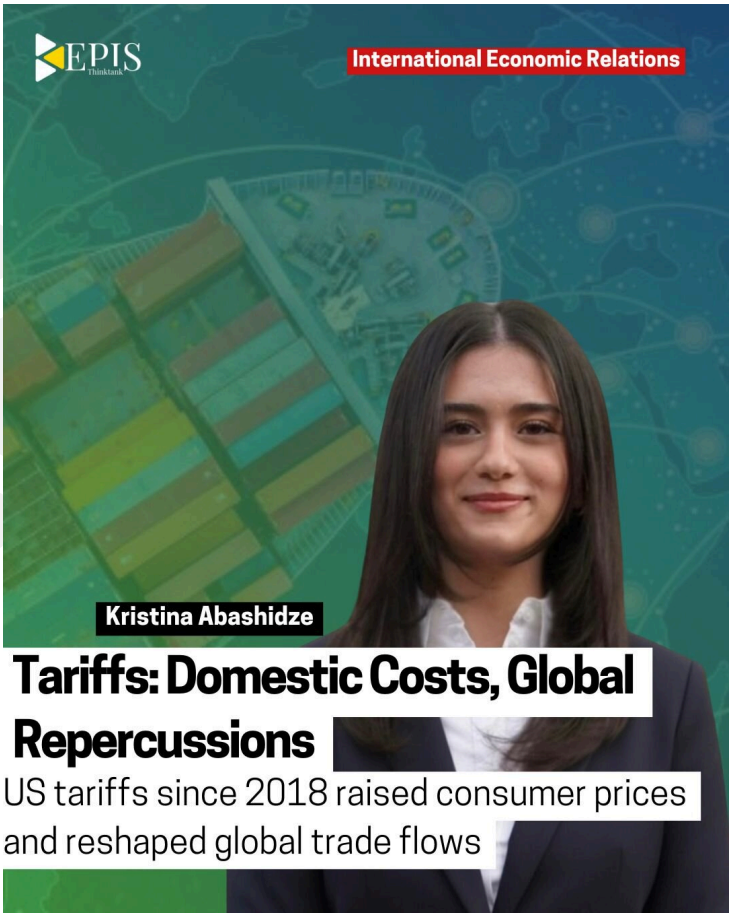
Tariffs: Domestic Costs, Global Repercussions

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Tariffs & Inflation: Domestic Costs, Global Repercussions
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Definition: Cost-push inflation refers to a rise in overall price levels caused by increased production costs, such as higher import prices due to tariffs, which lead firms to raise the prices of final goods and services. It illustrates how protectionist policies intended to defend domestic industries can instead generate inflationary pressures that burden consumers and slow economic growth.

Introduction

By raising the price of foreign products, Tariffs aim to shield domestic industries from external competition and preserve employment. Yet, their economic consequences are rarely straightforward. Though tariffs often appeal to political narratives about national strength, they tend to create inflationary pressures and international frictions that undermine their intended benefits. In the United States, the revival of protectionist trade policy between 2018 and 2020 under the Trump administration represented the most extensive use of tariffs in recent history. Section 232 measures on steel and aluminum and Section 201 tariffs on washing machines were introduced under the banner of national security and job creation. At the same time, escalating duties on Chinese imports ignited a trade war that reshaped global supply chains and commodity markets. While these policies sought to boost American manufacturing and reduce trade deficits, a growing body of evidence suggests they raised production costs, increased consumer prices and disrupted export flows (Amiti et al, 2019).

– This section explores how these tariff measures have contributed to domestic inflation and instability across global markets. It draws on examples from US trade policy since 2018 which were the impact of steel and aluminum tariffs on industrial costs, the consumer burden created by tariffs on household goods, and the agricultural dislocation caused by retaliatory measures against US soybeans. Together these cases show that tariffs, rather than protecting the domestic economy, have functioned as a tax on consumption and a catalyst for wider economic disruption –

Although tariffs are framed as tools to defend domestic industry, evidence from US trade policy since 2018 shows they have instead contributed to higher consumer prices, disrupted global supply chains, and also generated inflationary ripple effects across international markets.

The Economic Logic of Tariffs and Inflation

Tariffs operate as a form of indirect taxation. By imposing duties on imported goods, governments increase the cost of those products at the border. This raises their prices within domestic markets. In theory, this price adjustment is intended to make locally produced goods more competitive and to encourage domestic production. In practice, however, tariffs rarely stop at protecting producers. Because imports often serve as essential

inputs in manufacturing and retail supply chains, higher import costs ripple through the economy. This influences the price of a wide range of goods and services. In the short term, tariffs tend to produce cost-push inflation which is a situation where the rising cost of production inputs forces firms to increase final prices to maintain profitability. When the United States introduced tariffs on steel and aluminum and consumer goods in 2018, domestic manufacturers that relied on imported materials faced higher input costs almost immediately. Many responded by raising prices or reducing output, eroding any competitive advantage the tariffs were meant to create. Since modern supply chains are globally integrated, these disruptions extended beyond the targeted sectors, affecting industries from construction to electronics. The longer-term effects of tariffs are equally problematic. By discouraging imports and limiting competition, protectionist policies reduce market efficiency and innovation. Domestic producers face weaker incentives to invest in productivity or reduce prices. This structural rigidity perpetuates inflationary pressure, as fewer firms compete to absorb cost increases or offer cheaper alternatives to consumers. The inflationary dynamic follows a predictable feedback loop that the higher import costs push up production expenses, which in turn lead to higher consumer prices. As prices rise, real purchasing power declines and overall demand slows. Weaker demand reduces output growth, which may prompt further policy interventions to offset economic stagnation. What begins as a measure to support national industries therefore evolves into a self-reinforcing cycle of higher costs and slower growth.

Research confirms that this process has been evident in the United States since 2018. Fajgelbaum et al (2019) found that the tariffs imposed during the US-China trade war were almost entirely passed through to domestic prices rather than absorbed by foreign exporters. Similarly, Amiti, Redding and Weinstein (2019) demonstrate that the burden of tariffs fell primarily on US consumers and firms through higher import prices, with little measurable gain for domestic producers. The evidence suggests that rather than strengthening the national economy, tariffs have acted as an inflationary tax on households and a drag on broader economic performance.

Case Study 1: Steel and Aluminum Tariffs

In March 2018, the Trump administration implemented sweeping tariffs on steel and aluminum under Section 232 of the Trade Expansion Act, citing national security concerns. The policy imposed a 25% duty on imported steel and a 10% duty on aluminum. Officials argued that decades of cheap imports, particularly from China, had weakened the American industrial base, leaving critical supply chains vulnerable. The tariffs were therefore presented as a means to safeguard domestic production, restore industrial self-sufficiency and to protect American workers. In the aftermath, US steel producers benefited from temporary price increases and a modest expansion in domestic output. However, these gains were outweighed by broader economic costs. Steel and aluminum are key inputs for manufacturing and

construction. This means that the tariffs quickly raised production costs across multiple industries. The automotive sector was among the hardest hit, as vehicle manufacturers rely heavily on steel for engines and body panels. The construction industry experienced similar pressures as the price of rebar and sheet metal increased. Federal Reserve Board (2019) estimates suggest that by the end of 2019, higher input costs had reduced US manufacturing employment by roughly 75,000 jobs, nearly as many as the total number of jobs in the steel industry itself.

Rising costs were passed on to consumers, amplifying inflationary pressures in manufacturing-intensive regions such as the Midwest and the South. Small and medium-sized enterprises, which lacked the market power to absorb cost increases, were disproportionately affected. Many firms reported delaying investment or scaling back production to offset higher expenses. The policy therefore undermined its own rationale which was a measure intended to protect industrial employment contributed to job losses and slower growth in downstream sectors. Internationally, the Section 232 tariffs strained relations with long-standing allies. The European Union, Canada and Mexico, major suppliers of US steel and aluminum, viewed the national security justification as unjustified and retaliated with tariffs on politically symbolic US exports. The EU targeted products such as bourbon whiskey, orange juice and motorcycles, measures that directly affected key Republican constituencies. Harley-Davidson, facing higher costs and retaliatory tariffs on its exports, announced plans to shift part of its production overseas. This illustrated the broader paradox of protectionism which is that instead of revitalising domestic manufacturing, the policy incentivised firms to relocate in order to maintain access to foreign markets. The steel and aluminum case demonstrates how sector-specific protectionism can trigger losses that extend far beyond its intended scope. While a handful of domestic producers benefited from short-term price increases, the aggregate impact was negative. Higher costs eroded competitiveness, inflationary pressures spread through supply chains, and trade partners responded with measures that curtailed US exports. The episode shows that tariffs, though politically appealing as symbols of industrial revival, often function as self-defeating instruments that weaken the very sectors they are designed to protect.

Case Study 2: Washing Machines and Consumer Goods

In January 2018, the United States imposed global safeguard tariffs on large residential washing machines under Section 201 of the Trade Act. The measure followed a complaint by domestic manufacturers, including Whirlpool, who argued that imports from South Korea and China were flooding the US market at unfairly low prices. The policy introduced a tiered tariff structure beginning at 20% for the first 1,2 million imported units and rising to 50% for all additional machines. The intention was to protect American appliance producers, stimulate local investment and preserve industrial employment. Initially, the tariffs appeared to deliver visible benefits

for domestic producers. Whirlpool's share price rose, and several manufacturers, including Samsung and LG announced plans to expand assembly operations in the United States. Yet beneath these successes lay significant costs for consumers. Research by Flaaen, Hortaçsu and Tintelnot (2020) found that US consumers paid approximately $1,5 billion more for washing machines and dryers in the first year following the tariff's introduction. The study estimated that each job created in the domestic appliance industry cost around $815,000 annually, an extraordinarily inefficient outcome when compared to average manufacturing wages.

The inflationary consequences of the washing machine tariffs extended beyond a single product category. Higher appliance prices contributed to broader increases in the durable goods component of the Consumer Price Index, illustrating how tariffs on everyday consumer items can feed into headline inflation. Because washing machines and dryers are staple household purchases, the price increases were immediately visible to consumers, contrasting sharply with the more indirect effects of industrial tariffs on intermediate goods. Retailers and manufacturers, facing limited competition from foreign brands, capitalised on the protection by raising mark-ups, further amplifying inflationary pressures. The washing machine case also demonstrates how supply chain adjustments can reinforce rather than mitigate cost increases. Foreign manufacturers circumvented part of the tariff by relocating production to countries not covered by the initial measures, such as Vietnam and Thailand. However, these transitions required time and investment, leading to temporary shortages and additional costs passed along to consumers. The complexity of global supply networks meant that even a narrowly targeted policy had economy-wide effects, disrupting logistics and pricing dynamics far beyond the appliance sector. Economically, the episode highlights the limitations of consumer-focused protectionism. While tariffs can produce visible political wins, they operate as regressive taxes that erode household purchasing power. The data from 2018 show that the cost of protecting a few thousand manufacturing jobs was borne disproportionately by millions of US consumers. More broadly, the policy reveals how restricting competition in consumer markets allows domestic firms to raise prices without improving efficiency or innovation. The result was higher inflation, minimal employment gains and a lasting reminder that even small-scale tariffs can carry substantial macroeconomic costs.

Case study 3: Soybeans and Retaliatory Tariffs

When the United States began imposing tariffs on Chinese goods in 2018, Beijing responded with a carefully calibrated set of retaliatory measures targeting politically sensitive sectors of the American economy. Agriculture became the central battleground of this response. China, which is the largest importer of US soybeans, placed a 25% tariff on the crop in July 2018, directly striking at the heart of the American Midwest, regions central to the Trump administration's political base. The objective was to inflict economic pain in areas most supportive of the trade war while diversifying China's

supply chains away from dependence on the United States. The effects were immediate and severe. According to data from the US Department of Agriculture, US soybean exports to China fell by nearly 75% between 2017 and 2018, representing a decline of more than 25 million metric tons. As shipments collapsed, Chinese buyers turned to Brazil, whose soybean exports surged to record levels. This shift permanently altered global trade flows as China established new long-term contracts with South American suppliers. Even after tensions eased, US market share in China never fully recovered, showing how trade wars can produce lasting structural changes that are difficult to reverse. Domestically, the consequences were profound. The loss of the Chinese market depressed prices and incomes across the US agricultural sector. Farm bankruptcies increased, and the federal government was forced to intervene with over $28 billion in emergency aid to offset losses. These subsidies, while cushioning short-term damage, placed an additional burden on taxpayers and did little to restore the competitiveness of US farmers. The episode revealed how tariff retaliation can impose high domestic costs even when framed as a strategy to defend national interests. Globally, the soybean dispute contributed to a distortion of agricultural markets and volatility in food prices. As trade flows adjusted, logistical bottlenecks emerged in Brazil's ports and transport networks, pushing up shipping and storage costs. These inefficiencies, combined with uncertainty about future trade policy, fed into global food inflation during 2019. The episode illustrates what economists describe as second-order inflation, a process in which retaliatory tariffs, supply chain reorganisation and resource misallocation amplify price instability across interconnected markets.

The soybean case exposes the wider costs of using tariffs as instruments of geopolitical competition. Rather than securing economic leverage, the US trade war with China disrupted one of its most productive export sectors, redistributed global supply chains and contributed to inflationary pressures that reached far beyond agriculture. The experience shows that in an interdependent global economy, retaliation is not a side effect of tariffs, it is an integral and predictable consequence.

Global Repercussions: Inflation Beyond Borders

While tariffs are designed to shield domestic industries, their economic effects extend far beyond national borders. In an interconnected global economy, the imposition of trade barriers by the United States reverberates through supply chains and export markets. Tariffs on key materials and manufactured goods increase input costs across international production networks, raising prices for firms and consumers in multiple countries. These cost increases effectively export inflation, as higher US import prices translate into more expensive intermediate goods and reduced global efficiency. Retaliatory measures intensify these pressures by undermining comparative advantage. When countries respond to US tariffs with restrictions of their own, trade flows are diverted from their most efficient routes

to politically motivated alternatives. This reallocation erodes productivity gains that arise from specialisation and scale. For instance, China's pivot to Brazilian soybeans, Europe's search for alternative steel suppliers and the relocation of Asian manufacturing lines all represent adjustments that carry transitional costs. Over time, these disruptions create price volatility that affects not only major economies but also smaller states reliant on export stability. Emerging economies are particularly vulnerable. Many depend on US demand for their manufactured goods and agricultural products. Tariff-induced slowdowns in US growth reduce import demand, leading to currency fluctuations and fiscal strain in developing markets. The resulting instability magnifies global inflationary trends as countries attempt to absorb higher import prices while maintaining competitiveness. Empirical evidence supports this broader interpretation. The International Monetary Fund (2022) found that the rise in trade restrictions after 2018 contributed to higher import price volatility across advanced and emerging economies alike. The study concluded that uncertainty surrounding tariffs and retaliatory measures weakened investment and constrained productivity growth, especially in export-oriented sectors. In effect, protectionism in one major economy relayed inflationary pressures worldwide.

The long-term geopolitical consequences have also been significant. Traditional US allies such as the European Union, Japan and South Korea responded to tariff uncertainty by diversifying trade relations and reducing dependence on American markets. New bilateral and regional trade agreements, such as the EU-Japan Economic Partnership and the Regional Comprehensive Economic Partnership in Asia, reflect a strategic realignment toward greater autonomy. This diversification, though stabilising in the long run, signals a shift in global economic leadership away from the United States.

The experience of 2018-2020 demonstrates that tariffs are not isolated national instruments but catalysts of global inflation and strategic realignment. Once introduced, their repercussions extend beyond immediate economic costs to reshape the very structure of international trade.

Conclusion

The evidence from US trade policy since 2018 demonstrates that tariffs, while politically framed as instruments to defend domestic industry, have largely functioned as inflationary taxes on consumers. Intended to protect workers and restore industrial strength, they instead raised production costs, increased household prices and provoked retaliatory measures that disrupted global trade flows. Each case reveals the same underlying dynamic that protectionist policies produce short-term political gains at the expense of long-term economic stability. Domestically, tariffs have transferred wealth from consumers to a small number of protected producers while undermining employment in manufacturing and agriculture. Internationally, they have strained alliances, distorted supply chains and exported inflation to trading partners. The result has been a fragmentation of global

markets and an erosion of trust in the predictability of US trade policy. Rather than insulating the national economy from external pressures, tariffs have amplified volatility both at home and abroad.

Looking forward, sustainable trade policy must balance national security concerns with the realities of global economic interdependence. Rebuilding multilateral cooperation, strengthening supply chain resilience and adopting inflation-sensitive trade strategies are essential to restoring stability. The US experience illustrates a broader lesson for policymakers worldwide that weaponising tariffs in pursuit of economic advantage often inflicts more damage at home than abroad, undermining the very foundations of open and efficient global trade.

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