum Tariffs

- If you put a tariff on something, its price goes up.
- What other manufacturing industries use steel or aluminum?

ALL OF THEM!!

- So, by putting tariffs on steel and aluminum, you jeopardize other industries.
- Is it worth it? Maybe.



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Tariffs on Metals in Trump 1

- The **prices of steel and aluminum increased shortly after the tariff was implemented.**
- The **number of jobs** in iron, steel, and aluminum mills rose temporarily by about 12,000, from 2017 to 2019.
- **Downstream industries** (e.g., auto) faced higher input costs.
 - Several studies estimated that the increased costs driven by tariffs may have resulted in 75,000 fewer manufacturing jobs.



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Who Pays?



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What About Prices?

Import-content-weighted index (Dec 2024 = 100) versus local projection with 90% CIs

Imported core goods index Imported durables index

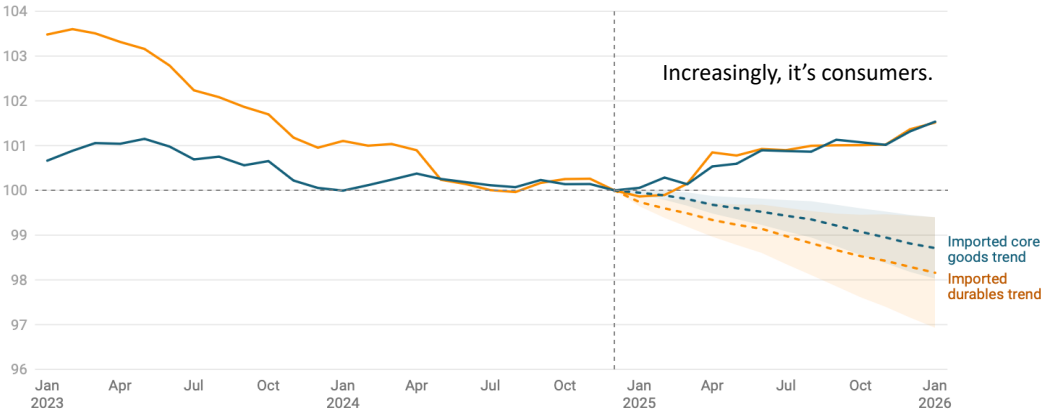


Chart: The Budget Lab • Source: BEA PCE components via Haver Analytics; BEA I-O Tables; and The Budget Lab analysis • [Get the data](#) • Created with [Datawrapper](#)



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Source: <https://budgetlab.yale.edu/research/tracking-economic-effects-tariffs>

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To Review:



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President Trump's Reasons for Tariffs

- **Our exports are being treated unfairly.**
 - Not a problem that tariffs will fix.
- **Bring back manufacturing employment.**
 - Benefits some and harms others.
- **Raising revenue – replace the income tax?**
 - Will raise some, but will harm poorer households.
- **National security**
 - Maybe, but at what cost?
- **Is China paying?**
 - So far, some, but not much.



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Why is He Really Imposing Tariffs?

- **Who knows?!**
- **To exert U.S. power and elicit submission from other countries.**
- **To force submission by domestic businesses.**



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Summary

- **Tariffs will:**
 - Not eliminate the U.S. trade deficit (in the long run).
 - Increase in national savings could reduce the trade deficit.
 - Not eliminate bilateral trade deficits.
 - Decrease U.S. manufacturing production and employment.
 - Increase prices for households, hurting the poor the most.
 - Increase U.S. government revenues, but not enough to offset other tax cuts.
 - Negatively impact U.S. economic growth.



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Thank you!

Any Questions?

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