Opinion **US-China trade dispute**

Time to lift Trump's tariffs on China to fight inflation

The Biden administration should end a trade war that has made America worse off

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While US tariffs protect manufacturers, for example of tyres, from import competition, these gains come at the expense of the consumer © Luke Sharrett/Bloomberg

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Combating inflation has been on President Joe Biden's mind lately. But any mention of the high tariffs on Chinese imports that he inherited from the Trump administration has been critically absent from these discussions.

Between 2018 and 2019, the US and China engaged in a trade war that raised tariffs on thousands of internationally traded products. The import tariffs imposed by the US, and the Chinese retaliation on US exporters, jointly targeted 3.6 per cent of GDP.

Their potential removal is currently subject to fierce debate. Unlike most issues, US trade policy cuts across party lines. Advocates for protectionism argue the tariffs are critical for building industrial capacity to counter China's manufacturing prowess, and that they have not contributed to higher prices. But these supporters cannot have it both ways: tariffs can only help manufacturing jobs if they raise prices. If producers benefit from higher tariffs, it is precisely because consumers are made worse off by them.

Suppose a car mechanic chooses to import tyres from China for $100 apiece rather than the slightly more expensive American version. Would the American producer benefit when the US government raises tariffs on the Chinese tyres by 25 per cent? The answer hinges on what happens to the after-tariff price of imports. At one extreme, if the Chinese exporter cannot find another buyer, it may reduce its price and leave the after-tariff price at $100. In this case, the government collects the tariff revenue, and the car mechanic experiences no direct impact. This is what Trump meant when he declared that the Chinese were paying for the tariffs. But because the after-tariff price has not changed, the American tyre producer, who lost business to the Chinese supplier, does not directly benefit.

Consider, instead, the extreme where the after-tariff price rises to $125. Now the car mechanic is adversely affected. Since import prices have increased, the tariffs shield the US tyre producer from import competition. The gains to the tyre producer have come at the expense of the mechanic.

This illustrates how tariffs favour producers at the expense of consumers. But to what extent this happens hinges on the after-tariff price. Only the data can tell us the real world impact. In a rare instance of economists agreeing, peer-reviewed studies by several teams conclude that the second extreme has materialised: after-tariff prices went up by the full magnitude of the tariffs. US consumers have borne the brunt of the trade war.

These price increases should benefit American producers. Unfortunately, the answer is more complex. Today, most global trade occurs in intermediate parts rather than final goods. When it comes to tyres, the US also raised tariffs on carbon black — a key input — by 25 per cent. This increases manufacturing costs and undoes some of the benefits of protection.

Additionally, China has not just sat silently by. It unleashed retaliatory tariffs on $100bn of US exports, including tyres. One study found that these higher inputs and tariff retaliations offset the benefits of protection for producers. Economists at the Federal Reserve found that manufacturing employment fell. Another study found that exports increased among 'bystander' countries like Malaysia and Mexico, not the US.

The evidence confirms what economists had argued at the beginning of the trade war: tariffs are not an effective policy to bolster US manufacturing. Instead, they ultimately tariffs are not an effective policy to bolster US manufacturing. Instead, they ultimately raised prices for everyone, with the retaliations hitting the Midwest particularly hard. Overall, the US economy is worse off.

Reversing the tariffs will reduce prices for consumers. The impact on price levels would be modest since imports are only about 15 per cent of US GDP. But ending the trade war is the most immediate and effective policy in Biden's mission to bring relief to the American consumer.