The Coalition for a Prosperous America Analysis of a 10% universal tariff: Comments
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The recent Coalition for a Prosperous America (CPA) claims regarding a 10% universal tariff on all U.S. imports rest on assumptions that that run against established empirical evidence, contradicting hundreds of papers and decades of economic analysis on the effects of tariffs. They have modified the well-known and widely tested GTAP model and database in highly unusual and empirically unsupported ways, making the key assumptions they need to generate the results they sought.

1. The first two key assumptions are that the U.S. labor and capital markets have large amounts of surplus resources that can be used while only minimally raising labor and capital costs. They assume that these resources do not need to be diverted from other, competing sectors. This flies in the face of the evidence. The U.S. economy has essentially operated at or near full employment and capital capacity utilization rates for decades, outside of the intervening economic downturns. Most recently, the U.S. economy has been running "hot", with high levels of employment and capacity utilization.
2. The next key assumption that tariffs will raise U.S. productivity growth finds absolutely no support in the economic literature. Tariffs tend to reduce productivity growth as firms face less competition and therefore less incentive to innovate and reduce costs, resulting in more scarce resources flowing to less competitive firms and sectors and away from more competitive and innovative firms and sectors, and reduce scale economies as firms now operate in a smaller, domestic market rather than a larger global market. Indeed, this assumption implies that the Smoot-Hawley tariffs should have brought the U.S. out of the Great Depression. In their underlying model, a full-blown trade war is good for everyone.
3. Another key assumption is that retaliation is not relevant. The online CPA report on a 10% tariff ignores the issue, despite recent experience with tariffs on steel and aluminum, as well as the bilateral tariffs on imports from China. When U.S. trading partners retaliate, U.S. exporters face reduced foreign demand and smaller markets. Further, retaliation often goes beyond tit for tat tariffs and often includes the increased application of nontariff barriers, which are harder for U.S. firms to overcome.

While tariffs yield government revenue, they are an inefficient tax with economic costs that inevitably outweigh the gains to producers and tax revenue. Countless peer reviewed studies in serious journals find this kind of result. Tariffs generally increase output in the protected industry, while raising costs to other firms (who then sell less output) and consumers of the protected items (who then consume less). Jobs may increase in the protected industry, but most studies find that job losses in the downstream sectors are much greater. An extreme historical example is the Smoot-Hawley Tariff Act of 1930. The U.S. raised tariffs with the objective of stimulating domestic output over imports. Our trading partners retaliated by raising tariffs on U.S. exports. The tariffs were not only ineffective at raising domestic output, but the higher prices reduced domestic demand further, and U.S. export industries suffered from reduced demand abroad.

A more recent example is the U.S. tariffs that were imposed starting in 2018, most of which continue to this day. Some argued at the time that foreigners pay the duty. U.S. Customs and Border Protection tariff collection procedures, where the importing firm pays the tariff, and empirical evidence does not support this argument. The peer reviewed evidence shows that U.S. importing firms and consumers have paid almost all of the increased cost from the tariffs. Critically, like the Smoot-Hawley tariffs, U.S. trading partners retaliated against the tariffs, harming U.S. export sectors.

In summary, this study is not only misguided, but also intentionally misleading and would not find support in a serious economics journal.

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"Global 10% Tariffs On U.S. Imports Would Raise Incomes And Pay For Large Income Tax Cuts For Lower/Middle Class," J. Ferry, Coalition for a Prosperous America, July 2024.
https://prosperousamerica.org/global-10-tariffs-on-u-s-imports-would-raise-incomes-and-pay-for-large-income-tax-cuts-for-lower-middle-class/

Joseph Francois and Robert Koopman have both served as Directors of the USITC Office of Economics. Prof. Francois also served as Chief of the Economic Research Division at the USITC and Senior Economist at the WTO, while Prof. Koopman served as Director of the Economic Research and Statistics Division at the WTO. The text here represents the opinions of the authors and is not meant to reflect the opinion of any of the institutions with which they are now or have ever been affiliated with.