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GUEST ESSAY

The Real Reason President Trump Pushes Tariffs

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President Trump has relentlessly blamed foreign countries for much of what ails Americans. Trade imbalances, fentanyl overdoses and the economic struggles of working-class Americans are all laid at the feet of foreign governments.

According to that logic, tariffs are the ideal policy instrument for extracting concessions from foreign governments to remedy those harms while raising money for America's Treasury. Of course, there is an inherent conflict between these two goals: If foreign governments make the requisite changes and Mr. Trump drops the tariffs, they will raise no revenue. And yet the president pushes ahead, seemingly unconcerned by warnings of the damage tariffs will cause; some observers dismiss the threats as mere bluster or a negotiating tactic.

A better way to think about tariffs is as a key tool to achieve the core of Mr. Trump's economic agenda: He wants to shift the tax burden away from the well-off and toward the poor and middle class — while consolidating his power.

The signature legislative achievement of Mr. Trump's first term was the Tax Cuts and Jobs Act, legislation that permanently lowered the corporate tax rate by 14 percentage points, alongside temporary tax cut provisions that expire at the end of 2025. Extending these provisions would provide most Americans with only a small tax cut relative to current law, but it would disproportionately benefit those at the top. An analysis by the Tax Policy Center, a nonpartisan research group, shows that the top 1 percent would save more than $70,000, about 3 percent of after-tax income, and the median household would get only about $1,000, about 1 percent of after-tax income.

While the poor get few of the rewards from those tax cuts, they bear more of the burden from tariffs, which are a tax on imported goods. The poor spend a larger share of their income than the rich do on things they want or need, including on imported goods, rather than saving or investing it, so tariffs operate as a sharply regressive tax.

It is a mistake to imagine that the imports subject to tariffs are luxury goods like fine wines and sports cars; the tariffs threatened so far would fall instead on everyday household goods made in China, Canada and Mexico, along with steel and aluminum, which are used in a vast array of things Americans buy. It's not yet clear what the final level of tariffs will be, but the highest levels Mr. Trump proposed during the campaign — a 20 percent across-the-board tariff, combined with a 60 percent tariff on China — would cost a typical American household in the middle of the income distribution more than $2,600 a year.

If a candidate announced a tax increase on the poor and middle class to fund a tax cut for the rich, voters would soundly reject that proposal. But tariffs wrap this fiscal switch in a veneer of nationalism.

There is, however, a better way to change the tax system to promote economic activity at home. At the moment, our tax system encourages American companies to do business overseas, because their foreign income is taxed far more lightly than domestic income. For decades, American businesses argued that they needed this advantage because otherwise, U.S. companies would lose out to foreign companies that enjoyed even lower tax rates elsewhere.

After much negotiation, led in part by the former Treasury secretary Janet Yellen, the United States and more than 130 other countries reached a tax agreement in 2021 to fix that problem, coordinating a minimum tax rate of 15 percent on multinational income for companies with annual revenue of more than 750 million euros, or $784 million. This makes it far harder for big corporations to play countries against one another to pay the lowest possible corporate tax — in many cases achieving single-digit tax rates.

And yet the Trump administration wants the world to tear up this agreement, which Congress has not enacted into law. This reveals Mr. Trump’s economic agenda for what it truly is: not bringing jobs back home or even boosting American manufacturing but making the rich richer. To do this, Mr. Trump has one main goal: to shift the tax burden away from corporations and the wealthy. With tariffs, he is doing exactly that.

Tariffs have the added benefit, for Mr. Trump, of allowing more executive branch discretion than typical tax laws, which must be approved by Congress. (By law, Congress also controls the use of tariffs, but it has given the executive branch wide latitude to use them.) Presidential discretion means that Mr. Trump can give special treatment to favored companies or industries while punishing others.

What might constrain Mr. Trump from further remaking the tax system to serve his interests? There has been some pushback by members of Congress, but it is wishful thinking to rely on Republicans in Congress for such resolve. There may be court challenges, as well, by those who argue that these threatened tariffs exceed a president's authority.

Much more likely, and perhaps more effective, will be a negative reaction from markets and consumers. Global stock markets have anticipated some tariffs, but they will not take kindly to the economic mayhem that would result from across-the-board tariffs. Second, consumers and voters are now making a link between tariffs and higher prices, with two-thirds of Americans polled expecting tariffs to raise prices.

If the American public can truly see Mr. Trump's tariff war for what it is — an attempt to bend the tax system even more toward the interests of the wealthy — broad tariffs could become too unpopular to continue.

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