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What the Last Trump Tariffs Did, According to Researchers

by [Thomas Stackpole](#) December 2, 2024

***Summary.** President-elect Trump has promised to impose 25% tariffs on all goods imported from Canada and Mexico, and tariffs as high as 60% on goods coming from China on day one of his new administration. What will these protectionist policies accomplish? Looking at research on the effects of the 2018–19 U.S.-China trade war might provide some insight. Researchers found that tariffs didn't lower the cost of goods imported from China, and that U.S. consumers paid more for certain goods; that manufacturing jobs didn't return to the U.S.; and that sectors targeted by retaliatory tariffs took a hit. Looking ahead, steps companies had taken to circumvent the effects of a new trade war with China, such as friend-shoring, might not be an effective hedge against future protectionist policies that install new barriers to trade with countries such as Mexico and Canada.*

Last week, President-elect Donald Trump outlined a plan for sweeping new tariffs against three of America's leading trading partners. In a post on Truth Social, his social network, he [promised](#) that he was ready to sign an executive order placing 25% tariffs on all goods imported from Canada and Mexico on day one of his presidency, with an additional 10% tariff on goods from China. This is on top of earlier threats of imposing [60% tariffs on China](#) and [a blanket tariff of 10% to 20%](#) on other imports to the U.S. — a protectionist plan that could reshape the U.S. economy in ways that have little recent precedent.

Even before this latest news, the specter of new tariffs — largely presumed to be against China — have affected companies' behavior. The shoe company Steve Madden reported that it was planning to cut the amount of goods it produces in China — the source of about 70% of its imports — [in half](#). Other companies have started [stockpiling inventory](#) ahead of potential price bumps.

There is *some* precedent, however: During Trump's first term, his administration pursued the most protectionist policies in the U.S. since the 1930s. Most notably, tariffs against China — which then imposed retaliatory tariffs — left [60% of U.S.-China trade subject to 20% tariffs](#). While trade relations stabilized, the tariffs that were introduced during that period were largely left in place by the Biden administration. As such, researchers have had years to study the effects of these policies — and whether they worked as their architects and economists might have expected. They've also looked at who ultimately bore the increased costs.

“When economists say, ‘Who is going to pay for tariffs?’ what they mean is ‘Are prices of imported goods going to go down?’” says Pablo Fajgelbaum, a professor of economics at UCLA who has [written several papers](#) on the impacts of the U.S.-China trade war. The theory behind the Trump tariffs was that the threat of selling fewer goods to the U.S. would force Chinese exporters to cut prices.

How that actually works out, however, depends on myriad factors, says Alberto Cavallo, a professor at Harvard Business School and one of the authors of [a recent paper](#) on how the tariffs enacted during the 2018–19 trade war affected prices. These include “the size and scope of the tariffs, whether there are alternative suppliers for the impacted goods or services, and also firms' expectations about the persistence and potential escalation of the trade war.”

So, what did the last round of tariffs actually accomplish? Here's what researchers have found.

Tariffs Didn't Lower the Cost of Imports from China — and U.S. Consumers Paid More on Specific Goods

By and large, American importers and, to a lesser extent, American consumers paid for the tariffs set during Trump's first term, according to research from Fajgelbaum, Cavallo, and [others](#). (Chinese importers also [shouldered some of the cost of retaliatory tariffs](#)).

Looking at the impact on goods such as washing machines, solar panels, aluminum, and steel, Cavallo and his co-authors found that "U.S. tariffs focused on differentiated Chinese goods that were hard to replace, so Chinese exporters kept prices steady," he says. As a result, U.S. importers ended up paying more for goods from China, and passed some of that cost along to consumers.

The effects varied across different kinds of consumer goods, however. "The tariffs on washing machines had a quick pass through into consumer prices, because they were large — 20% initially — and targeted," says Cavallo. "But other goods prices that received tariffs of 10% took much longer to [increase], and only did so when the tariffs were increased to 25%."

Fajgelbaum and a colleague, Amit Khandelwal, came to similar conclusions. In [one of their papers](#), they found that "U.S. consumers of imported goods have borne the brunt of the tariffs through higher prices, and ... the trade war has lowered aggregate real income in both the U.S. and China, although not by large magnitudes relative to GDP." In other words, the effects were real, but minor.

Other scholars have argued that the impacts are more significant. In a [paper published this spring](#), Mary Amiti, the head of labor and product market studies at the Federal Reserve Bank of New York, and Columbia professors Matthieu Gomez, Sang Hoon Kong, and David Weinstein, argue that the trade war diminished U.S. economic well-being by 3%, based on how tariffs affected firms' cash flow.

As time goes on, costs for consumers may continue to rise, even if Trump's threats of new tariffs don't come to pass. "Many firms we spoke to at the time were expecting the tariffs to be temporary, so they delayed the passthrough into consumer prices," says Cavallo. "The longer the tariffs last, the more we can expect the burden to be passed on, either into consumers or exporters."

Manufacturing Jobs Didn't Come Back to the U.S.

"The Trump administration had promised that enacting tariffs on China would bring manufacturing jobs back to the United States, and that we didn't really need to worry about Chinese retaliation," says Gordon Hanson, a professor at the Harvard Kennedy School and one of the authors of [a paper that looked at the economic and political impacts of the trade war](#). "We find that both of those claims look like they're wrong."

Hanson and his co-authors studied the local effects of U.S. tariffs and retaliatory Chinese tariffs, and the efforts of subsidies meant to compensate affected industries.

They wanted to see if there was a measurable economic impact on onetime industrial centers that had suffered during globalization and, similarly, whether agricultural centers saw negative consequences from retaliatory tariffs.

What they found is that while U.S. regions home to targeted industries saw no effect — positive or negative — on employment or earnings as a result of the tariffs, Chinese retaliation did harm U.S. agriculture, and that that harm was only partially mitigated by government compensation.

There are a few reasons why the costs added by tariffs didn't cause companies to move manufacturing back to the U.S., says Hanson. First, because the tariffs targeted China, importers simply moved sourcing to other countries, such as Vietnam, rather than reshoring production. Second, there weren't U.S. factories with idle capacity that could easily replace Chinese imports. When U.S. manufacturing declined, companies didn't just downsize their operations; they shuttered factories and laid off their workforces, so companies would largely need to invest in *new* facilities, rather than ramping up existing capacity.

And third, if companies were to move manufacturing out of China (or other high tariff countries), there's no guarantee that it would return to the U.S. post-industrial cities that dominated manufacturing in the second half of the 20th century. "The places that used to produce textiles and footwear and furniture did so in 20th century factories that used lots of labor per dollar of output relative to what technology is like today," says Hanson. Companies looking to invest in new manufacturing facilities have a lot of options, whether looking abroad to countries like Vietnam or Guatemala, or for the best deal they can find in the U.S., and former manufacturing hubs might not win those jobs back.

"The premise of Trump's economic policies — that manufacturing job loss has been painful for America, and especially painful for our industrial heartland — is spot on," says Hanson. But, in terms of how to deal with that job loss, he argues, "tariffs would be pretty far down the list."

Sectors Targeted by Retaliatory Tariffs Took a Hit

"When you enact tariffs, you are targeting not just an industry — you're targeting a place. And the employment impacts of China's retaliation were palpable," says Hanson. "China targeted industries where it was confident it could inflict pain." Specifically, it aimed at U.S. agriculture — China is the biggest market for these exports, including soy, corn, wheat, pork, and beef, which were all subject to 25% tariffs. Hanson and his co-authors found that retaliatory tariffs didn't just reduce employment in agriculture, but also employment in transportation, warehousing, and business services in affected regions.

This worked because China targeted goods that could be sourced elsewhere, which pushed U.S. exporters to cut prices to stay competitive, says Cavallo. Unlike specialized goods, China was able to [find other sources for these commodities](#). As such, U.S. producers had less leverage to keep prices static because they faced competition from other locations. Cavallo and his co-authors found that affected exporters dropped prices by about 7%.

While retaliation wasn't a surprise, U.S. government efforts to mitigate the harm caused were a mixed bag. "There are places that got subsidies that didn't really need them, and there are places that needed subsidies and they didn't get them," says Hanson. Compensation programs focused on the middle of the country, which meant that it both included states that were only marginally affected, such as North Dakota and Montana, and largely missed regions that were significantly affected, such the lower Mississippi Valley and central California.

"The formulas that were used were just based on a not very good understanding of where production happens in the U.S.," says Hanson. "That's not specific to the Trump administration. This is just true in general — our Department of Commerce does not have good, up-to-date information on what industry clusters and industry supply chains look like in the United States."

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What does all of this tell us about what might happen next? "We've now reached a new consensus on trade policy, which is enacting high tariffs on China. This is something that Democrats and Republicans agree on, if not in their official platforms, in terms of their actual policy practice," says Hanson. Even so, few experts predicted that we'd see high tariffs against Mexico and Canada so soon — or at all. "NAFTA and the United States-Mexico-Canada Agreement (USMCA) helped North America develop world class supply chains in aerospace, automobiles, and medical devices," he says.

For many companies, this has required major adjustments in [how they think about doing business](#), because it means operating in a new paradigm. "We spent the better part of 30 years creating global supply chains based on the ease of moving goods across borders," says Hanson. "In the space of less than a decade, that's gotten a lot harder. So, it's hard to plan for specific scenarios, because the range of possible outcomes seems to be quite wide. But we're entering a moment of uncertainty and however things shake out, the need to hedge in terms of where goods are produced has become much more important than it was before Donald Trump."

While companies have had time to prepare for a new trade war with China, Hanson notes that this latest development might throw a wrench in their plans. "'Friend-shoring' thus does not appear to be the hedge against anti-globalization it initially appeared to be. Trade uncertainty is here to stay for a while."



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