The Daily Dish

Recession Risks and Liberation Day

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This past week, President Trump levied 25-percent tariffs on autos and auto parts imported into the United States. This coming Wednesday – which he has dubbed "Liberation Day" – he will announce his decisions on "reciprocal tariffs" to be levied on America's trading partners. The auto tariffs are roughly $60 billion per year – or 0.2 percent of gross domestic product (GDP). That will have a noticeable impact on car prices and a modest slowdown in the pace of growth.

The additional tariffs on Wednesday will be substantially larger. Trump himself said: "I think ultimately we could probably have anywhere from $600 billion to $1 trillion [that] will be taken in over a relatively short term period, meaning a year from now." That would mean anywhere from 2.0 to 3.4 percent of GDP, and $6 trillion to $10 trillion over the next 10 years. For perspective, letting the 2017 Tax Cuts and Jobs Act sunset would raise taxes between $400 billion and $450 billion next year and $4.7 trillion over the next 10 years.

Given the weakness in the economy already produced by tariffs on China, steel, and aluminum, along with the promise of 25-percent tariffs on Canadian and Mexican products, recession risks are very real. One of the main imperatives of extending the 2017 tax law is to avoid an inevitable recession in 2026 should it sunset. The immediate imposition of an even larger tax increase on Wednesday would be foolhardy.

This has the feel of the same overreach that led the Biden Administration to pass a $2 trillion stimulus in a rapidly growing economy, igniting inflation and producing two years of real wage losses for American workers. The Trump Administration claims that steel, aluminum, and autos (along with drugs, chips, lumber, copper, and other products) will somehow magically reverse disadvantages in workforce, skills, and technologies, and create offsetting domestic production increases. Unlikely. There has been no compelling explanation of benefits that would offset damaging tariffs on Canada and Mexico. What, exactly, will be the benefits that are good enough to make it worth living through a recession and inflationary pressures?

The Biden over-stimulus was an unforced error, and with known magnitudes and damages. Liberation Day tariffs could be the same.