The Effects of US Tariffs on Southern Europe: The Case of Spain

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This paper evaluates the effects of the recent US trade protection measures on the Spanish economy using a computable general equilibrium model. The model is calibrated with a social accounting matrix of the Spanish economy for the year 2023, which includes thirty productive sectors, three types of labor classified attending to their skill level, one capital factor and five types of households classified by their income level. This feature of detail is particularly novel since there are no studies that incorporate unemployment rates differentiated by skill categories and because the disaggregation of the household sector allows to evaluate the distributional effects of US economic policy. The analysis considers three levels of US tariffs on Spanish exports: 15%, 25% and 50%. The results show their effects both in isolation and in combination with other two adjusting variables that keep public deficit fixed: tariffs on imports from the US and Other net taxes on products. The results show that the higher the tariffs, the greater the negative impact. The sectors most negatively affected are those linked to raw materials and manufacturing. Moreover, US tariffs change the distribution of income, with more negative effects on low-income households. Unemployment rates increase and real GDP and households` net disposable income particularly fall down when the model incorporates the adjustment of Other net taxes on products to keep public deficit fixed. These results underscore the need for new redistributive policies to mitigate these adverse effects and limit the increase of poverty and inequality.