

Tariffs and the Economic and Fiscal Outlook

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Trade Myths vs. Facts

Trade deficits are NOT a sign that you are being ripped off or that you are losing.

- The numbers often cited are for goods trade and omit the large surplus in services trade.
- Current account deficit = capital account surplus

Tariffs are paid almost entirely by domestic “consumers”, either producers or final consumers.

The US has not faced high tariffs from its trading partners.

- The average tariff had been in the middle of the pack among rich countries.
- Now it's comparable to poor third-world countries.

Tariff Facts

Average tariffs, 2022, Select Countries

COUNTRY	TARIFF			COUNTRY	TARIFF	
	KENYA	15.83%			UNITED KINGDOM	3.52% 
	INDIA	14.26%			ISRAEL	3.25% 
	ARGENTINA	14.11%			UNITED STATES	2.72% 
	BRAZIL	12.38%			AUSTRALIA	2.01% 
	SOUTH KOREA	11.06%			JAPAN	1.99% 
	SOUTH AFRICA	7.32%			GERMANY	1.95% 
	CHINA	6.54%			FRANCE	1.95% 
	MEXICO	6.02%			ITALY	1.95% 
	INDONESIA	5.82%			CANADA	1.83% 
	VIETNAM	3.71%			SINGAPORE	0.22% 
					HONG KONG (CHINA)	0% 

Sources: Cato Institute, World Bank, Yahoo Finance

US Tariffs Have Changed More than 50 Times since Liberation Day

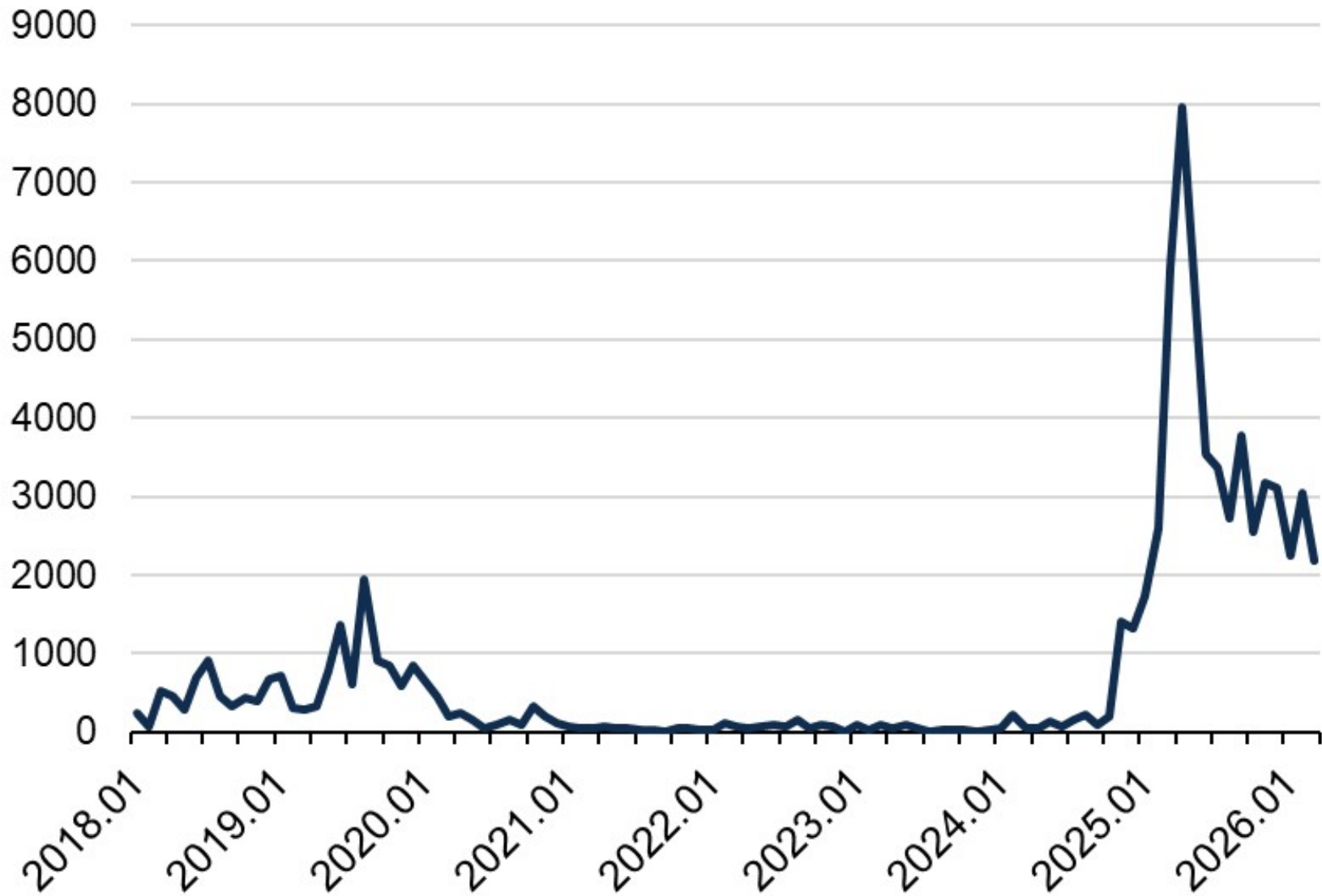
Weighted Average Applied Tariff Rate on 2024 US Import Mix



Note: Chart includes major changes in tariff policy between February 2025 and February 2026. Weighted average applied tariff rate is based on 2024 import mix with adjustments for USMCA compliance. Source: Tax Foundation estimates.



Trade Policy Uncertainty Index



Costs of Tariffs

Deadweight Losses

Resources are diverted from the production of other goods to the production of the tariffed good.

Income is diverted from the consumption of other goods. Less consumption overall.

Or, firms buy less of the tariffed goods as well as other inputs. Less production overall.

Rent seeking

Resources are spent lobbying to obtain/prevent tariffs.

Political dysfunction as government replaces market decisions.

Costs of Tariffs

Inflation

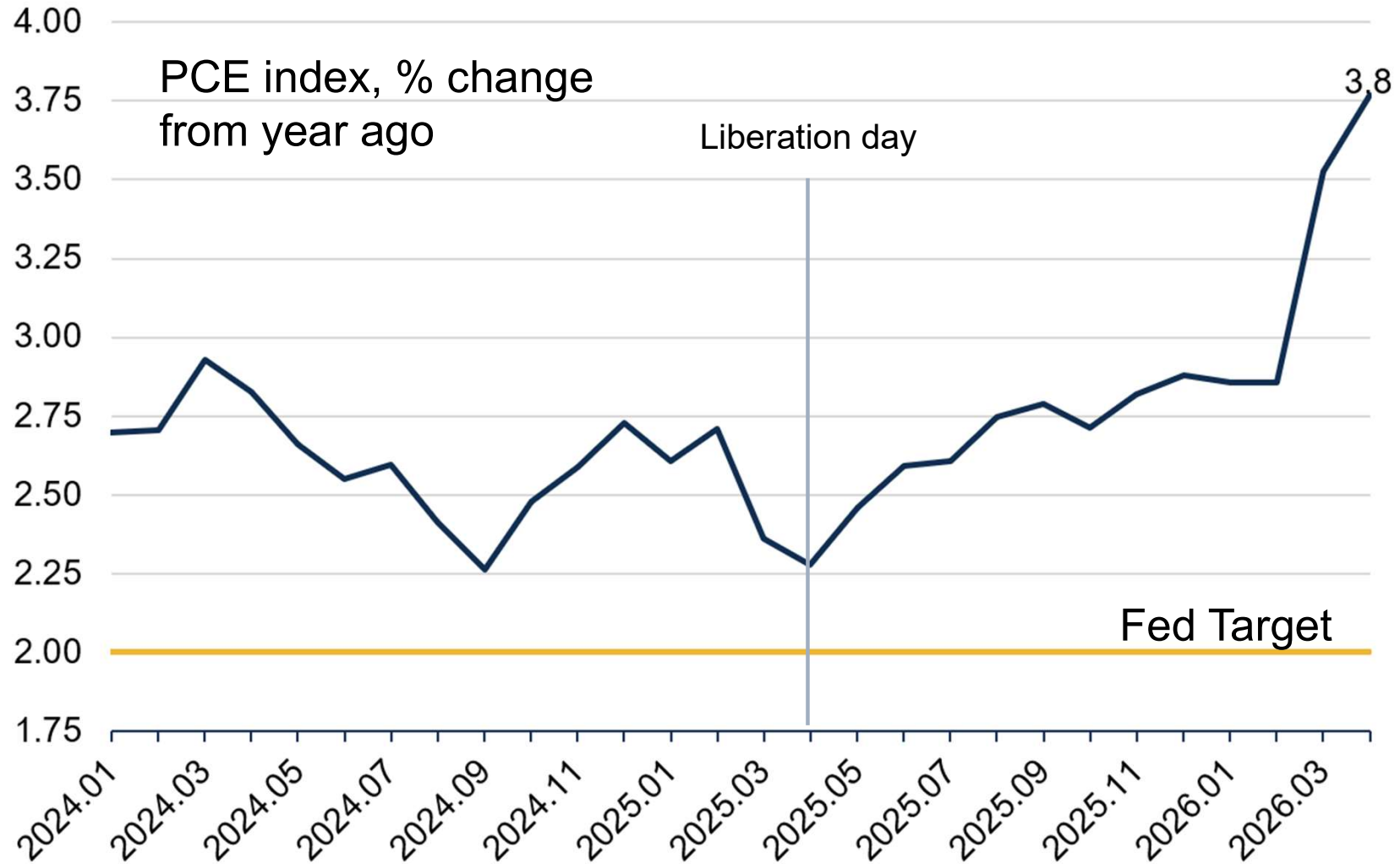
Inflation is NOT the main problem with tariffs, but the inflation rate has risen by about half a percent because of them.

Monetary policy becomes more difficult:

- Are increases in measured inflation due to tariffs or loose money?
- Uncertainty about tariff levels means uncertainty about inflation rates and interest rates.

Also, the tariffs will slow down the economy, so lower rates might be called for. About 0.5% lower annual growth due to tariffs.

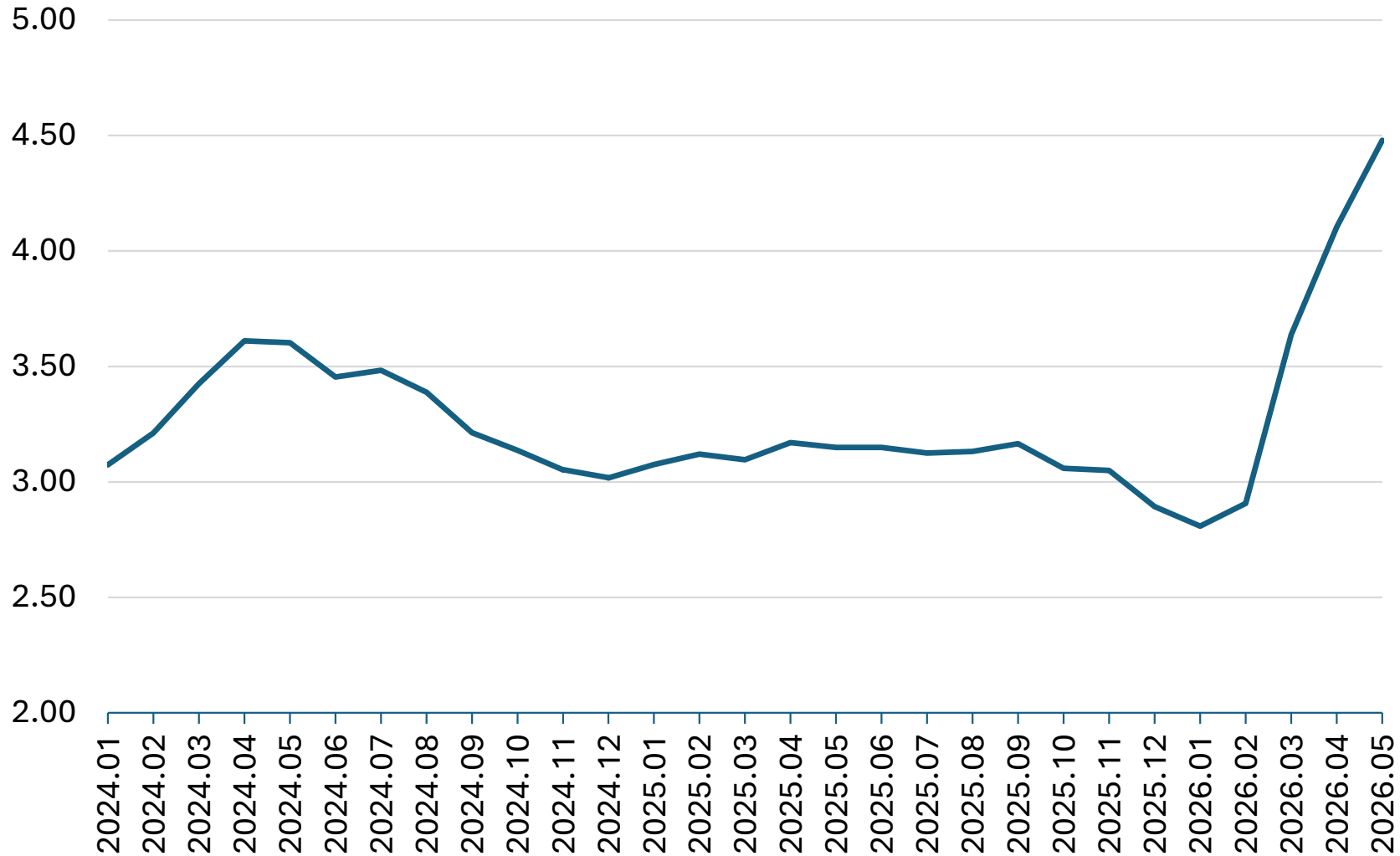
Inflation vs Fed Target



Oil Price: W. Texas Intermediate

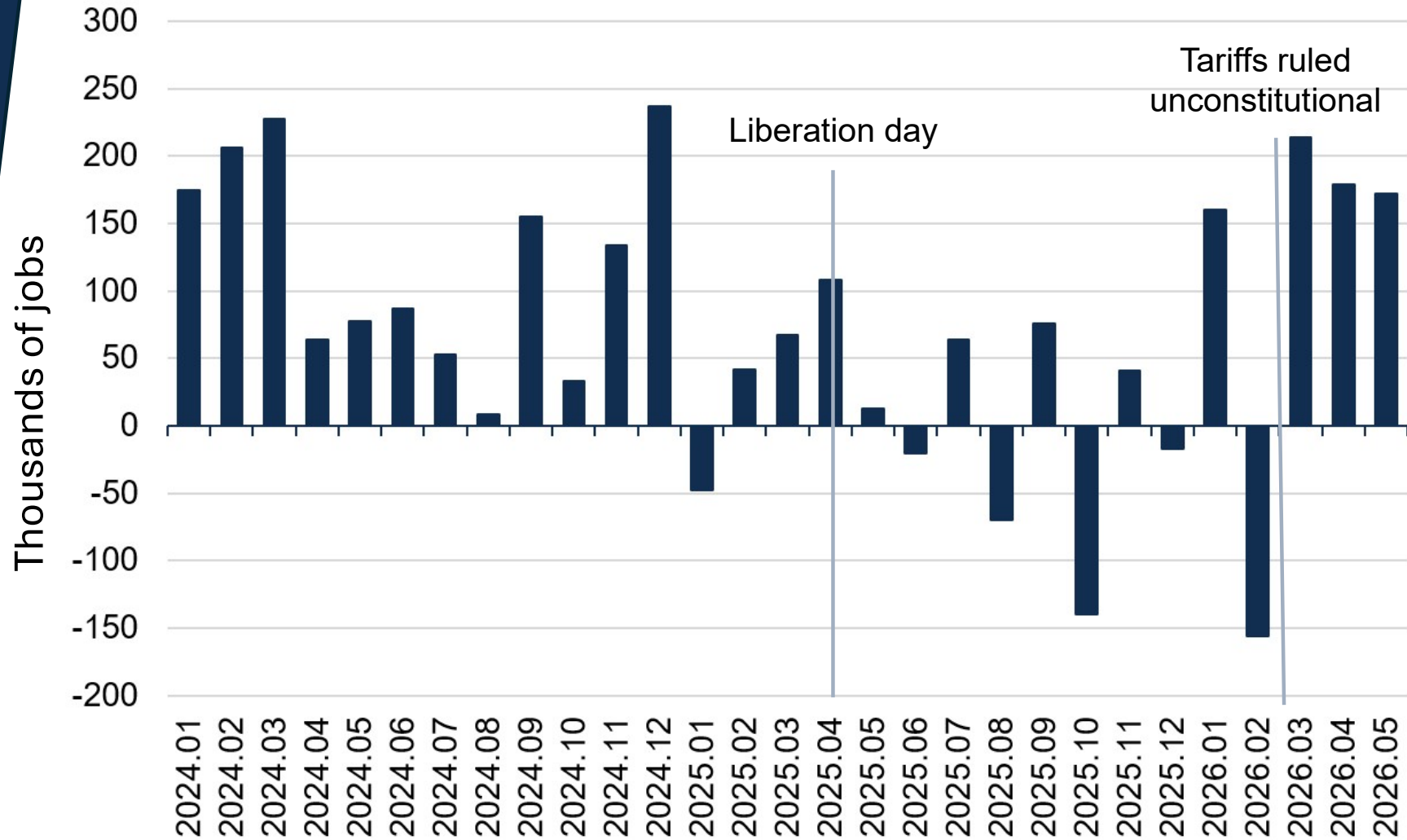


Gas Prices: U.S. Average

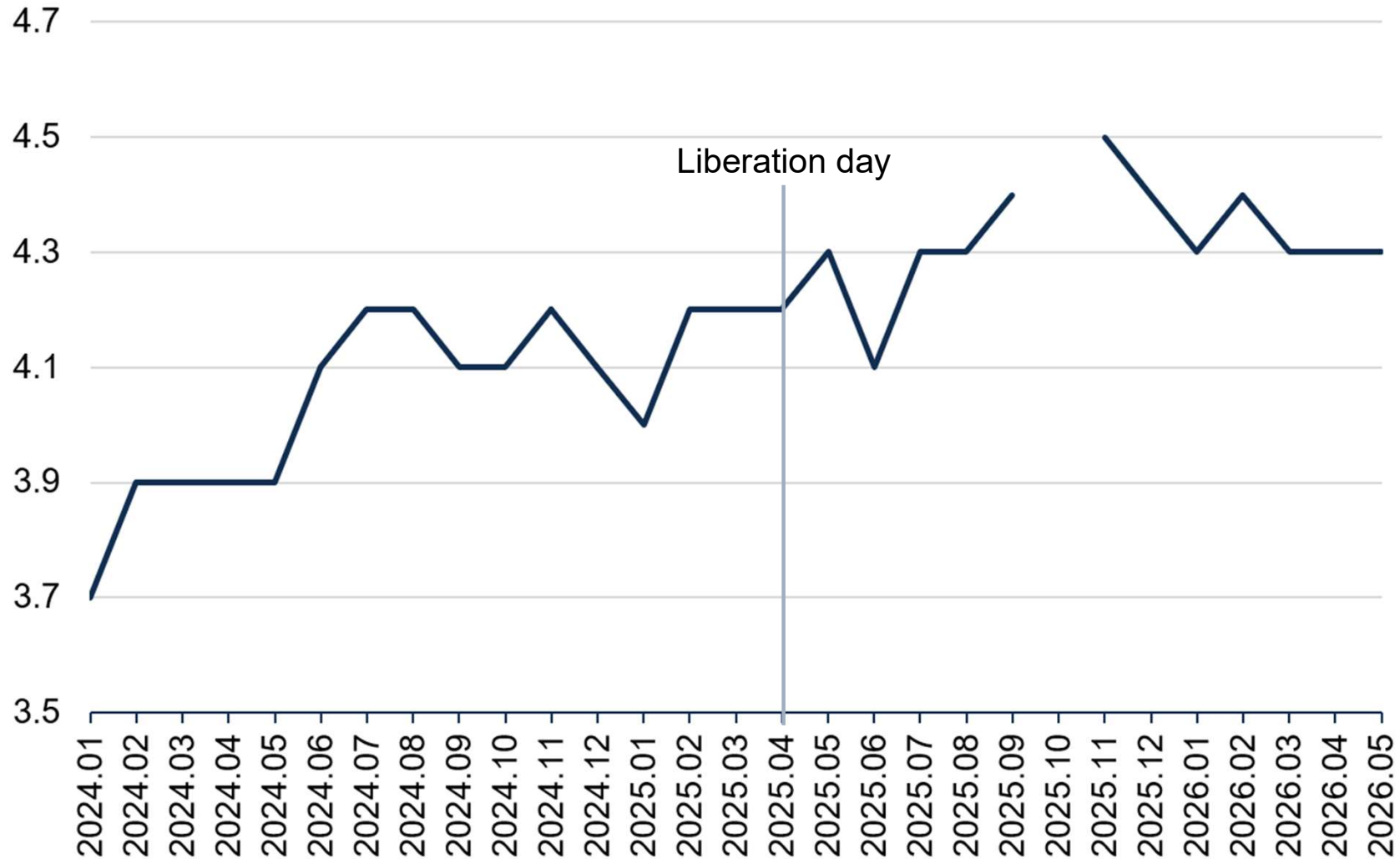


Nonfarm Employment Growth

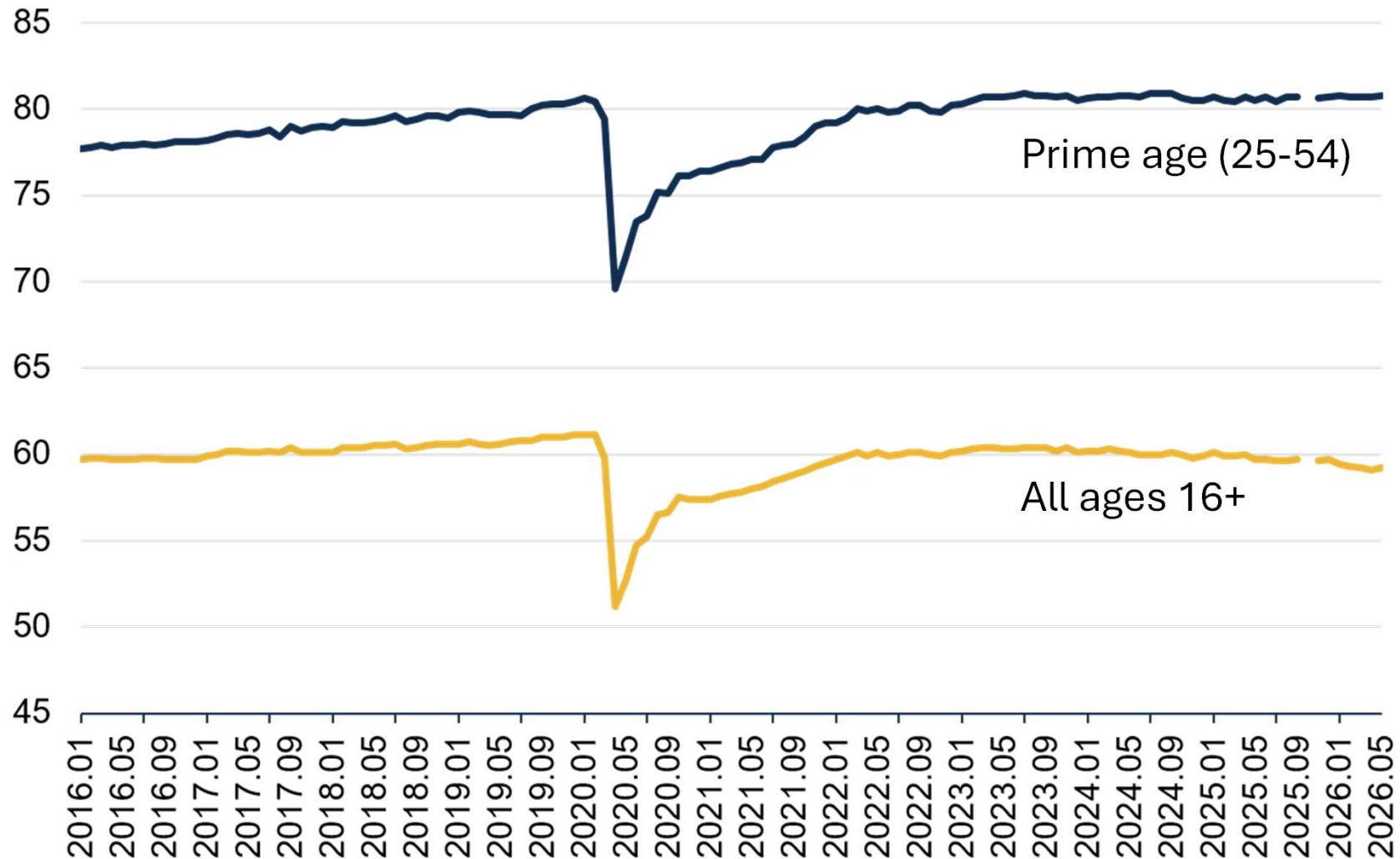
4.9%



Unemployment Rate

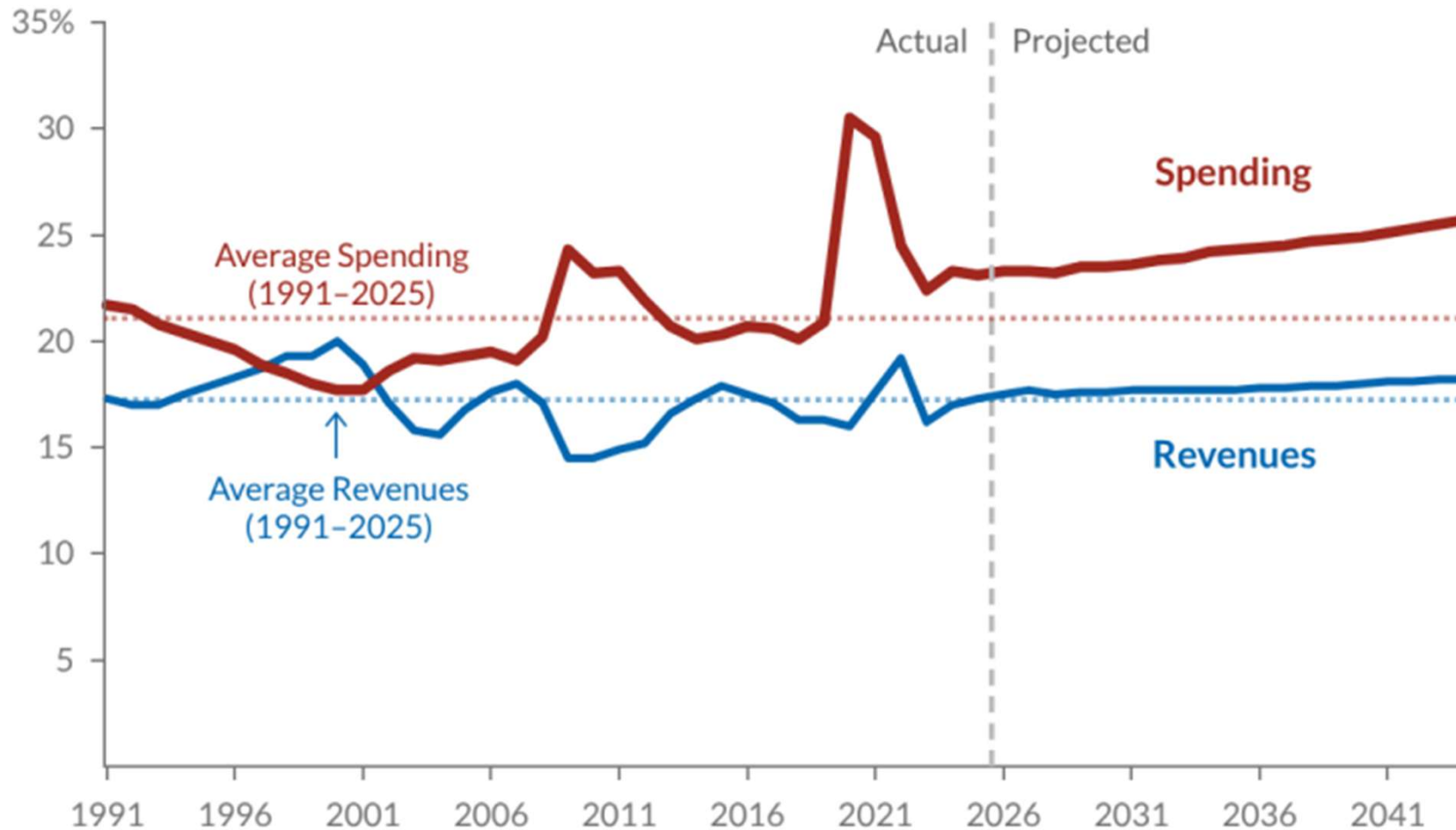


Employment to Population Ratios



Federal Fiscal Policy

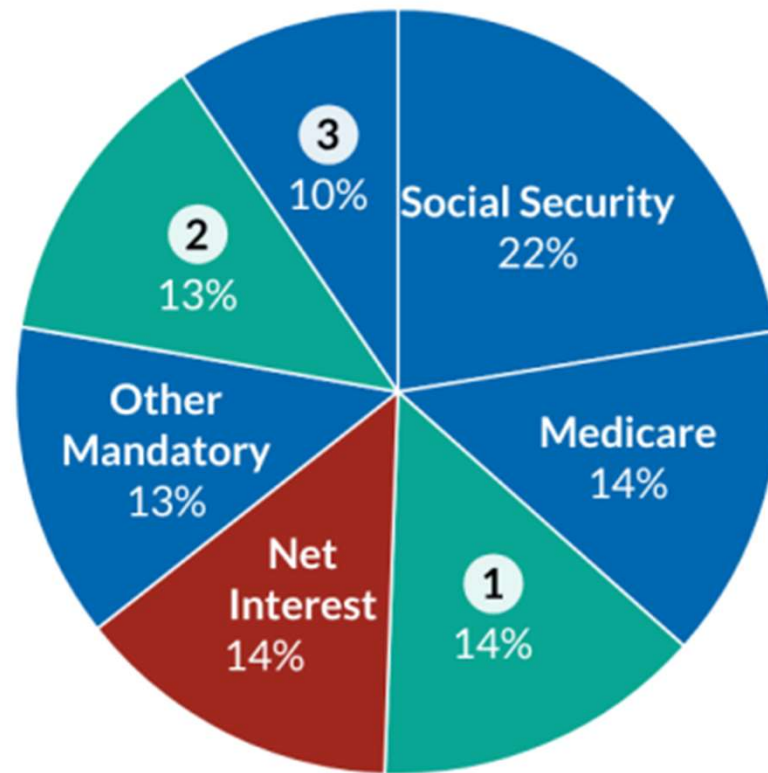
Federal Spending and Revenues (% of GDP)



Federal Fiscal Policy

FY 2025 Outlays: \$7 Trillion

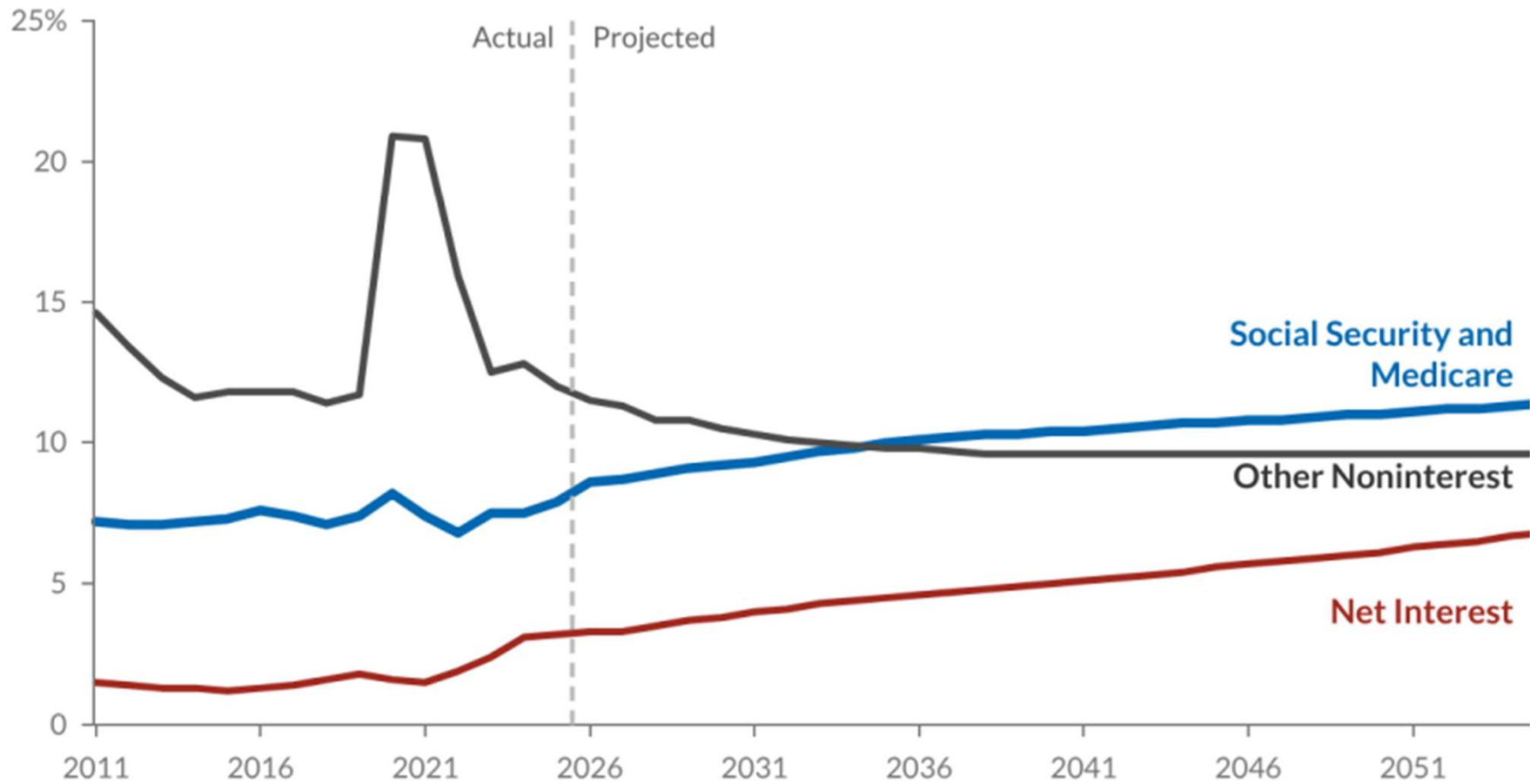
■ Mandatory (59%) ■ Discretionary (27%) ■ Net Interest (14%)



1 Nondefense Discretionary 2 Defense Discretionary 3 Medicaid

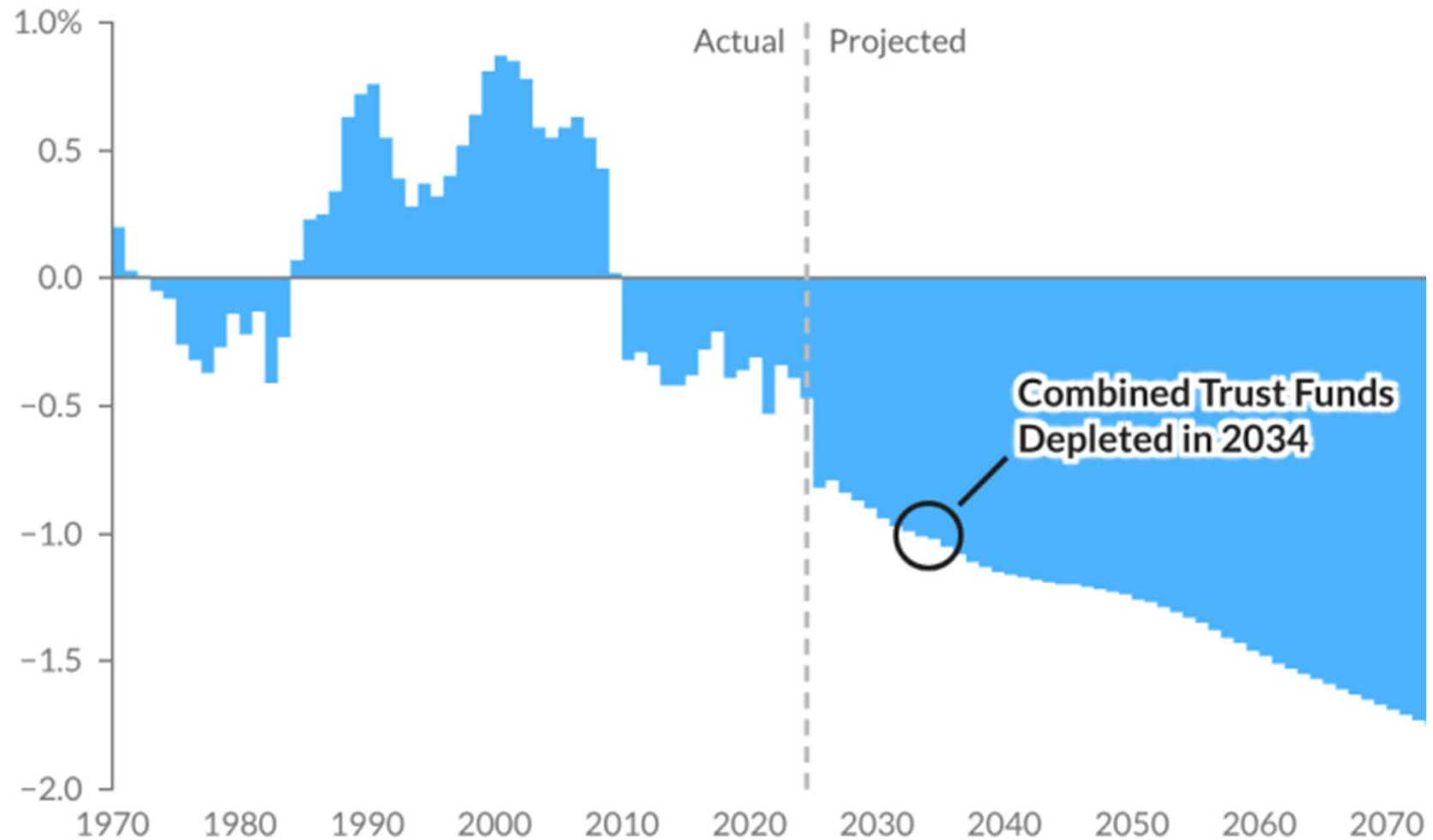
Federal Fiscal Policy

Federal Spending (% of GDP)



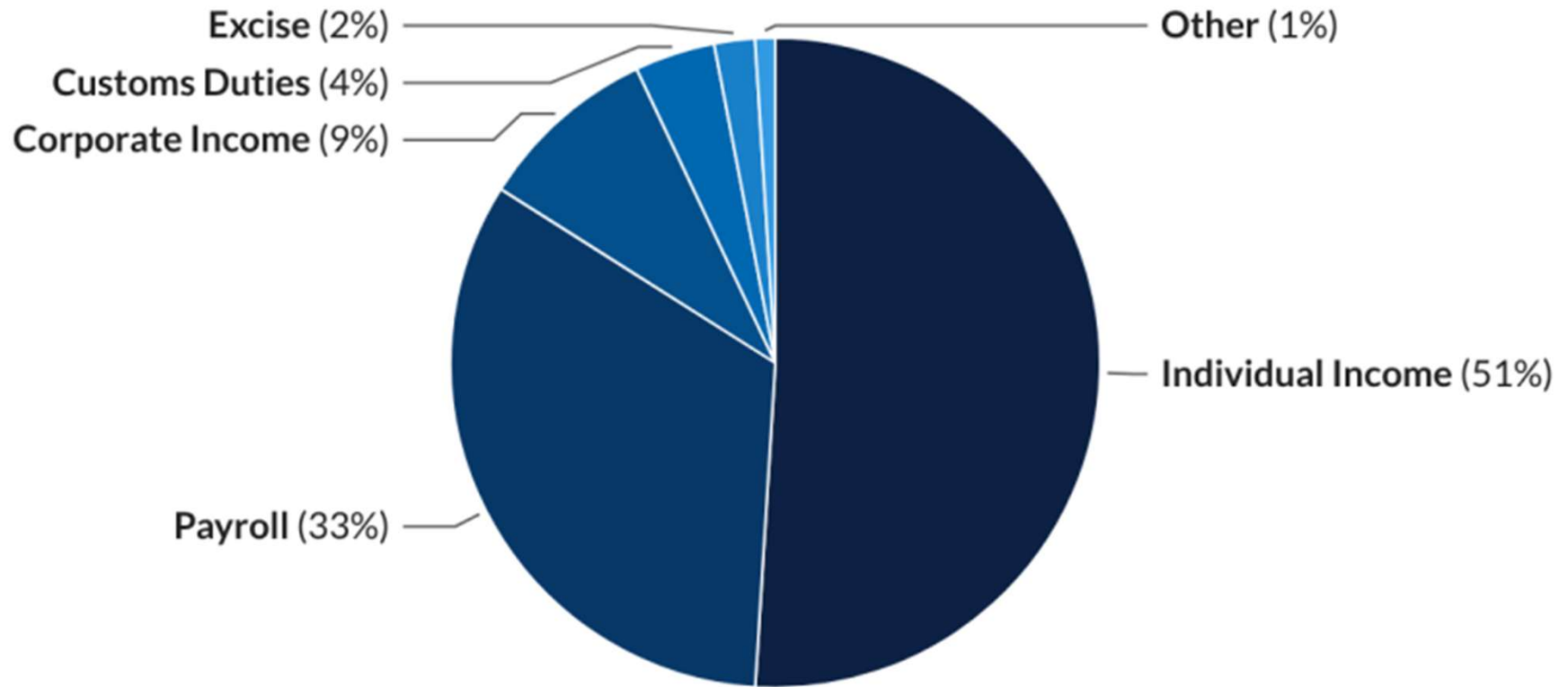
Federal Fiscal Policy

Social Security Surpluses/Deficits (% of GDP)



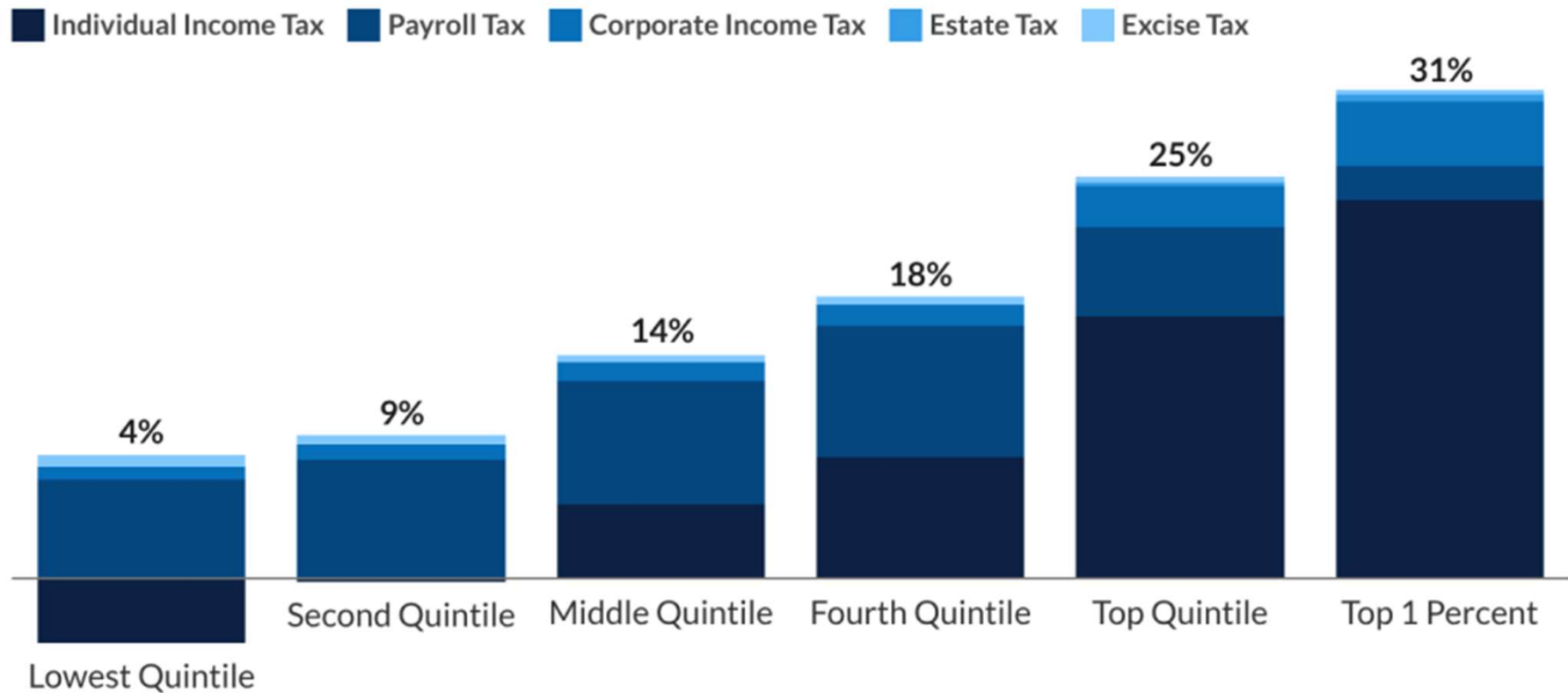
Federal Fiscal Policy

2025 Revenues:
\$5,235 Billion



Federal Fiscal Policy

Effective Federal Tax Rate (% of Expanded Cash Income in 2022)



Thank You!

Questions?