The Quantity and Quality of Tariffs

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By now, presumably every American knows the president has imposed new tariffs ranging from 10–12.5 percent on 60 trading partners (covering 99 percent of imports). These replace the temporary Section 122 tariffs, and are levied under Section 301 of the Trade Act of 1974. The countries are accused of failing to prohibit goods made with forced labor, with the size of the tariff based on the degree of effort.

The new tariffs should be roughly the same overall magnitude of receipts as the tariffs they are replacing, and have roughly the same rates. So, the tariffs are the same. It is just the legal justification that has changed. That means that the 301 tariffs are — at least thus far — a macroeconomic non-event. The impact on growth is unchanged. The impact on prices and Fed inflation-fighting efforts is unchanged.

That doesn't mean that the tariffs don't matter. In the shocking aftermath of the "Liberation Day" tariffs, these issues were at the forefront. Over a year later, that shock is over and new attributes of the tariffs are worth considering. First, if businesses weren't convinced that President Trump was serious about tariffs, they have learned by now that tariffs are here to stay and they should do their business planning accordingly.

But it is also clear that there are swaths of each sector being exempted from the tariffs. Many firms and countries filed comments with the United States Trade Representative (USTR) during the investigation. USTR evaluated these comments and in some cases exempted firms or products from tariffs. This raises two points.

First, tariffs are taxes. But a business can't say to Treasury Secretary Scott Bessent: "You know, paying taxes is a real pain for us. Can we be exempt?" They would be laughed out of Treasury. Why is this different?

Second, the process raises the possibility that two competing firms in the same industry have different tariffs, and thus different input costs. One might have been organized and filed comments, while the other did not. (The same is true for countries.) These kinds of tariff-based distortions damage the competitive playing field and reduce the overall efficiency of the economy.

Eakinomics would scrap the effort at economy-wide tariffs altogether. But if they are to remain, the rates should be as low as possible and the exemptions as limited as possible. There is more to tariff policy than the quantity of tariffs or tariffed goods. The quality of tariff policy matters as well.