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High Tariffs: Trump's Golden Shower Rains on Congress

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President Trump says he is easing the pressure in his tariff pissing contest. But it's still hard to tell exactly with whom he is bargaining: China? Himself? Economics 101?

According to Chinese officials, Trump backed off his most extreme rhetoric before they could discuss anything. That might be because the president's brain – or more probably his advisors – finally caught up with his mouth. It might have dawned on the White House that America's self-proclaimed super dealmaker is in a comparatively weak bargaining position with China President Xi Jinping.

After China followed Trump and levied tariffs more than doubling the prices of imports from its counterpart, there are many reasons Trump might be expected to back down well before China does – though maybe not in a matter of days. For starters, American consumers and businesses buy [three times as much](#) from China as vice versa and will absorb more pain from higher prices.

Tariffs are taxes on imports that will raise prices and depress economic growth in both countries. The Chinese government, however, is in a much stronger position to withstand public backlash. While resulting price shocks

might reduce China's 5% [growth rate](#) a couple percentage points, they could push the US economy into [recession](#).

More important, as head of the Chinese Communist Party, Xi wields dictatorial power. Trump -- now facing [judicial](#) and political resistance to sending Americans whose political views he disfavors to prisons in El Salvador -- is finding out that he does not. The Chinese people can complain about higher food prices for years before Xi and the communist oligarchy would have to react. Public protest occurs in China to a limited degree, but its rulers can and will imprison people who defy important government policies and talk back to ruling party members. To control the impact of the Covid pandemic, for example, the Chinese government shut down segments of the economy and ordered people to stay home for months at a time – and they stayed home. Try telling Americans to do that.

Fast forward to this summer. People who voted for Trump could be walking into their local Walmart and seeing the prices of food, clothing, toys, and batteries jump up and find some [empty shelves](#). Many of these Americans already live paycheck to paycheck in jobs paying barely enough to pay the rent. These folks will be very angry especially after candidate Trump promised to improve their lives. Republican members of Congress are already getting an earful at [townhall meetings](#) about tariffs, taxes, and shipping people out of the country without due process. Voters don't need a college education to sense what a tariff war will bring. [Antitrust experts](#) expect American businesses will take advantage and use monopoly power to pad their prices as well.

Working class people generally understand that tariffs make stuff they buy cost more. This notion will be reinforced by economists on TV saying that tariffs are a [regressive tax](#) aimed mostly at them rather than people with higher incomes and wealth. Democrats can be expected to hammer the point home.

Meanwhile, Republicans in control of Congress might start thinking about what happens at the polls if Trump keeps on bargaining with himself – one day

raising tariffs sky high, the next proclaiming he will play nice with Chinese autocrats and planners who know they can outwait him. Some economists say the uncertainty his vacillations are creating could trigger an international [economic crisis](#) or severe recession.

While the leader of the free world plays air guitar on tariffs, China is orchestrating a coordinated trade and industrial policy. Chinese capitalists will work steadily to find [other countries](#) with which to trade other than the US. As Trump rips out electric [charging stations](#) in the US, China already is [widening its lead](#) in manufacturing and exporting electric vehicles. Trump's ignorant volatility might make them appear more reliable business partners, especially as his state department cuts the number of embassies and US diplomatic capacity.

Trade wars run the risk of blossoming into real wars. The US is in a weak financial position to go to war. US debt now equals the percentage of GDP it reached AFTER the absorbing the gigantic cost of fighting World War II. Adversaries may sense that Trump's America can ill afford to back up trade threats and promises with high-cost military force.

Congressional leaders know that the US budget is profoundly out of balance. The government is spending about [23% of GDP](#) but taking in only [17% in revenue](#). Barring legislative changes, borrowing to fill the gap is expected to push the national debt to 156% of what the nation produces by 2055. According to the mild-mannered [Congressional Budget Office](#): "Mounting debt would slow economic growth, push up interest payments to foreign holders of U.S. debt, and pose significant risks to the fiscal and economic outlook; it could also cause lawmakers to feel constrained in their policy choices."

Trump sees tariffs as a shower of gold he can harvest without going through Congress as well as a tool to bend foreign leaders to his will. Leaders of the House and Senate should realize that a trade war will not only hurt them with voters but also constrain their options in the upcoming legislative battle over taxes and spending. Even Trump seems to finally realize that extremely high

tariffs are likely to reduce trade to a trickle. [Less trade](#) reduces economic growth, which will make it harder to raise revenue. You can only whip a plow horse so much before it starts to slow down.

As more people in their own states suffer economic hardship, Republicans are beginning to realize that, in order to fill fiscal gaps, they cannot rely on making major cuts to [Medicaid](#) and other programs people need to survive. Unless they can stomach raising the national debt even higher, the party may be forced to consider tax increases for the [wealthiest Americans](#). [These include](#) corporate taxes, higher top income taxes, and estate taxes. Higher taxes at the top will be more difficult to resist as Democrats, and some Republicans, point out that Trump, in effect, already has raised taxes mostly impacting the working class through higher tariffs.

The conservative [Penn Wharton Budget Model](#) earlier this month estimated that Trump's tariffs will reduce long-run GDP by about 6% and wages by 5%, saddling a middle-income household with a \$22K lifetime loss. The economic losses from his tariffs "are twice as large as a revenue-equivalent corporate tax increase from 21% to 36%, an otherwise highly distorting tax," the analysis concluded.

Corporate profits may be ripe for a tax increase. As [income inequality](#) continues to grow, US corporate profits have surged to near all-time highs since the start of the COVID-19 pandemic, both in nominal terms and as a share of national income. A [Fed analysis](#) found: "As of the last quarter of 2024, they were \$4 trillion—2.3 percentage points higher as a fraction of national income than they were prior to the pandemic. The increase was entirely driven by domestic nonfinancial industries. Notably, retail and wholesale trade, construction, manufacturing, and health care experienced a marked increase in profitability. Higher corporate profits mostly went to rewarding shareholders via higher dividends."

Although raising taxes on the well-off and protecting Medicaid may be new impulses for Republicans, these policies could be the beginning of a political sea change that strengthens the party's appeal to working class Americans.

The party can also make inroads by protecting low- and middle-income people from the worst impacts of Trump's tariffs.

Meanwhile, the clock is ticking before July 4th barbecues and [fireworks](#) get a lot more expensive.

Karl Polzer is founder of the [Center on Capital & Social Equity](#), which explores economic inequality and advocates for 'the bottom 50%'.



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