the budget lab

Economic and Fiscal Effects of the February 2025 Proposed Tariffs on China

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The Budget Lab estimates that the 10% China tariffs raise the overall price level by just over 0.1%, which is the equivalent of a decline in disposable income of $223 per household on average. The policy raises roughly $400 billion over 10 years, but less when the -0.1% lower level of GDP that results is taken into account.

Table 1. Summary Economic & Fiscal Effects of 10% Tariff on China

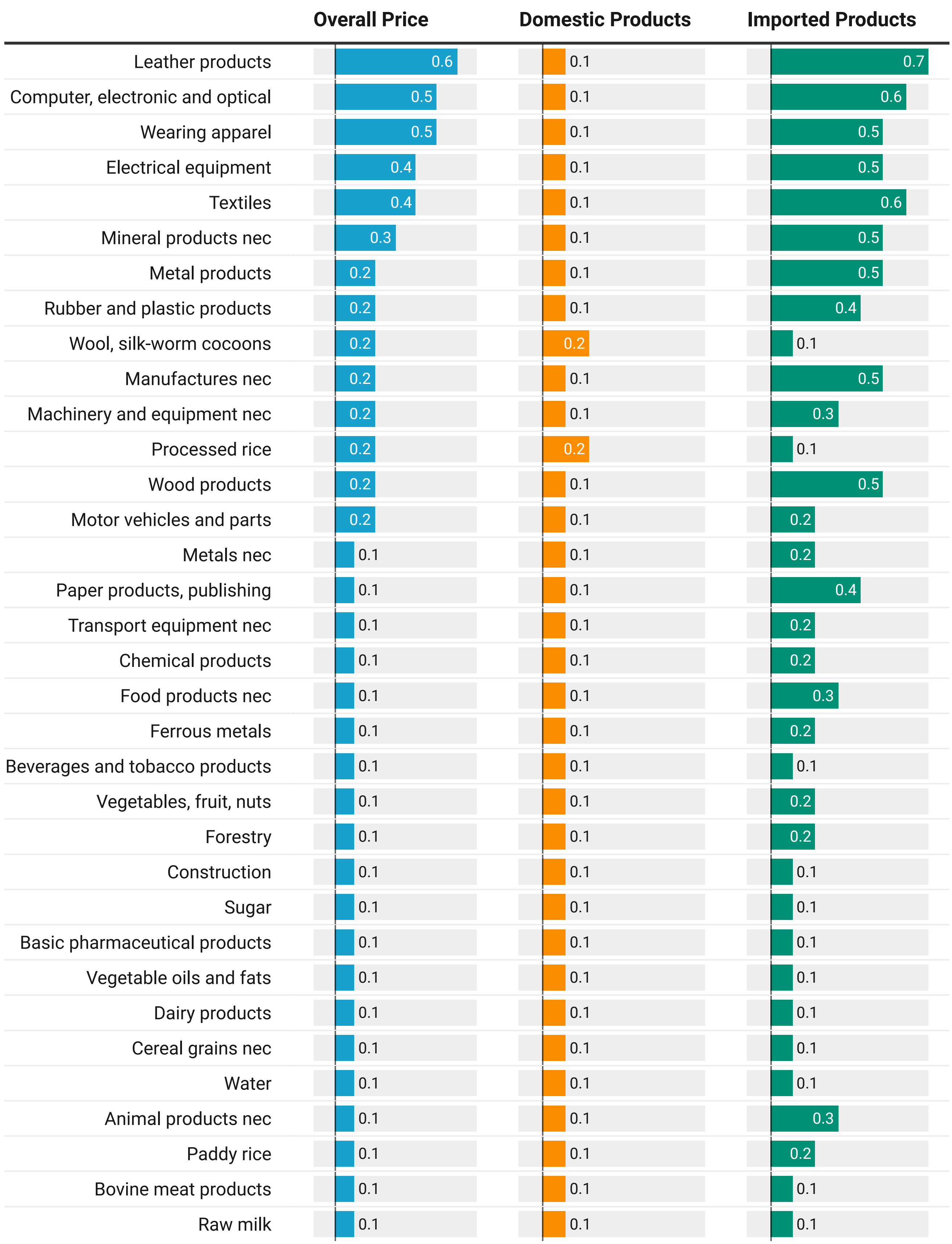
	Conventional Score***					Add'l Dynamic Effects in Equilibrium	
	2025-34		In Equilibrium				
Applies to...	$billions	% of GDP	% Change in PCE Price Level*	Decline in Average Real Disposable Income per Household (2024$)*	Add'l Effective Tariff Rate (p.p.)**	% Change in Real GDP Level	Dynamic Revenue Effects, 2026-35 ($bn)
With Retaliation	**$396**	**0.1%**	**0.14%**	**-$223**	**1.00**	**-0.06%**	**-$43**

** Assumes Chinese retaliatory tariffs announced as of February 4. ** Pre-substitution. *** Post-substitution. **** Under relaxed conventional assumptions.*

Table: The Budget Lab • Source: Congressional Budget Office, GTAP v7 [Corong et al (2017)], The Budget Lab analysis. • Created with Datawrapper

Figure 1. Commodity Price Effects from the February 2025 10% China Tariff Proposal

Percent change to price level, medium-to-long run



Communication	0.1	0.1	0.1
Crops nec	0.1	0.1	0.1
Meat products nec	0.1	0.1	0.2
Warehousing and support activities	0.1	0.1	0.1
Wheat	0.1	0.1	0.2
Public Administration	0.1	0.1	0.1
Human health and social work	0.1	0.1	0.0
Fishing	0.1	0.1	0.1
Business services nec	0.1	0.1	0.1
Recreational and other services	0.1	0.1	0.1
Accommodation & food services	0.1	0.1	0.1
Bovine cattle, sheep and goats	0.1	0.1	0.2
Trade	0.1	0.1	−0.1
Transport nec	0.1	0.1	0.1
Plant-based fibers	0.1	0.1	0.0
Real estate activities	0.1	0.1	0.1
Education	0.1	0.1	0.1
Water transport	0.1	0.1	0.0
Dwellings	0.1	0.1	0.1
Financial services nec	0.1	0.1	0.0
Gas manufacture, distribution	0.1	0.1	0.1
Insurance	0.1	0.1	0.1
Oil seeds	0.1	0.1	0.1
Minerals nec	0.1	0.1	0.1
Electricity	0.1	0.1	0.2
Air transport	0.1	0.1	0.0
Sugar cane, sugar beet	0.1	0.1	0.1
Petroleum, coal products	0.1	0.1	0.1
Oil	0.1	0.1	0.0
Natural gas	0.0	0.0	0.0
Coal	0.0	0.0	0.0

"nec" = "Not elsewhere classified"

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The Short-Run Distributional Effects of the 10% China Tariffs

In the short-run, the 10% China tariffs raise PCE prices by 0.14%, assuming the retaliatory actions already announced by China and assuming the Federal Reserve does not counteract the price effects. This is the equivalent of a loss in annual purchasing power of $223 per household on average.

But this tariff burden is not equally shared across households. Tariffs are a near-term regressive tax. Distributional analysis by The Budget Lab using the Consumer Expenditure Survey finds that while disposable income falls 0.14% on average from the 10% China tariffs, it falls 0.08% for households in the top decile by income while it falls 0.21% for households in the second decile (Figure 2, first panel). The percent of disposable or after-tax income is the best way to gauge the progressivity of a tax policy. In dollar terms, the consumer loss is higher for higher-income households because the distribution of disposable income grows faster than the burden of the China tariffs fall: so the average loss is $92 per year for households in the second decile (again, 0.21% of their disposable income) and $412 for households in the top decile (0.08% of their disposable income).

In the longer-run, the distributional impact of tariffs is more complex. Tariffs reduce both labor income and above-normal returns to capital, or rents. We assume that owners of capital hold rents rather than consume them in the short-run, but consume them over their lifetime in the long-run. The implication is that the tariff burden is more regressive in the short-run and more evenly-distributed across households in the long-run (for a similar approach, see Clausing & Lovely 2024).

Figure 2. Short-Run Distributional Impact of 10% China Tariffs

Percentage points of disposable income by household income decile

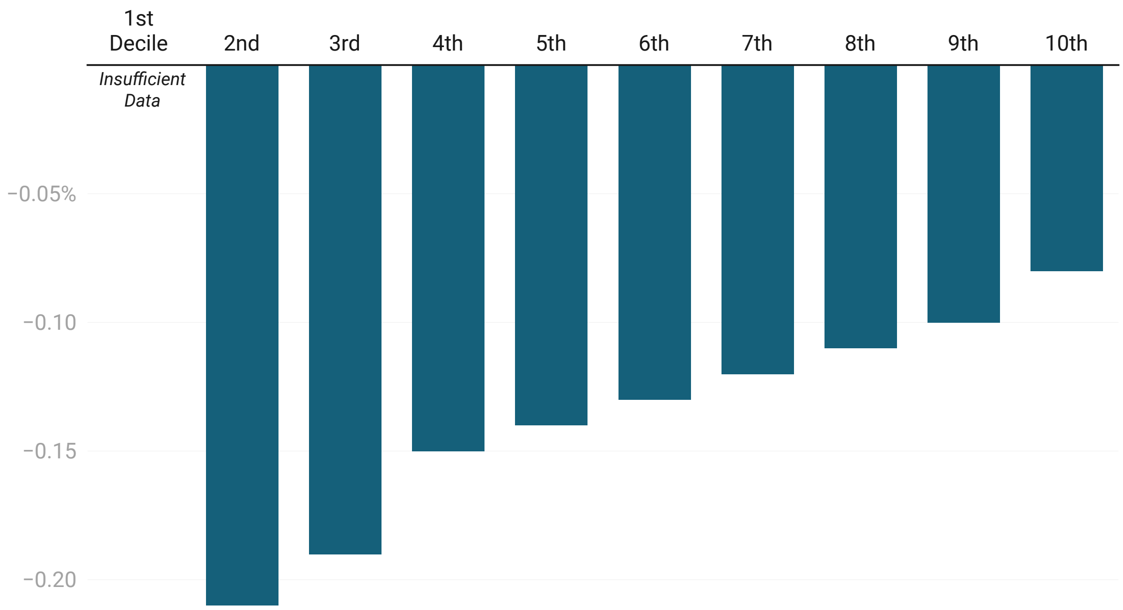
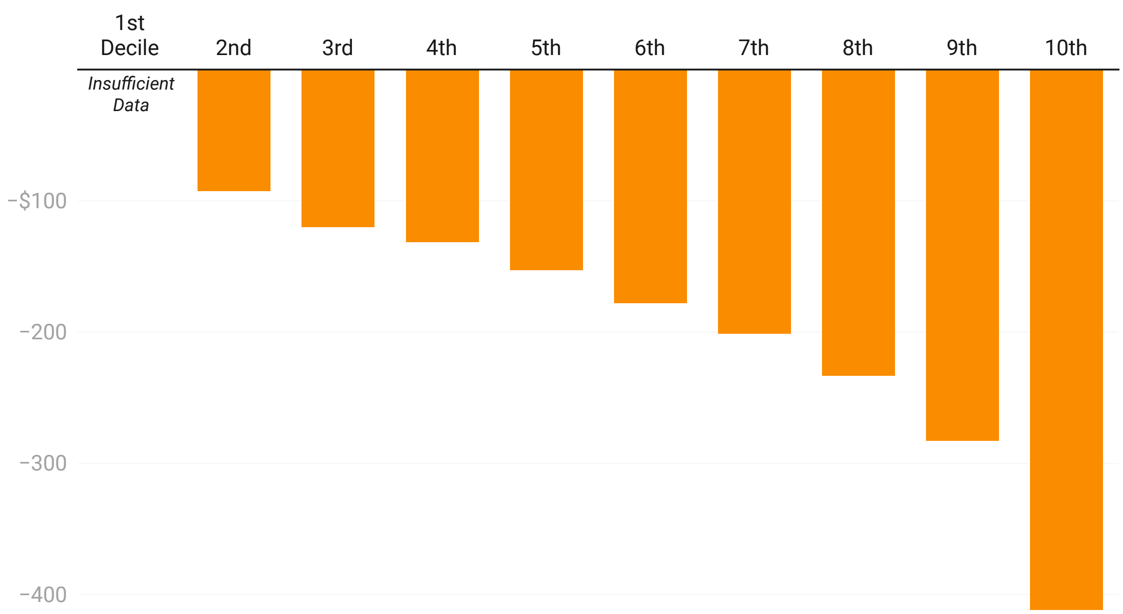


Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis. • Created with Datawrapper

Constant 2024$ of average disposable income per household by household income decile



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