

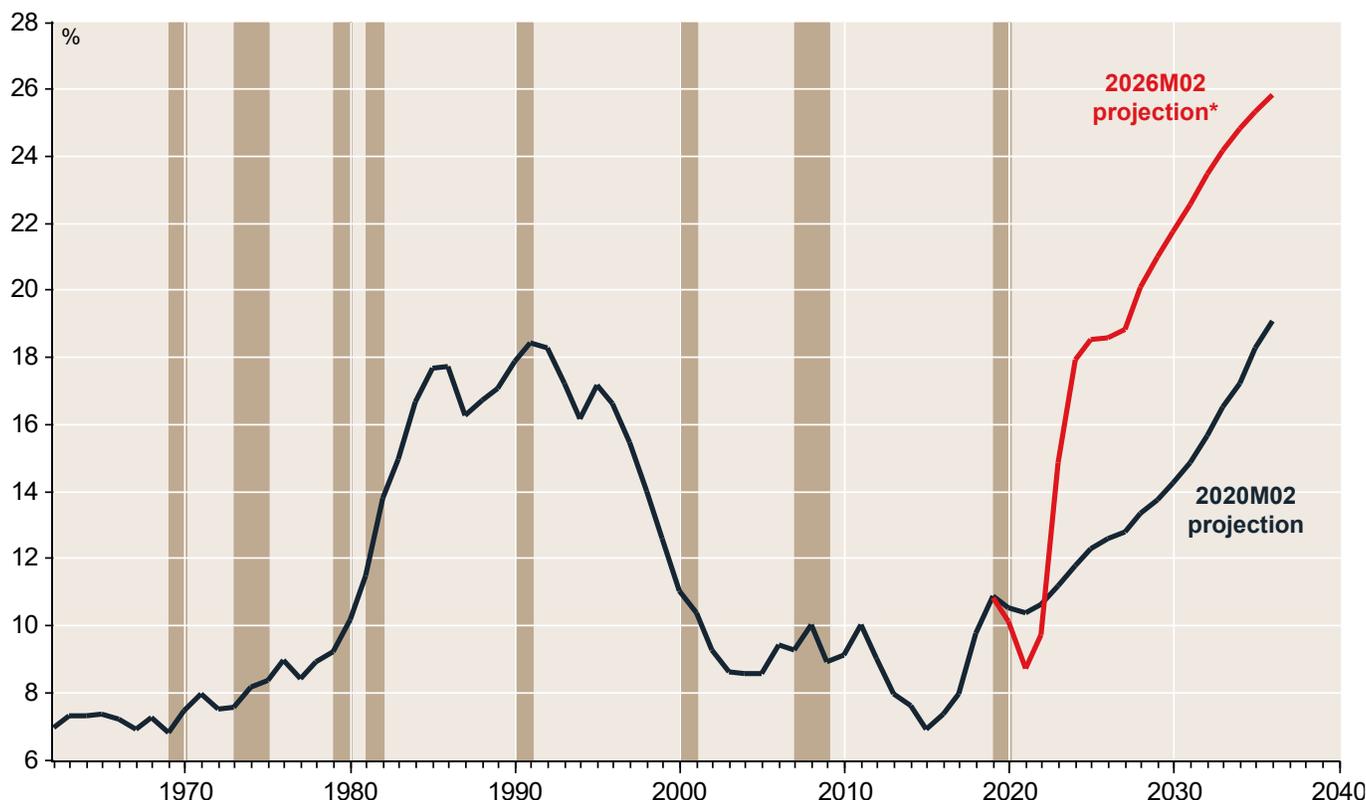
U.S. Watch

By Jocelyn Paquet

Last Friday, the U.S. Supreme Court overturned the tariffs that the Trump administration had imposed last year under the International Emergency Economic Powers Act (IEEPA). This decision temporarily lowered the average tariff on imported goods from 13.6% to 6.4%. Had the reduction been permanent, it would have significantly lowered the tariff burden on businesses and potentially eased price pressures in the goods sector, a growing concern lately. However, it would also have contributed to a dramatic decrease in customs duty revenues for the federal government, from approximately \$335 billion per year to \$155 billion per year. We doubt this would have gone down well with bond traders, who already have good reasons to question the U.S. government's fiscal trajectory. Just a few weeks ago, the nonpartisan Congressional Budget Office indeed published its latest projections, showing substantial deficits as far as the eye can see and an increase in the debt-to-GDP ratio to record levels. As today's Hot Chart shows, these projections also highlighted a significant deterioration in the projected trajectory of net interest payments as a percentage of total government revenue since the pandemic. It should be noted here that these figures were based on average tariff revenues of \$300 billion per year over the next 10 years. They would have looked much worse if this assumption had been reduced to \$155 billion. But the situation was not to last. As much to reassure the bond market as to stimulate domestic production, the Trump administration responded to the Supreme Court's ruling by imposing a universal 15% tariff under Section 122 of the Trade Act of 1974. This brought the effective tariff rate back up to 12.0% and increased tariff revenues to around \$290 billion per year, with the remaining shortfall potentially to be addressed by a new round of sectoral tariffs. While the fiscal endpoint might in the end not be so different from what prevailed last week, the events of the last few days – notably the rush to reassure markets that tariff revenues would not decrease – highlights the policy paradox in which the administration currently finds itself, where any reduction in tariffs is likely to be viewed positively from an economic standpoint but negatively from a fiscal one. "Damned if you do, damned if you don't" sure seems an apt description of Washington's policy options when it comes to tariffs.

U.S.: Lower effective tariff rate no help for fiscal trajectory

Net interest payments as a share of total revenues



*Assumes \$300 billion of tariff revenues per year, on average, over the next 10 years

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