Economic Policy Department

GLOBAL INSIGHTS

Chart of the Week

The Cost of Protectionism

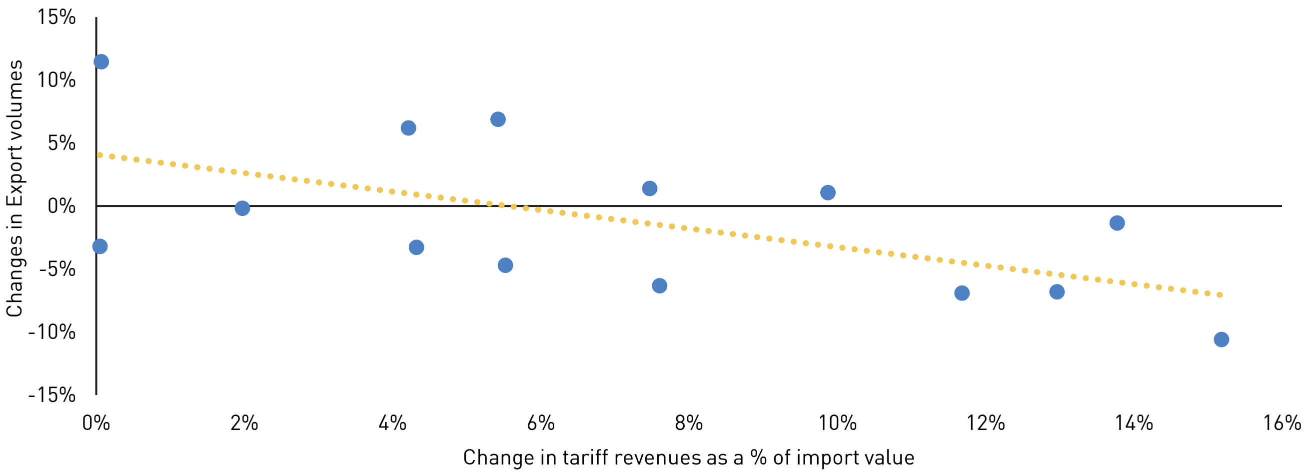
How U.S. Tariff Policy Undermines Its Own Objectives

With the so-called "Liberation Day" on April 2, 2025, the U.S. government introduced a new and extremely aggressive tariff policy. It was intended to achieve two goals simultaneously: reducing trade deficits and creating fiscal leeway through tariff revenues without having to forgo domestic policy relief. Data now shows that this economic "squaring of the circle" has not worked out. This is because U.S. tariffs affect not only final goods, but also imported intermediate goods that U.S. companies need for their own production processes. Rising input costs, in turn, weaken the price competitiveness of U.S. exports. Calculations by the Peterson Institute for International Economics (PIIE) illustrate this for the period immediately following the tariff announcements (April to July 2025) compared with the same period last year: the higher tariff burden – shown here in terms of tariff revenues (as a percentage of import value) – is accompanied by lower exports in the same product groups.

Tariffs Backfire: Higher Input Costs Weaken U.S. Export Competitiveness

Change in U.S. tariff revenues (x-axis) compared with the change in U.S. export volumes by HTS product groups (y-axis), April–July 2025 relative to April–July 2024.

Values in percent



Source: USITC DataWeb, US Bureau of Labor Statistics, Hufbauer und Zhang (2025).
Note: Each dot represents an HTS (Harmonized Tariff Schedule) chapter group with an import value of > USD 10 billion, excluding precious metals, as their trade movements during this period can be explained more by inflation/flight motives than by customs policy.

The distributional impact also differs from what is politically claimed. New analyses by the Kiel Institute for the World Economy (IfW Kiel) conclude that U.S. consumers bear around 96% of the tariff burden in the form of higher import prices, while foreign suppliers absorb only a small portion through lower export prices. The downside, however, is that export-oriented countries with a strong focus on the U.S. market sell less due to higher domestic prices. Overall, the tariffs therefore create long-term disadvantages for all parties involved.

TAKE: With its protectionist trade policy, the U.S. government is damaging both its own economy and those of its trading partners. Additional uncertainty has recently been caused by tariff threats against individual EU member states in connection with the Greenland issue. Stable and predictable trade relations, however, are a key foundation of prosperity – especially for Europe's export-oriented economies. Against this backdrop, it is all the more important to swiftly advance and conclude trade agreements with other regions of the world. In addition to the rapid entry into force of the EU-Mercosur Agreement, further partnerships – in particular with the dynamic and rapidly growing market of India – should therefore be ratified in the near future.

Follow us and check our latest publications!

Media Owner/Publisher:
Austrian Federal Economic Chamber
Economic Policy Department
Wiedner Hauptstrasse 63, 1045 Vienna
wp@wko.at, wko.at/wp, Tel: +43 5 90 900 | 4401

Head of Department:
MMag. Claudia Huber

Editor-in-Chief:
Thomas Eibl

Author/Contact Person:
Raphael Terasa,
Raphael.terasa@wko.at
Tel: +43 5 90 900 | 3402

27. January 2026