

Discussion of

Transitory and Permanent Import Tariff  
Shocks in the United States: An Empirical  
Investigation

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# Most Important Policy Question Right Now

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## **What are the macroeconomic effects of U.S. tariffs?**

- Are tariffs inflationary and contractionary?
- Do tariffs improve the trade balance?

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- Model tariffs as having stochastic **transitory** and **permanent** components
- Do not impose “price level must increase” sign restrictions

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## Bayesian state-space estimation

- Quarterly data from 1959:Q1-2024:Q4
- Measure of import tariff rate: trade-weighted import tariff rate,  $\tau_t = \sum_i s_{it} \tau_{it}$

# Main Findings

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Tariff shock	Inflation	Output	Trade balance	Fed reaction
Transitory	↓ (not inflationary)	↑ (not contractionary)	↑ (improves)	eases
Permanent	↑ (one-time jump)	$\approx 0$	$\approx 0$	tightens

- About 80% of tariff movements are transitory
- Tariff shocks accounts for about 5% of the variation in inflation, output, interest rate

# Main Findings

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## Findings are robust

- Allow for endogenous import tariffs
- Alternatives measure of import tariff rate
  - Construct **NEW** quarterly Trade Restrictiveness Index
  - HTS 6-digit product level, 2761 products, from 1990:Q1-2024:Q4
- Treat inflation during Nixon-era price controls as missing observations

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**Great paper with elegant empirical approach and clean results!**

# Monetary Policy (MP)

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Understanding macroeconomic effects of tariffs requires to take a stance on MP

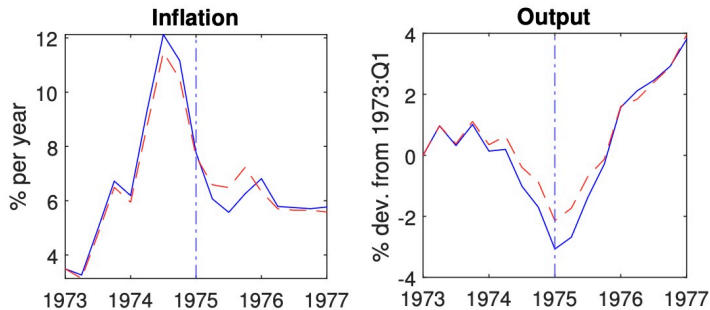


# Monetary Policy (MP)

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Understanding macroeconomic effects of tariffs requires to take a stance on MP

- MP response to macro conditions assumed to be time-invariant

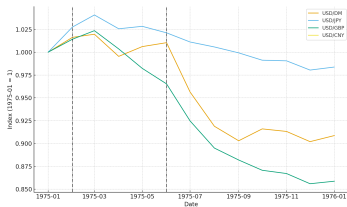


- Ford temporary tariff (1975) appears contractionary
- Is the response of output during this historical episode not in line with main findings?
- Most likely consistent (expansionary) if allow for weaker MP response pre Volker

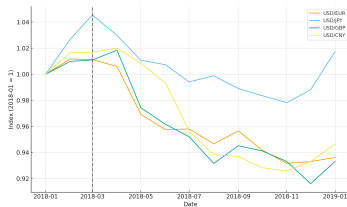
# Tariffs and the US Dollar

- USD against major currencies following tariff shocks
  - Ford (1975) temporary tariff → appreciate
  - Trump (2018) permanent tariff → appreciate
  - Trump (2025) tariff → depreciate

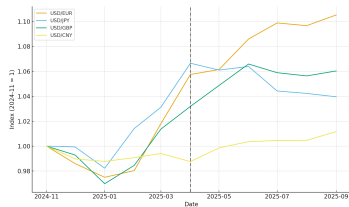
Ford (1975): temporary



Trump (2018): permanent



Trump (2025)



- Do import tariffs weaken or strengthen the US dollar? Answer does not seem to (strictly) depend on whether temporary or permanent

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  - $\uparrow$  import tariff  $\rightarrow$  reduction in convenience yields  $\rightarrow$  negative valuation effects  
 $\rightarrow$  exchange rate must depreciate



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- Can the valuation-effects channel be tested by adding the convenience yield as an additional observable?

## News/Anticipated Shocks

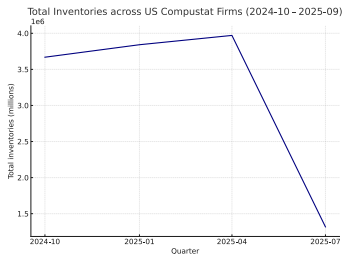
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- Anticipated shocks to business cycles in the postwar United States account for more than two thirds of predicted aggregate fluctuations [Schmitt-Grohé and Uribe, 2012]
- Tariff episodes may also involve anticipatory effects

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... perhaps anticipated shocks or news that shocks may be temporary

- Are anticipated tariff shocks also an important source of uncertainty?

# Final Thoughts

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- Very nice paper. Learned a lot from it!
- Framework could be use to address other important questions
  - Do tariffs lead to an exchange appreciation?
  - Can import tariffs erode the dollar's "exorbitant privilege"?