

Trump's Second Round of Tariffs: A Dynamic Multisectoral Analysis of Impacts on the US

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Author: Ludovica Almonti

Co-Authors: L. Dary Beltran, Manuel A. CARDENETE, Stefano Deriu, Eduardo Moreno-Reyes

The analysis of tariffs and effective protection rates (EPRs), widely used as an indicator of tariff escalation, has long attracted the interest of economists and policymakers, particularly in the postwar period. Tariffs have historically served multiple policy objectives. In the case of the United States (US), protection involved nascent industries and also extended to those industries that were more efficient than their foreign competitors but that operated below the national average productivity level. Moreover, tariffs function as a major source of tax revenues, as in the US during the century following the Civil War and extending into the early postwar period.

Between 1970 and 2008, tariffs received relatively limited attention in academic research. This reflected the predominance of a trajectory of trade openness and liberalization that shaped the policy agenda of most countries during this period. Following the global financial crisis of 2009, and more markedly since 2013, this process of economic integration has slowed considerably, contributing to the emergence of the concept of deglobalization. Escalating tensions in global trade have prompted major economic powers to reintroduce tariffs as policy instruments. The most prominent example of this phenomenon is the ongoing dispute between the US and China, which began in 2017 under the leadership of President Trump and persisted into his subsequent term. This dispute has involved the imposition of broad tariffs on more than thirty international partners, with the stated objectives of reducing trade deficits and promoting the relocation of domestic industrial production.

However, in the case of the US, analyzing the effects of tariffs requires consideration of their impact in a large economy, which differs from the effects in a small economy. As a major importer, the US has the capacity to influence international prices. In this context, the price elasticity of imports plays a crucial role, a factor that is explicitly examined in this research.

Accordingly, this study explores the potential effects of tariffs on the US economy by developing a Dynamic Computable General Equilibrium (DCGE) model for the period 2025-2029, which is calibrated on a Social Accounting Matrix (SAM). The analysis considers three elasticity assumptions to assess the relationship between domestic and imported goods: a high Armington elasticity (2.4), a low Armington elasticity (0.7), and a Cobb-Douglas. This methodological approach offers the advantage of capturing not only the impact of tariffs on final goods, i.e. the inter-industry effects of the system, but also on the circular flow of income. The calibration of the DCGE model on the SAM enables formalizing the phases of income generation, allocation, distribution, and use within the US economy. This framework allows quantifying tariff effects at each stage of income formation and across institutional sectors. Moreover, these multisectoral analytical tools allow for a systematic comparison of outcomes under different elasticity assumptions between imported and domestic goods. This configuration offers clear advantages over conventional aggregate models.

The tariff shock for each good and service is introduced in the model as an increase in its final price. However, during the second round of tariffs in President Trump's term, tariff rates varied across exporting countries, and each country's share in US exports also differed. To consider this heterogeneity, data from the US Census Bureau and the US Balance of Payments are used to construct a matrix of imports by commodity type and country of origin. The price shock thus reflects both the specific tariff applied to each exporting country and its relative importance in total US imports of that commodity, thereby translating country-specific tariff measures into changes in domestic goods prices.

Within this framework, the dynamic tariff experiment provides a transparent basis for interpreting President Trump's second-round tariffs. Across all scenarios, tariffs neither stimulate economic

growth nor lead to a rapid reduction in the trade deficit. Instead, they reduce welfare across institutional sectors and generate short-run inflationary pressures, as higher costs are passed through prices and compress demand. Disinflation emerges only under deeper economic contractions, suggesting that tariff revenues may be directed toward stabilization rather than medium-term industrial policy.

Higher tariff revenues arise only under low import elasticity scenarios. While apparently advantageous, such increases in tariff revenues occur alongside weaker economic growth. Any additional revenue would need to be channeled into targeted industrial policies, whose benefits materialize only in the medium term. In the short run, industries reliant on foreign inputs face rising production costs and declining competitiveness. Overall, tariffs cannot be regarded as an industrial policy in