

Remember Tariffs?

di Paul Krugman

Remember tariffs? They have not gone away.

Hi, Paul Krugman with another video update from another cafe. You may remember that back in April 2025, which was seven years ago — well, actually just about one year ago, but it feels like longer — Donald Trump shocked us all with massive tariffs on basically everybody. It was an extraordinary policy move.

It was also clearly illegal. It was also clearly really very stupid from the point of view of any kind of rational economic strategy. All of that seemed like the biggest thing in the world at the time.

But of course it's been overshadowed in the last 70 plus days by something new which was also illegal and massively stupid and even more so because it's war. So the tariff issue has kind of receded in our perception. But it has not gone away.

Since the initial imposition of tariffs, we've had a lot of action. Again, it would be the biggest thing in the world if it wasn't for everything else that is going on.

The whole legal basis of the tariffs was tossed out by the Supreme Court after having been ruled illegal by lower courts in several different hearings. The basis of the original tariffs was an obscure law called the International Economic Emergency Power Act, which clearly did not apply to the situation as of April 2025. When those tariffs were tossed, Trump responded or his people responded by invoking "Section 122."

I know there's a lot of section numbers in all of this stuff and one question is what law are they sections of. and the answer is mostly they're all different laws but anyway, 122 is for a balance of payments emergency. It allows a 10% tariff — lower than the IEEPA tariffs — but that was also clearly illegal, and a court has just ruled that it was

illegal too. So now that will be appealed and there will be a couple more stages and we'll see what the Supreme Court does.

In many ways I think people kind of tuned this out because there's a time limit on 122 tariffs — 150 days — so by the time the courts reached a decision that story would probably be over anyway and the Trump administration would have turned to other tariffs.

But it turns out to actually not be good to ignore these tariffs because one thing we have learned — actually we should have known if we thought about it — was that when the administration imposes illegal tariffs and they are eventually ruled illegal, that is a machine for ripping off the American public. When the tariffs are imposed they get passed on to consumers in the form of higher prices. When they are ruled illegal many of the companies that were importing goods get refunds — which is slowly getting underway for the original tariffs and will eventually happen, probably, for the new tariffs — but they don't pass that on to consumers. And as I'll explain in a minute, that's not a result of conspiracy. It's basically a policy failure, given the way this works. There's no reason to think that consumers would benefit from the refunds on the past tariffs.

But in any case, what we're seeing now is really, really destructive policies, although it takes a lot of bad economic policy to do as much damage as a war, especially a stupid failed war, but that's where we are.

Let's talk for a second about the tariffs. The crucial point for the immediate effects is this. When a tariff is imposed, the tariff is paid by importers, which is either companies that specialize in import-export or fairly often U.S. companies or retailers that are buying stuff from abroad and arranging for it to be shipped, either to be used in production or to be sold on to US consumers.

From their point of view, the tariff is a cost per unit sold. It's a marginal cost, to use economic jargon. And so, of course, they have every incentive to pass the tariff on to consumers, unless foreigners bear the tariff, which actually doesn't happen, although Trump insists that it does.

When the tariff is eventually ruled illegal, you can't say oh well sorry about that but water under the bridge. If you've collected taxes from somebody and you didn't have the right to do that then rule of law at the most minimal level says you have to pay it back. Which is in fact going to happen to a lot of a lot of the Trump tariffs. But that is not a marginal cost. The amount that an importer gets as a refund from illegal tariffs that were imposed in the past doesn't depend on how much they sell now.

So it's not a marginal cost, again, to use the economics jargon. Some people have been saying that the fact that there's no sign that the tariff refunds will be passed on to consumers is somehow monopoly power or collusion or something. Well, I'm not saying there isn't monopoly power and collusion, but you don't need that. That's exactly what you would expect even if there was lots of competition among the importers. The refund doesn't affect the price that a company needs to charge to make back its expenses. It doesn't affect the price they need to charge to stay in line with their competitors.

So we have created a machine which rips off consumers when the tariffs are imposed, then hands a bunch of money to corporations when the tariffs are ruled illegal.

So this is really not great stuff, and it's pretty big. The Trump tariffs have been something like 1% of GDP, and most of them illegal and therefore a ripoff of consumers. That's a big deal. That's hundreds of billions of dollars that were taken for no good reason.

It almost seems beside the point to point out that the tariffs have also failed. All of the things that they were supposed to do rebuild manufacturing — manufacturing employment is down — reduce the trade deficit — the trade deficit isn't down — haven't happened. So this was all a really large burden on the US public completely without any payoff.

What happens from here? Well, you might think that maybe at least Trump and maybe at least the people around him have learned a lesson and they'll stop doing such stupid things.

Not going to happen. Nothing is learned here. The latest is that Kevin Hassett, the administration's chief economist, more or less, says that we're going to have 6%

growth this year. Which is, doesn't happen except when you're coming out of a deep, deep recession. The last time it happened, except for recovery from COVID, was in 1984, Morning in America. There is no reason at all to think that we're going to have Morning Under Trump.

So another policy disaster, although it's overshadowed by the war.

But this is really, really bad. Take care.