

# Tariffs

Alaska State Legislature  
House Labor & Commerce  
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# Recently proposed, potential, and/or enacted tariffs

## Jan 27

- Announced plan for new tariffs on computer chips, semiconductors and pharmaceuticals

## Feb 1

- EO's impose 25% tariffs on Canada and Mexico, and 10% on China
  - Suspended Canada and Mexico tariffs for 30 days (begin Mar 4)
  - China tariffs **enacted Feb 4**

## Feb 10

- China retaliated with 10%-15% tariffs on \$21.2 billion of US exports
- US expanded national security (Section 232) tariffs on steel and aluminum, ending all exemptions and raising tariff on aluminum from 10% to 25% starting Mar 12

## Feb 13

- Presidential memo on plan to increase US tariffs in retaliation for other countries' tariffs, taxes (VAT in particular), exchange rates, unfair practices and non-trade barriers

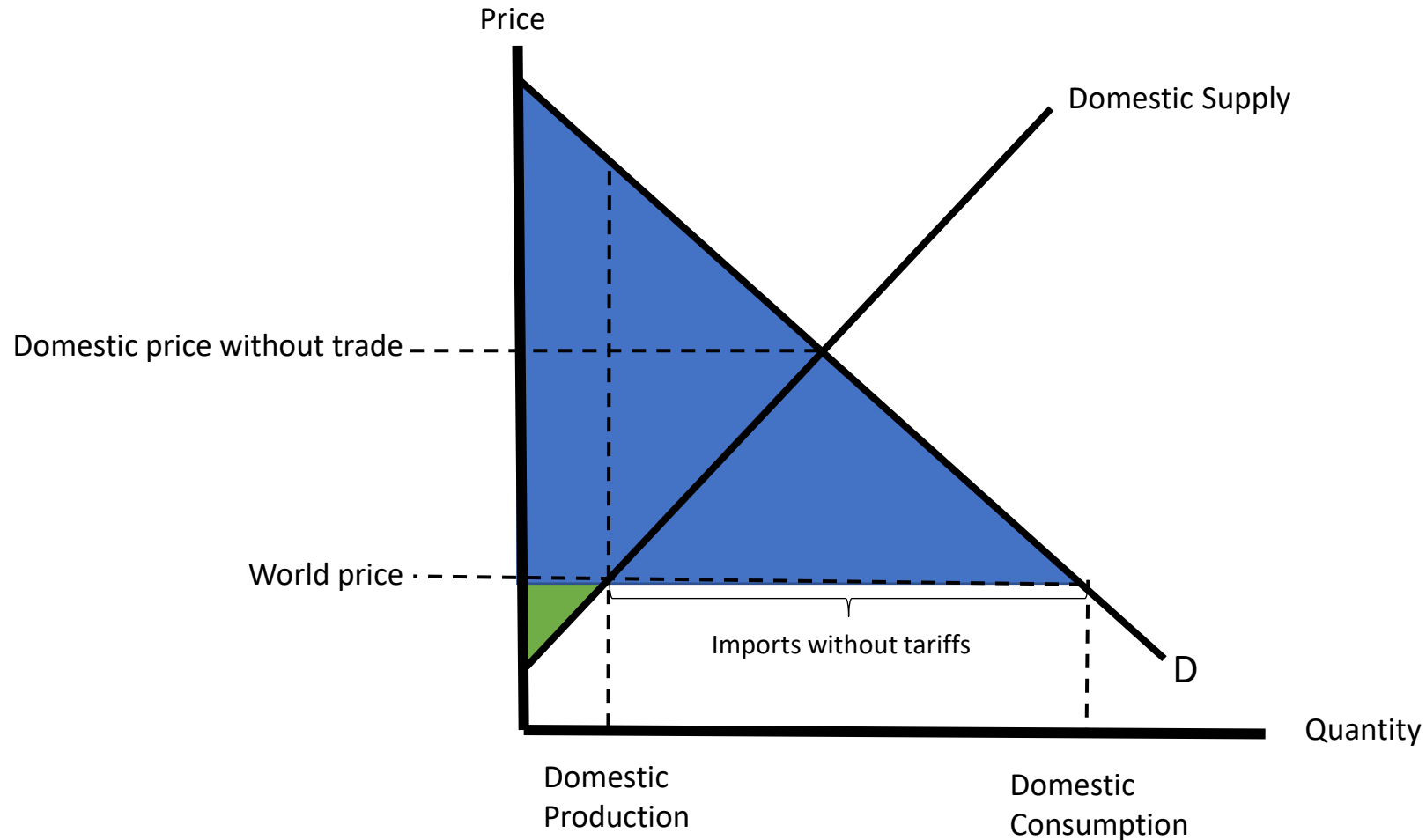
## Feb 14

- Plans for additional tariffs on automobiles (~25%) and semiconductors and pharmaceuticals (~25%+) starting April 2

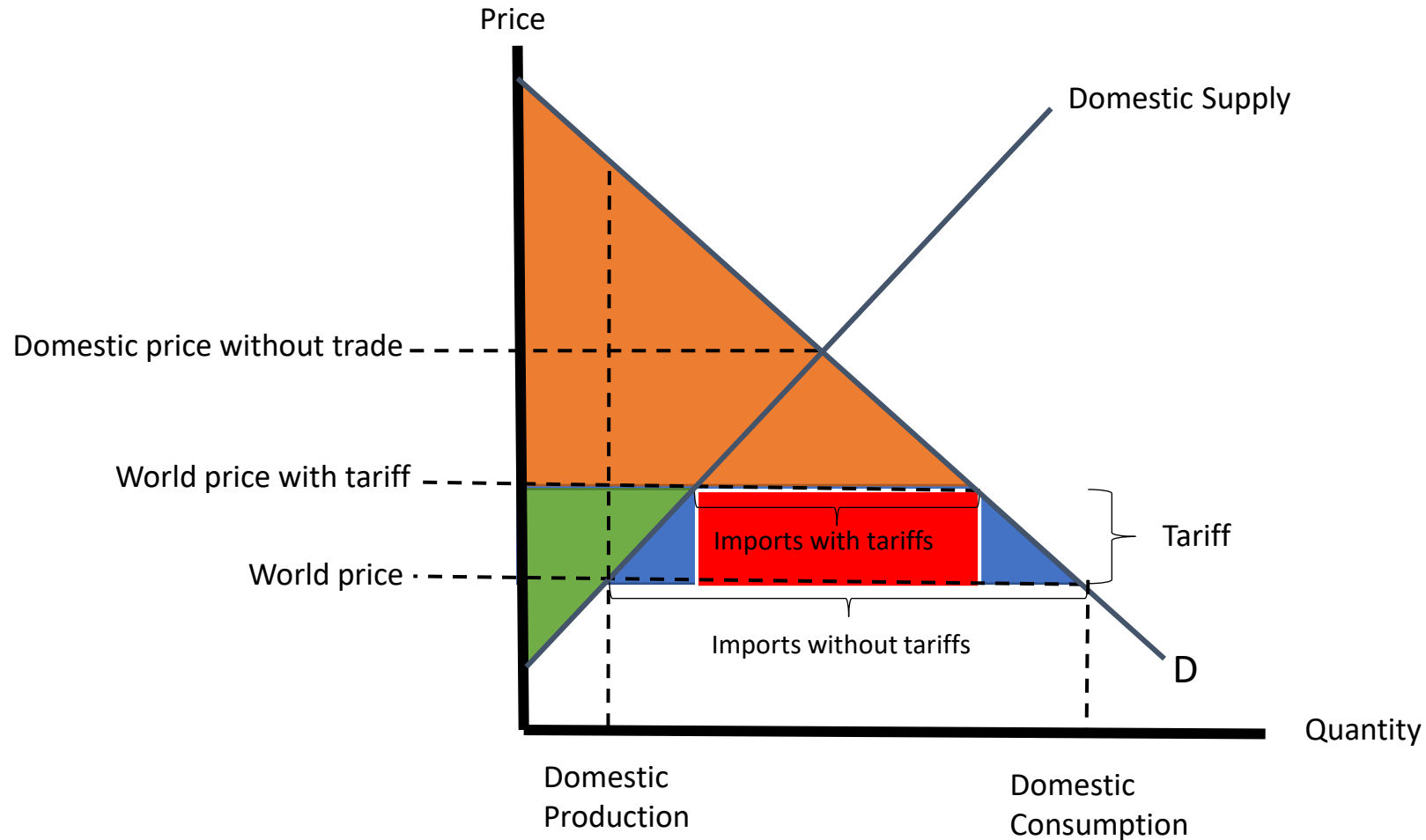
# Summary Impacts of tariffs

- A tariff is a tax on goods produced abroad and sold domestically
- Tariffs reduce the quantity of imports and move the domestic market closer to its equilibrium without trade
- Tariffs can decrease both consumer surplus (wellbeing) and producer surplus (wellbeing)
- They distort incentives
- They have indirect impacts on domestic production
  - Inputs to domestic production get more expensive
  - Timeline – short term tariffs do not guarantee a market over payback period

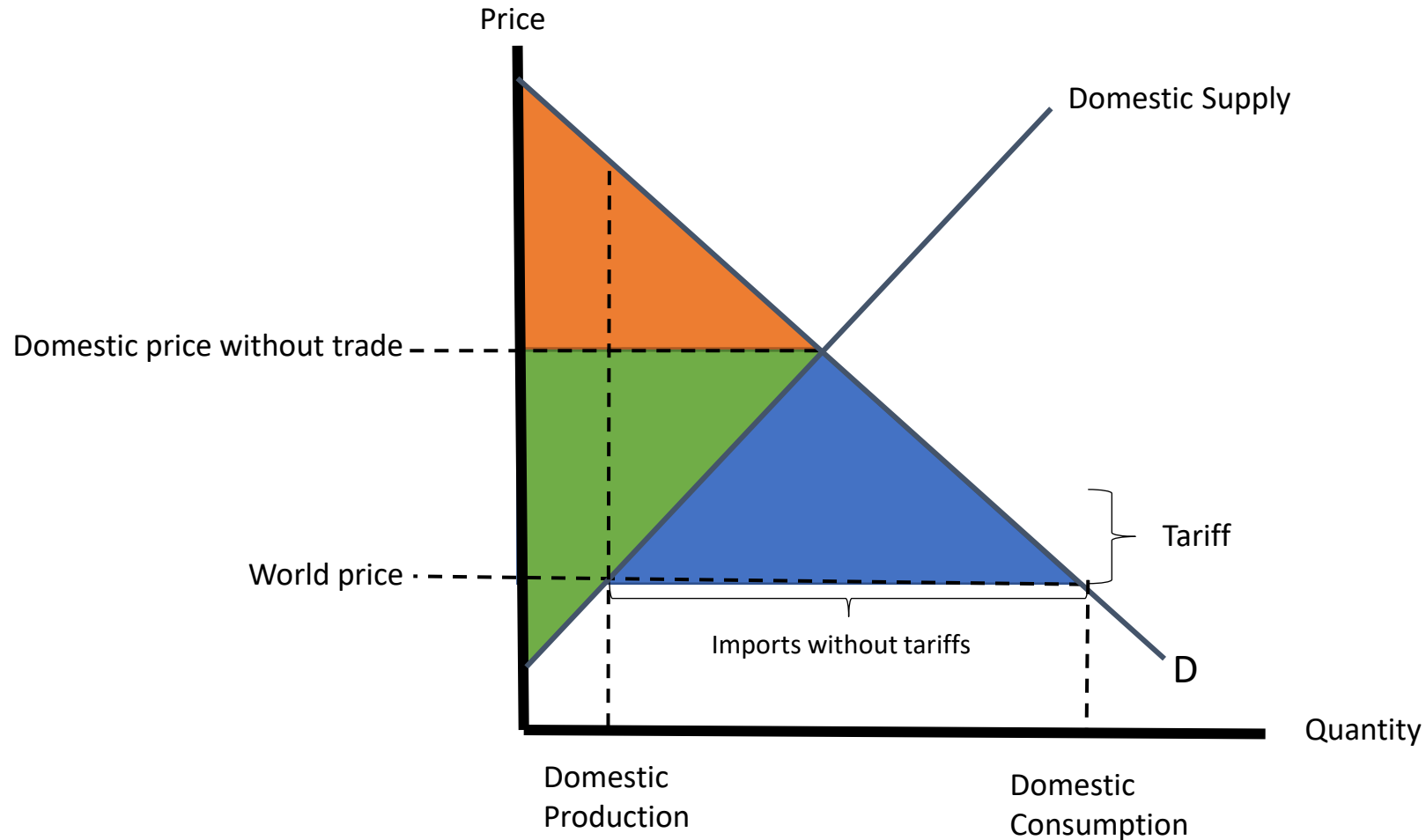
# The effects of international trade



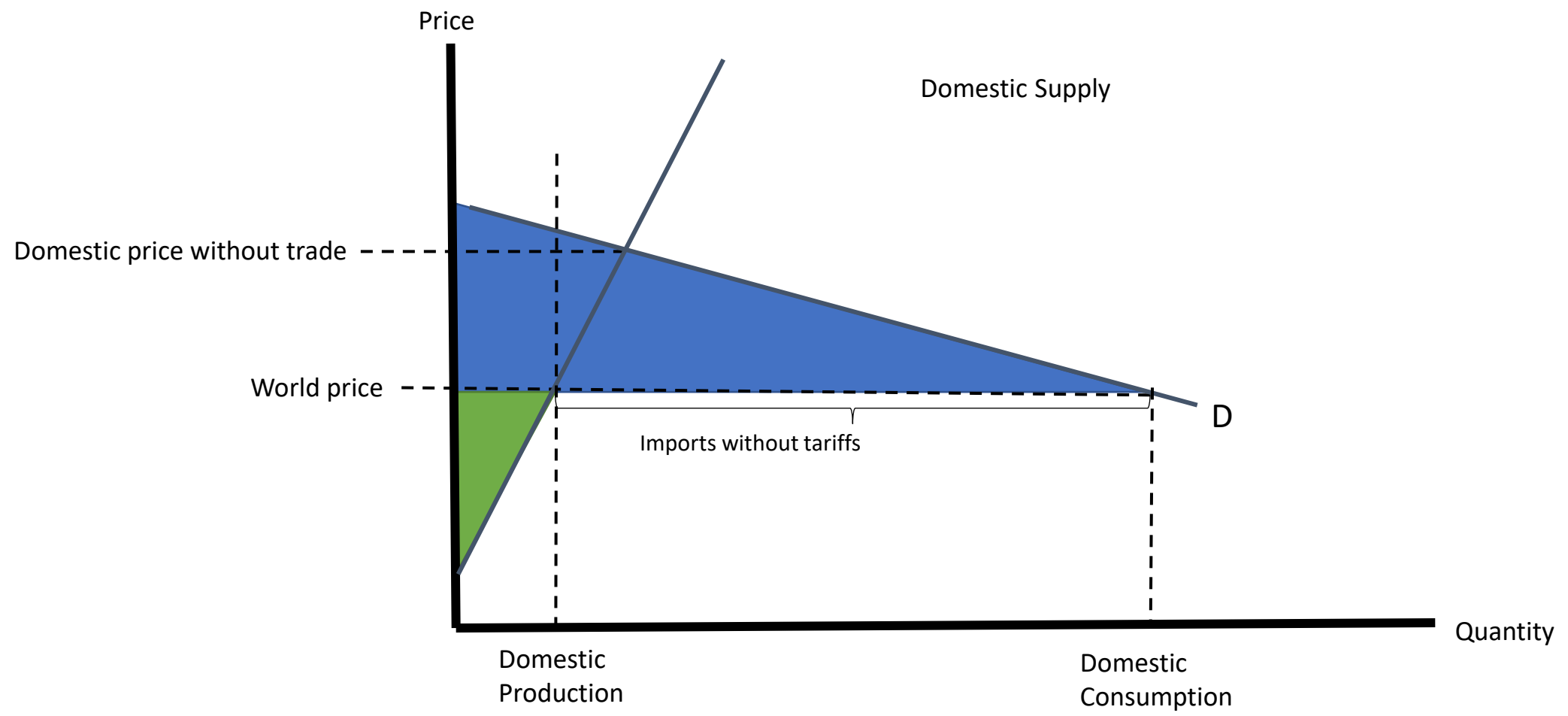
# The effects of a tariff



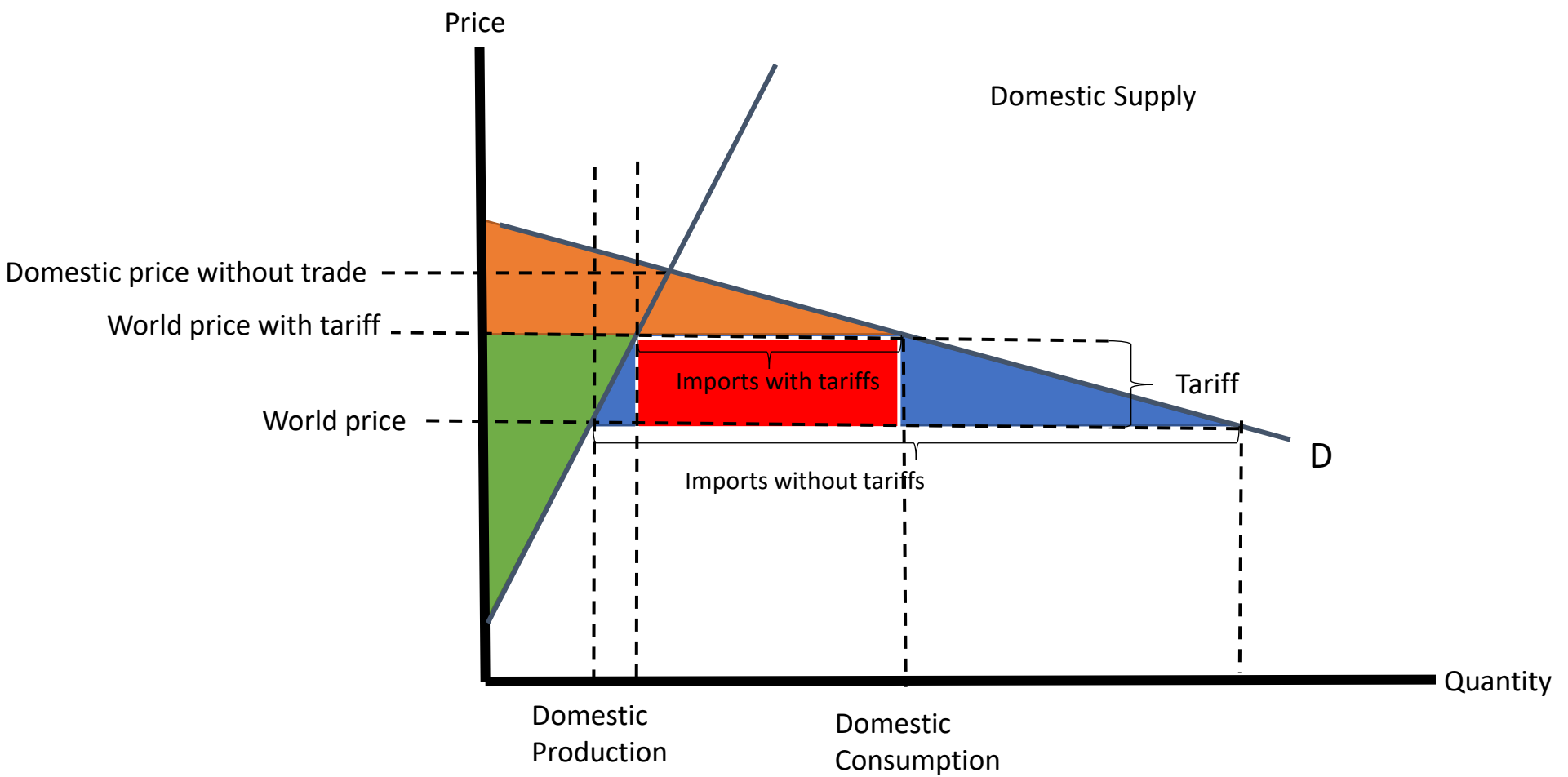
# The effects of autarky



For tariffs when demand is more elastic and supply more inelastic there are large decreases in domestic consumption



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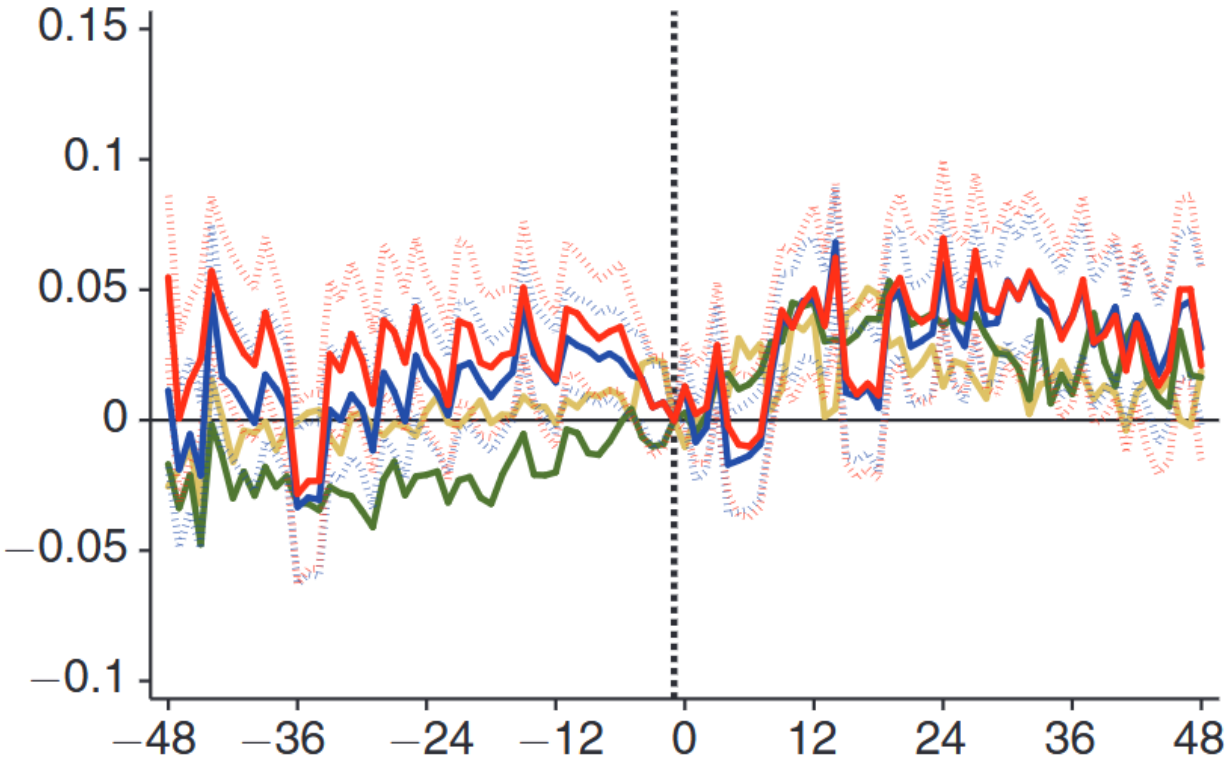




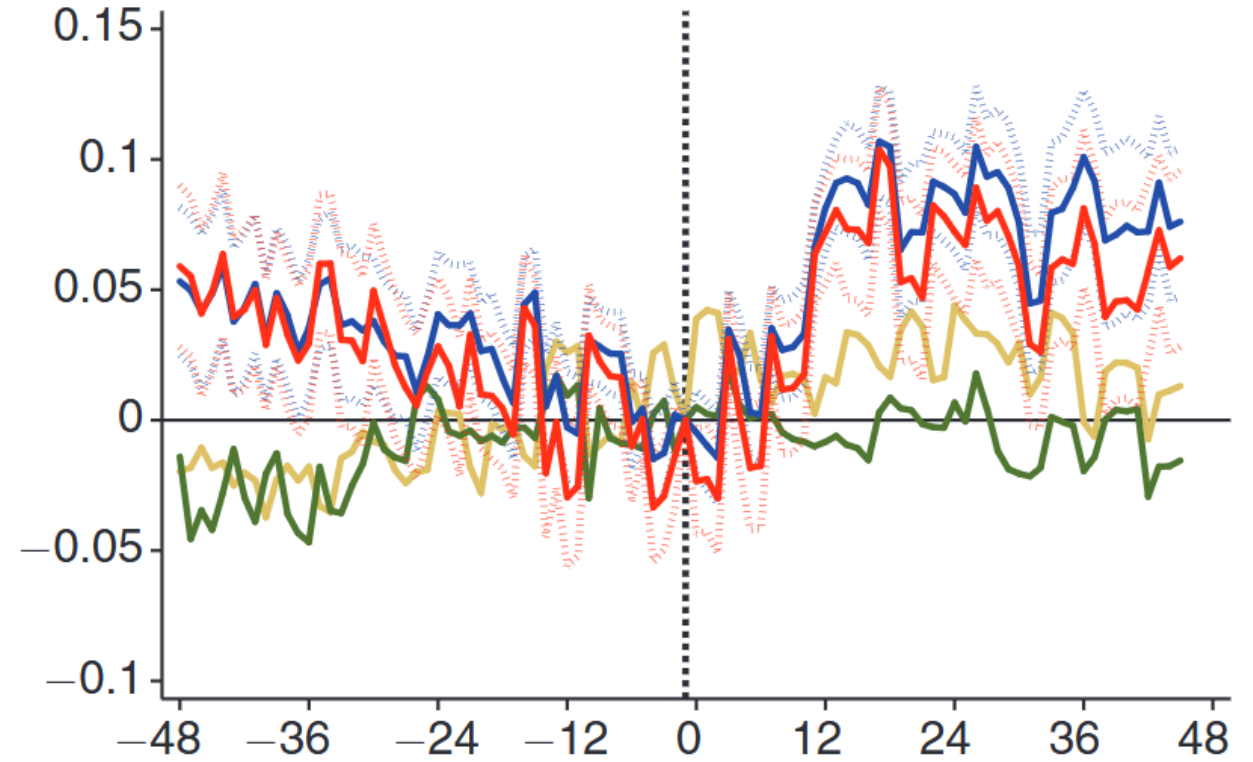
# Why might we restrict trade?

- Protecting domestic jobs
  - The gains from trade come from comparative advantage
- National security
  - Validity depends upon sector (avocados as national defense?)
- Infant industry argument
  - Requires government to pick winners, and difficult to remove protections
- Unfair competition argument
  - If other countries are subsidizing their industries, they are subsidizing our consumption
- Protection as a bargaining chip
  - The threat may not work or we backdown and lose credibility

Panel A. Antidumping against China



Panel B. Safeguard tariffs, 2018



# Impacts of washer tariffs

- Raised the median price of washing machines \$86 and clothes dryers by about \$92
  - Domestic brands exercise market power to increase markups prices
- Feds raised \$82m/y in tariff revenue
- Increased total consumer costs by \$1.5b/yr
- Increased domestic employment by ~1,500 jobs
  - Located in ~3 towns in Tennessee, South Carolina
- Cost per job \$815,000/year (net of govt revenue)

Trump raised the tariffs on washing machines by about 9%-pts  
 And then the price of laundry equipment rose by about 9%  
 This tariff expired, cutting the tariff rate by about 9%-pts  
 And then the price of laundry equipment fell by about 9%

Price, relative to average price in 2017

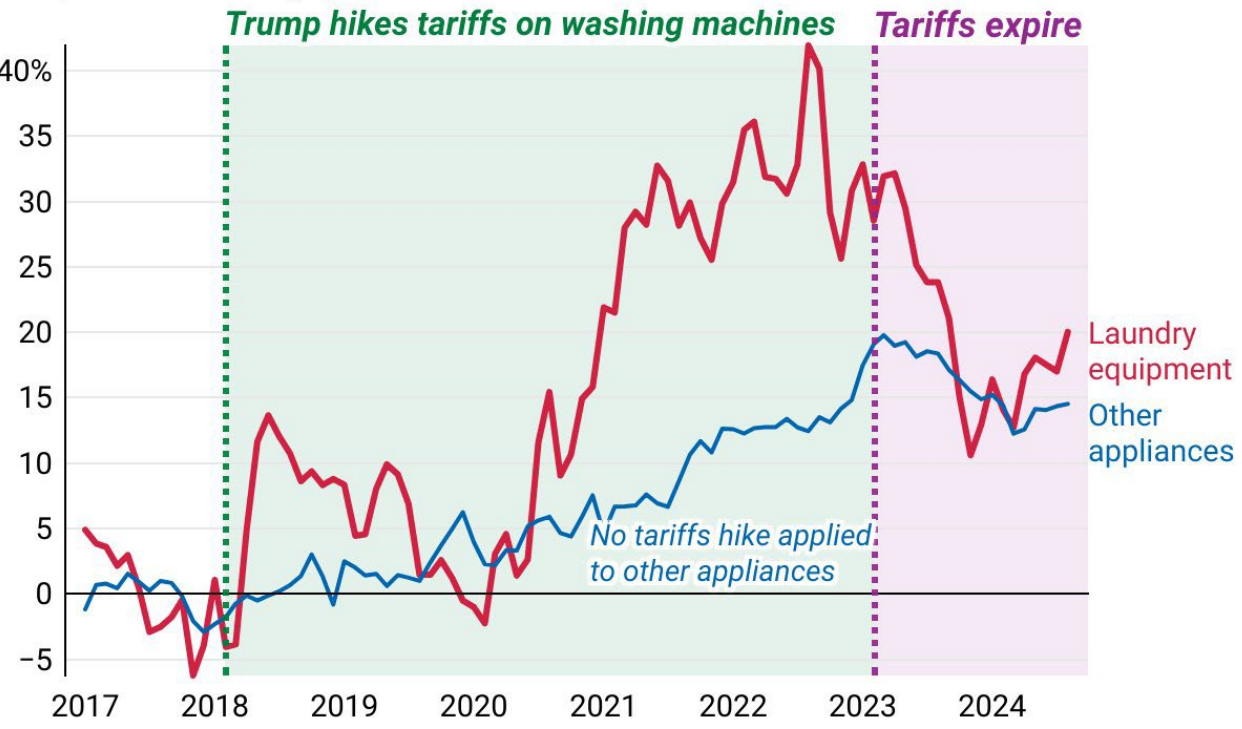


Chart: @JustinWolfers • Source: BLS seasonally adjusted price indices for "Laundry equipment" (which includes both washers and dryers), and "other appliances"

Over a longer horizon, real laundry equipment prices are falling.  
 This trend was interrupted when Trump raised tariffs on them.  
 And the trend resumed again when those tariffs expired.

Change in the inflation-adjusted price of laundry equipment since Jan 2006

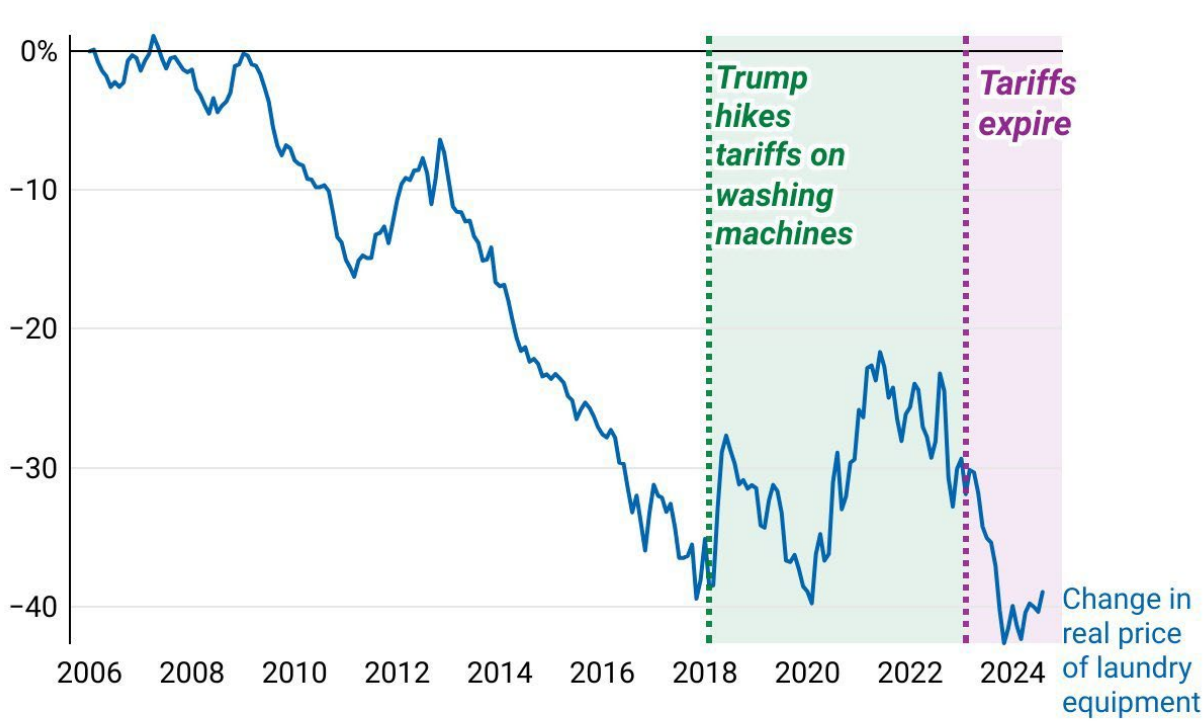
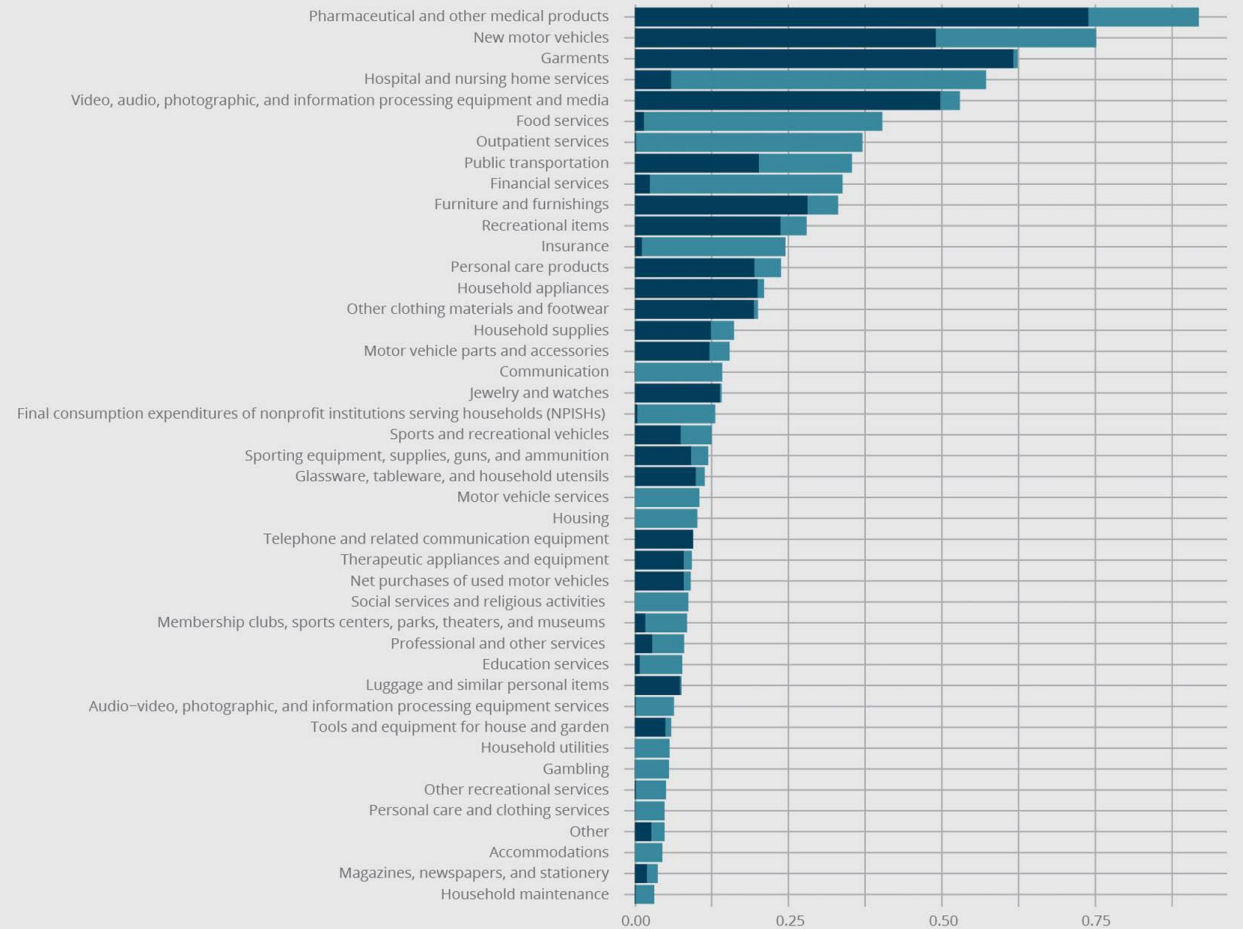


Chart: @JustinWolfers • Source: BLS seasonally adjusted price indices for "Laundry equipment" (which includes both washers and dryers), deflated by the CPI.

# Broader economic impacts

- Imports account for 10% of Core PCE, 6% direct and 4% indirect
- 25% *tariff* on Canada & Mexico, 10% China = *inflation* impact of 0.5 to 0.8 percentage points (depending on the markup assumption)

Figure 2: Core PCE Shares of Imports, by Expenditure Category



Import Contribution to PCE (2023), p.p.

Contribution: ■ Direct ■ Indirect

Note(s): The dark blue bars show the share of core PCE corresponding to imported goods that are directly consumed by US households. The light blue bars show the share of core PCE corresponding to imports that are used as inputs in domestic production. We use the national income and product accounts (NIPA) categories of goods and services. We exclude net foreign travel and net expenditures abroad by US residents.

Source(s): US Bureau of Economic Analysis and authors' calculations.

# The US Imports inputs it uses to make things

Country	NAICS Code	Product	Import Value (Million \$)
Mexico	336	Transportation Equipment	\$171,458
China	334	Computer & Electronic Products	\$122,692
Canada	211	Oil & Gas	\$106,246
Mexico	334	Computer & Electronic Products	\$97,024
Canada	336	Transportation Equipment	\$67,590
China	335	Electrical Equipment, Appliances & Components	\$56,175
China	339	Miscellaneous Manufactures	\$48,777
Mexico	335	Electrical Equipment, Appliances & Components	\$45,916
Canada	331	Primary Metal Manufactures	\$32,173
China	333	Machinery, Except Electrical	\$32,051
Mexico	333	Machinery, Except Electrical	\$31,918
Canada	311	Processed Foods	\$30,191
Canada	325	Chemicals	\$30,018
China	332	Fabricated Metal Products	\$25,016
Mexico	111	Agricultural Products	\$20,080

# State level total Imports and Exports

<b>Origin/Destination</b>	<b>Imports (\$M)</b>	<b>Exports (\$M)</b>
Canada	764.1	1,285.1
Mexico	98.3	21.3
Rest of Americas	22.6	60.4
Europe	92.1	905.1
Africa	0.7	4.0
SW & Central Asia	36.6	21.8
Eastern Asia	1,770.7	2,898.2
SE Asia & Oceania	443.4	365.1

# State level imports

Origin	Commodity	\$Millions
807-Eastern Asia	17-Gasoline	1322.7528
808-SE Asia & Oceania	35-Electronics	394.6493
801-Canada	18-Fuel oils	233.5226
807-Eastern Asia	18-Fuel oils	171.3987
801-Canada	34-Machinery	128.5778
807-Eastern Asia	35-Electronics	127.0755
802-Mexico	33-Articles-base metal	86.6709
801-Canada	17-Gasoline	77.0804
801-Canada	14-Metallic ores	55.8971
801-Canada	36-Motorized vehicles	43.4264
801-Canada	33-Articles-base metal	36.8814
804-Europe	34-Machinery	35.3252
801-Canada	37-Transport equip.	35.0098
807-Eastern Asia	43-Mixed freight	31.4742
801-Canada	43-Mixed freight	27.3288

# State level exports

Commodity	Destination	\$Millions
05-Meat/seafood	807-Eastern Asia	1295.694
14-Metallic ores	807-Eastern Asia	856.7843
05-Meat/seafood	804-Europe	549.4834
40-Misc. mfg. prods.	808-SE Asia & Oceania	497.5918
14-Metallic ores	801-Canada	350.2511
35-Electronics	801-Canada	340.5466
40-Misc. mfg. prods.	804-Europe	276.8482
16-Crude petroleum	807-Eastern Asia	249.7
14-Metallic ores	804-Europe	233.4353
43-Mixed freight	804-Europe	225.8548
37-Transport equip.	801-Canada	168.3999
04-Animal feed	807-Eastern Asia	111.749
05-Meat/seafood	808-SE Asia & Oceania	96.7203
05-Meat/seafood	801-Canada	95.9252
14-Metallic ores	808-SE Asia & Oceania	95.9014



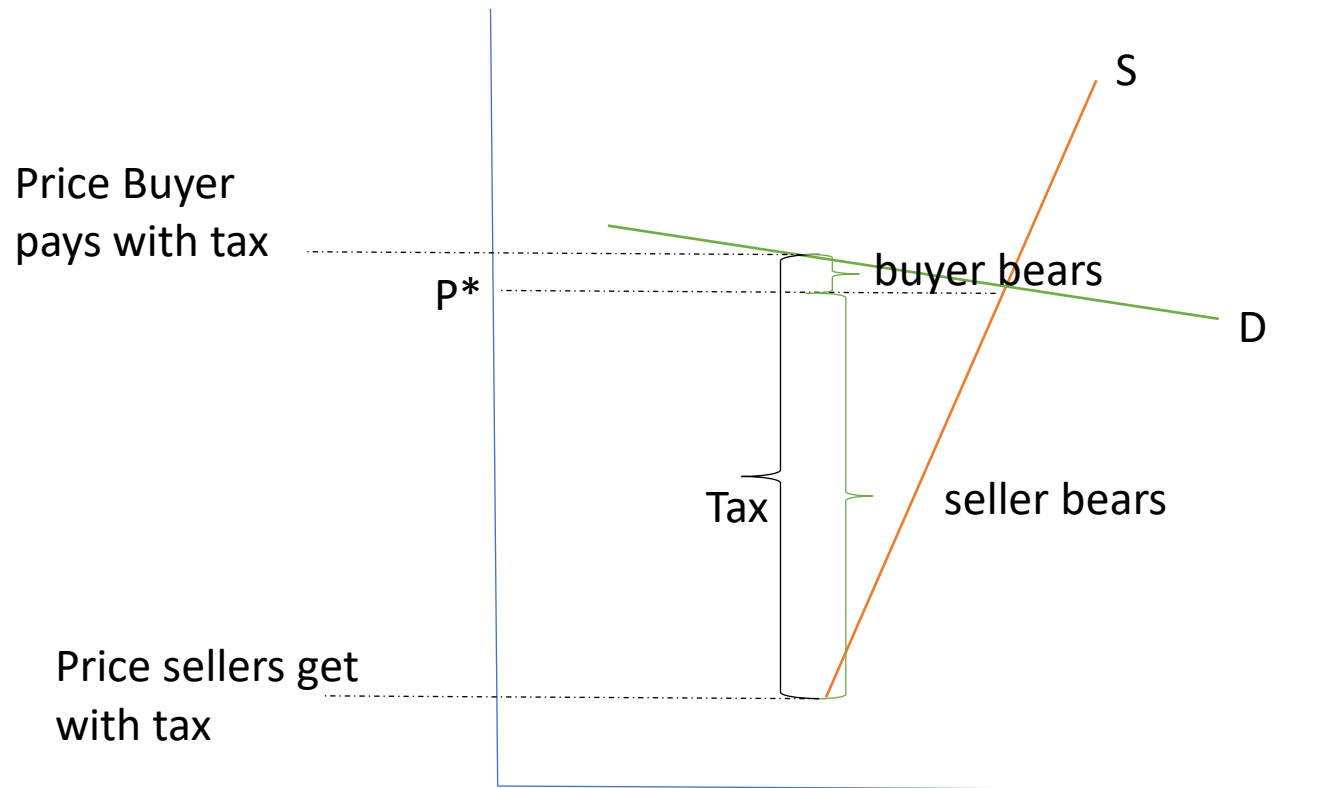
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# Tax when demand is elastic and supply inelastic: Seller bears most of tax



# Tax when demand is inelastic and supply elastic buyer bears most of the tax

