Who Really Pays for Tariffs?

A Coffee Maker Example

The Setup: Before Any Tariffs

An Indian company manufactures coffee makers and sells them to Target (a US retailer):

- **Indian company's price:** \$50 per unit
- **Target imports:** 10,000 units/month
- **Target's retail price:** \$80 (includes shipping, overhead, profit)
- **Target's monthly cost:** \$50 × 10,000 = **\$500,000**

The Policy Change: US Imposes a 25% Tariff

The US government announces a 25% tariff on Indian imports. **Question:** Who pays this tax?

Scenario A: The Political Claim ("India Pays")

If foreign exporters absorbed the tariff cost...

Hypothetical: Full Absorption by India

- Indian company **drops price** to \$40 per unit
- US tariff adds \$10 (25% of \$40)
- Total cost to Target: \$40 + \$10 = **\$50** (unchanged!)
- Target still imports 10,000 units
- American consumers still pay **\$80** in stores

Result: Indian company loses \$10/unit in profit. Americans pay nothing extra.

Scenario B: The Research Finding ("Americans Pay")

What actually happened according to the Kiel Institute study...

Reality: 96% Pass-Through to Americans

- Indian company **keeps price** at $50 per unit (or drops minimally to $48)
- US tariff adds $12.50 (25% of $50)
- Total cost to Target: $50 + $12.50 = **$62.50** (+25%!)
- Target faces three bad options:
  1. Raise retail price to $92.50 → **consumers pay more**
  2. Accept lower profit margins → **Target earns less**
  3. Order fewer units (drops to ∼7,500/month) → **less selection**

Result: Indian company maintains margins. Americans pay $12.50 more per unit.

Why Don't Indian Companies Lower Their Prices?

The Logic: Indian exporters have alternatives and leverage.

1. **Other markets exist:** They can sell to Europe, Asia, or other countries at full price
2. **Math doesn't work:** Cutting prices by 20% to offset a 25% tariff destroys profitability
3. **Supply chains are sticky:** Target can't easily switch to non-Indian suppliers overnight
4. **Better to sell less:** Maintain profit margins on fewer sales rather than slash prices

The Numbers: What Actually Happened

Metric	Before Tariff	After Tariff	Change
Indian export price	$50	$50	No change
Tariff paid by Target	$0	$12.50	+$12.50
Total cost to Target	$50	$62.50	+25%
Monthly import volume	10,000	7,500	-25%
US consumer price	$80	$92.50	+$12.50
US tariff revenue	**$0**	**$93,750/mo**	**Paid by Americans**

The Bottom Line: America's "Own Goal"

Key Finding from 25M+ Shipments

Foreign exporters absorbed only 4% of tariff costs.
American importers and consumers paid the other 96%.
The $200 billion surge in US customs revenue in 2025 came almost entirely from American wallets, not foreign companies. The tariff functions as a **consumption tax on Americans**, not a penalty on foreign producers.