# Trade war results in substantial losses for US and other countries

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The United States and China are close to finalizing a trade deal that would roll back tariffs on at least $200 billion of the $250 billion worth of Chinese imports currently taxed by the U.S.

This may be good news for Americans, especially given new figures published by the Center for Economic Policy and Research (CEPR) on how much the U.S. and other countries lost in 2018 due to the administration's trade war.

Because of import tariffs through November 2018, U.S. importers and consumers experienced $12.3 billion in added tax costs and $6.9 billion from reduced imports that otherwise would have been purchased at a lower price without the tariff, also known by economists as a "welfare cost."

If the import tariffs implemented through November of 2018 continue, an estimated $165 billion dollars of trade will be redirected in order to avoid the tariffs.

The figures were published as a CEPR working paper by researchers from Princeton University, the Federal Reserve Bank, and Columbia University.

"The Trump tariffs were almost completely passed through into domestic prices up to now, meaning that almost all of the costs so far have been shouldered by U.S. consumers and importers," said Stephen Redding, Harold T. Shapiro '64 Professor in Economics and professor of economics and international affairs at Princeton University's Woodrow Wilson School of Public and International Affairs. "U.S. producers had to respond to reduced import competition by raising their prices or no longer offering certain imported goods."

Redding co-authored the study with Mary Amiti from the Federal Reserve Bank of New York and David Weinstein at Columbia University.

In 2018, the U.S. imposed six waves of tariffs on a number of imports. The losses mounted steadily over the year, as each wave of tariffs affected additional countries and products from washing machines to steel and aluminum. The losses hit the hardest after the sixth wave, when the U.S. levied $200 billion in Chinese imports with a 10 percent tariff.

All told, about $283 billion dollars worth of imports—12 percent of total imports—were hit by duties. This was further exacerbated by retaliation from foreign countries, which raised tariffs of their own, affecting about $121 billion of U.S. exports.

Amiti, Redding, and Weinstein conducted a statistical analysis to understand the effects of these tariff waves.

Their estimates reveal $3 billion per month in added tax costs, and $1.4 billion in "deadweight losses," or income losses from foregone imports that could have been purchased at lower prices before the tariffs were imposed.

The trade war also affected international supply chains. Based on the November numbers, $136 billion worth of imports and $29 billion of exports are either being lost or redirected on an annual basis in order to avoid the tariffs. Many U.S. companies responded to the higher prices of foreign competitors' goods by raising their own prices.

The researchers see similar patterns in other countries who have retaliated against the United States, like China and Canada, illustrating how the trade war not only reduces real income for the U.S. but also for other foreign countries.

The estimated costs of the trade war are quite large compared to any gains that are likely to be achieved, according to the research team. Assuming a successful trade negotiation would increase the royalties that China pays by 25 percent, it would take three years of these higher royalties to pay off the real income losses from the 2018 trade war.

Alternatively, if a successful outcome from the trade war would be the creation of 35,400 manufacturing jobs—the number of steel and aluminum jobs lost in the last ten years—then the real income loss per job saved is $195,000, which is almost four times more than the annual wage of a steel worker: $52,500.

"Our results imply that the tariff revenue the U.S. is now collecting is insufficient to compensate the losses being born by the consumers of imports. We also see similar patterns for foreign countries who have retaliated against the U.S., which indicates that the trade war reduces real income for the global economy as well," the researchers wrote. "Our estimates, while concerning, omit other potentially large costs, as the new heightened uncertainty about trade policy could itself discourage firms from making the long-term investments that are central to international trade in global value chains."

The paper, "The Impact of the 2018 Trade War on U.S. Prices and Welfare," was solicited for the *Journal of Economic Perspectives*. It appeared on CEPR on March 2 as a working paper and was not peer-reviewed.

Provided by Princeton University

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