

CHAZEN INSTITUTE RESEARCH BRIEF

The Real Cost of Trump's Trade War

KEY TAKEAWAYS

- ✓ The U.S. economy lost \$7.8 billion in the last year alone as a result of the trade war.
- ✓ Imports have fallen 31.5 percent in response to the tariffs imposed by the Trump Administration, and exports have fallen 11.0 percent as a result of retaliatory tariffs imposed by trade partners.
- ✓ The costs of tariffs are paid entirely by U.S. consumers, not by foreign sellers lowering their prices.
- ✓ The research suggests electoral motivations may have informed the design of tariff implementation, providing evidence that the tariffs were biased towards sectors concentrated in electorally competitive counties with a 40-60 percent GOP vote share in the 2016 election.
- ✓ Heavily Republican counties have been hardest hit by the trade war because retaliations by trade partners disproportionately targeted agricultural sectors.

The trade war, initiated by the Trump Administration in 2018, has resulted in the most comprehensive protectionist trade policies implemented by the U.S. since the 1930s. While safeguarding American jobs, technology, and intellectual property have all been stated goals, have these policies actually helped or hurt the U.S. economy?

In "[The Return to Protectionism](#)," **Amit Khandelwal, Director of The Jerome A. Chazen Institute for Global Business**; Pablo Fajgelbaum, associate professor of economics at UCLA; Pinelopi Goldberg, Elihu Professor of Economics at Yale University and Chief Economist at the World Bank; and Patrick Kennedy, PhD student in economics at UC Berkeley, document the short-term impacts of the trade war, including the steep price paid by U.S. consumers and producers, particularly those in heavily Republican counties.

Research

Using monthly datasets of U.S. statutory import tariff rates obtained from the U.S. International Trade Commission (USITC), and tracking retaliatory tariffs on U.S. exports enacted by trade partners, the researchers were able to estimate the impact of the trade war across sectors of the U.S. economy and quantify its overall impact.

Furthermore, the researchers find that trade protection was biased toward sectors concentrated in electorally competitive counties (counties that had a 40-60 percent GOP vote share in the 2016 election), whose workforce would in principle have had the most to gain from protections.

Results

The paper reveals large and immediate impacts of the trade war on imports and exports. Imports from targeted countries alone declined 31.5 percent in response to the tariffs, while U.S. exports fell 11.0 percent in response to the retaliatory tariffs imposed by trade partners. The data show that it is U.S. consumers who bear the costs of the tariffs imposed by the Trump Administration, not foreign sellers.

Despite \$23 billion in gains due to higher prices received by U.S. producers as part of the protectionist policies, the redistribution from buyers of foreign goods to U.S. producers and the government puts the net effect of the trade war at a loss of \$7.8 billion annually. Had trade partners not retaliated, the aggregate loss to the U.S. economy would be one-third lower.

Interestingly, the researchers provide evidence that the tariffs imposed by the Trump Administration favored electorally competitive counties. The study also indicates that workers in heavily Republican counties have ended up bearing the brunt of the costs of the trade war. As a result of foreign retaliatory tariffs, which tend to target agricultural industries, the real wages of workers in those heavily Republican counties have fallen the most. In addition to retaliatory tariffs, U.S. tariffs also raised the costs of inputs used by workers in these counties. Consumers and firms across the country, who purchased foreign products, also suffered from higher tariffs.

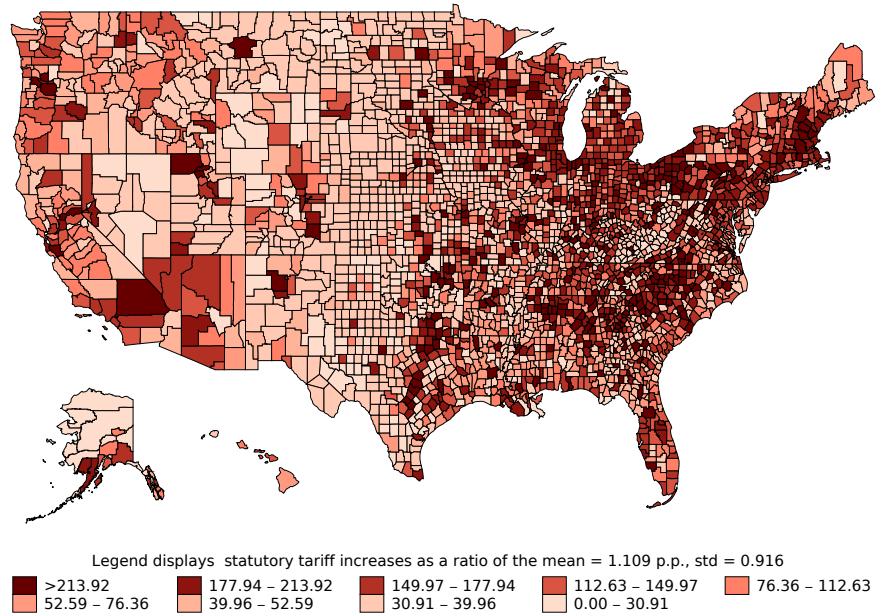
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Tariff Increase on US Imports, 2017-2018

Weighted by Variety-Level US Import Share and County-Level 2016 Tradeable Sector Employee Wage Bill



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