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Tariffs—Everything you need to know but were afraid to ask

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During his presidential campaign, President Trump pledged to impose universal tariffs of 10–60% on all U.S. imports—a whopping $4.2 trillion in goods and services purchased from abroad in 2024. This was always a real possibility.

The International Economic Emergency Powers Act gives the president broad authority to do so. In early February the Trump administration seemed to be making good on the threat to enact extremely high and broad-based tariffs. They announced tariffs of 25% on all goods from Mexico and all goods (except energy goods) from Canada, as well as tariffs of 10% on all goods from China, though ultimately punting on action against our neighbors for one month. These three countries combined account for over 40% of goods imports to the United States. Tariffs this high and applied to such a broad scope of U.S. imports would have constituted a highly significant change in economic policy. Almost immediately, the Mexican and Canadian tariffs were suspended for a month. Yet, all this highlights that historically large and broad-based tariffs remain a very possible policy outcome in the coming years.

This FAQ provides information on the likely effects of these tariffs and, crucially, the effects that will not occur due to these tariffs. First, let's define it.

SECTIONS

What is a tariff?

A tariff is a tax levied on imports to the United States. By raising the cost of foreign-produced goods or services relative to U.S.-produced ones, a tariff redistributes some of the benefits of trading from U.S. consumers and foreign producers to U.S. producers of import-competing goods, allowing domestic businesses to also raise prices. In this way, a tariff acts as a tax on consumption as well as allowing import-competing businesses to raise prices without losing market share to foreign producers. Until recently, tariffs on U.S. imports averaged 2.2% in accordance with numerous international agreements negotiated by the U.S. government–though many items entered tax free.

Can tariffs ever be effectively used to target smart policymaking goals?

In brief: Yes. Tariffs can do a number of useful things. Three broad uses include:

- providing effective protection for domestic production in specific economic sectors
- shielding U.S. workers from unfair forms of competition from specific trading partners (like those with abusive labor rights regimes)
- complementing a country's strong domestic climate policy when trading partners' policies are not as strong

Because tariffs are most effective when they focus on well-defined and narrowly tailored goals, they work best as part of a larger strategy.

In detail: The most direct benefit of tariffs is protection for domestic sectors in the U.S. economy that warrant strategic support. For example, some sectors are harmed when our trading partners take actions to support their own domestic exporters or undercut labor and clean air and water standards, or are critical for economic or national security. As a recent example, U.S. steel and aluminum producers have faced chronic global oversupply that has largely been caused by subsidies (direct and indirect) that trading partner governments have given their own domestic producers—who are among the world's worst polluters.

As part of a strategic suite of complementary industrial policies, tariffs can help sustain and support the development of key industries and maintain them during periods when trading partners are engaged in market-distorting subsidization of their exports. Tariffs can help correct these pervasive distortions and improve economic efficiency, allowing firms to thrive in the face of these distortions.

Other reasons for wanting to target more domestic production from specific sectors include national security concerns, the underinvestment of private actors in the resilience of key nodes of supply chains, and combating monopolization of key inputs by another country—a lesson learned painfully during the COVID-19 pandemic when everyone was scrambling to source personal protective equipment (PPE), respirators, and critical medicines unavailable domestically at the necessary scale. Tariffs can help internalize the social costs of fragile global production chains otherwise created by profit-maximizing corporations. In short, tariffs are a valid, and often useful, industrial policy tool that can provide narrow and targeted protection for key sectors.

Tariffs can also be used to shield U.S. workers from low-road practices (like labor abuses) among trading partners. For example, if tariffs were higher for countries that routinely failed to protect workers' fundamental rights (or if tariffs were lowered when a country made a genuine commitment to protect these rights), the benefits of pursuing international competitiveness through wage suppression would be reduced.

Similarly, tariffs could also be useful in complementing high-road competition in environmental standards, for example by embedding the costs of greenhouse gas emissions (GHGs) from manufacturing and transportation in low-standard countries. This would incentivize clean air while also making sure U.S. workers in trade-exposed, energy-intensive industries do not bear the extra burden of adjusting to new climate policies. An approach that explicitly used tariffs to internalize the social costs of labor and environmental exploitation in low-standard countries would help correct these problems and provide transparent incentives for countries to pursue pro-worker and pro-environment policies.

These uses are not trivial: Tariffs are absolutely a key tool of smart industrial and trade policy. But on their own, tariffs cannot and should not be the centerpiece of a national economic strategy. Doing so would represent a gross overuse of a tool for a task it's not suited for and would cause damage to the wider economy.

Can high and broad-based tariffs fix the U.S. trade deficit or rebuild manufacturing employment?

In brief: No, mostly because high and broad-based tariffs will also reduce exports along with imports, and this will leave the balance of trade mostly unchanged. Exports fall when tariffs are introduced for a number of reasons. The first is that many U.S. exports use imports as intermediate inputs to final goods produced in the United States. Making these inputs more expensive with tariffs will boost the price of these U.S. exports and make them less competitive in global markets. Second, trading partners are highly likely to retaliate to U.S. tariffs with tariffs of their own, making exports more expensive in international markets—which we've seen on "Made in America" goods from Boeing airplanes to Kentucky bourbon. And finally, tariffs will put upward pressure on the value of the U.S. dollar in global markets, which will make our exports more expensive and will increase the attractiveness of imports to U.S. customers—primary causes of U.S. trade deficits and manufacturing job losses.

In detail: It is true that unbalanced trade has suppressed employment in manufacturing in the United States for decades. We consistently import far more manufactured goods than we export (and the difference is nowhere near made up in the services trade). This trade deficit drives a wedge between domestic consumption of manufactured goods and domestic production. Closing this trade deficit would, hence, substantially boost job opportunities in the manufacturing sector in the U.S. However, large and broad-based tariffs on all manufactured imports will not do much to close this deficit for several reasons.

First, many U.S. exports are produced using a large share of imported inputs. The slicing of global value chains in recent decades means that parts of a final good are often sourced from several different countries. Tariffs would, hence, make these inputs more expensive, and this would, in turn, push up the price of U.S. exports using these inputs, weakening the

competitiveness of U.S. exports in global markets.

Second, and most obviously, tariffs are rarely unidirectional. When we impose tariffs, our trading partners are likely to retaliate with reciprocal tariffs on U.S. goods, pricing U.S. exporters out of international markets. This is not speculative—it absolutely was the result of the tariffs imposed during the first Trump administration.

American farmers and ranchers incurred the most widespread damage from this retaliation following the 2018 tariffs. The damage was so great that the Trump administration authorized $61 billion in emergency relief payments to cushion farmers and ranchers from the blow of this retaliation, an amount roughly equivalent to all of the tariff revenue collected from U.S. businesses. Big manufacturers like Boeing also lost access to international markets. Prior to 2018, China accounted for 25% of Boeing's sales, but after the tariffs, China stopped ordering Boeing aircraft and created an opening for China's homegrown COMAC C919—a direct competitor to Boeing's 737 series planes. Not only will U.S. exporters lose markets abroad, but the lost exports will increase the supply of their goods to U.S. markets, putting downward pressure on the price of goods they sell domestically, reducing corporate profits.

Third, large and broad-based tariffs would put upward pressure on the value of the U.S. dollar, making U.S. exports more expensive to foreign buyers and imports cheaper and more attractive to U.S. businesses and consumers. This often happens as trading partners intentionally push down the value of their own currency against the dollar through exchange rate management policies to offset the competitive ground lost in U.S. markets to the new tariffs.

But it will also happen essentially mechanically. Countries use the dollars they earn from importing to the United States to purchase exports from the U.S. If tariffs reduce the dollars countries earn from importing to the U.S., this will either lead them to reduce what they purchase as U.S. exports, or they will need to purchase dollars on international capital markets in order to maintain their level of U.S. export purchases. This increased demand for dollars in these capital markets will push up demand for dollars, and the exchange rate will increase.

Again, this is not speculative—it is exactly what happened in 2018 in response to Trump's first-term tariffs on Chinese technology goods and broader steel and aluminum imports, when China depreciated its currency by roughly 10% against the dollar. Against an international basket of currencies, the dollar rose by about 7.5%. Already since the November 2024 election, the value of China's currency has fallen 1.1% against the dollar.

As a result of these influences, the U.S. trade deficit—how much we export minus how much we import—saw no improvement through the first Trump administration even as tariffs were increased. The tariffs did work to change the *composition* of the trade deficit as Chinese exporters sought to circumvent U.S. tariffs on Chinese goods by rerouting trade and expanding investment in third countries—in particular, taking advantage of the U.S.-Mexico-Canada trade agreement negotiated by President Trump to use Mexico as a platform to export to U.S. markets. Since the 2018 tariffs took effect, imports from Mexico have increased 63%, and the U.S. trade deficit with Mexico increased by 159%.

Reducing damaging trade deficits cannot be achieved solely through trade policy—except in the extreme case where trade policy measures are so severe that they essentially shut down all international trade, which would cause radical disruption to the U.S. economy. Instead, more balanced trade will only result from macroeconomic policies that are consistent with lower trade deficits—including exchange rate management to realign an overvalued U.S. dollar and a reasonable mix of fiscal and monetary policies.

Are tariffs the same as an industrial policy for the United States?

In brief: No, tariffs are only one tool in the industrial policy toolkit, and they need supporting policies in strategic endeavors to effectively boost domestic sectors.

In detail: Tariffs, on their own, are an incomplete industrial policy strategy, even for the narrow goal of supporting a strategic domestic sector. New research confirms the efficacy and pervasiveness of industrial policies when applied strategically. While these policies can take a variety of forms, all successful industrial policies do three main things, mostly aimed at addressing key market failures:

- promote positive economic spillovers that provide economic benefits beyond the targeted industry—such as by creating innovation that benefits other industries or by supplying complementary goods or services that make other investments viable—and limit or abate negative economic spillovers that impose costs on other industries, consumers, or the public. For example, industrial policy to intentionally spread out the production of key inputs like semiconductors so that bottlenecks specific to a single country don't choke global supply chains in the future creates the positive externality of resilience—left to their own private profit-making devices, individual companies will not have the incentive to make these investments.
- provide complementary and industry-specific public inputs. Key examples include infrastructure, research and development, and workforce development investments that complement and crowd-in private investment.
- provide coordination of disparate actors where complementary and collective actions are needed for an industry's success, but market mechanisms are incapable of playing this role. One example of this is publicly provided monitoring of potential supply-chain stresses to keep private actors informed of how they can plan deliveries and marshal inputs to solve blockages before they happen. Industrial policy can also provide market-creating guarantees to crowd investment into cutting-edge technologies that individual investors might consider too risky to support, such as the COVID-19 vaccine development.

Tariffs can be part of this formulation when there is a compelling public interest to support a particular industry. But they are insufficient on their own to ensure that industries critical to U.S. economic and national security—from primary metals, to critical medicines and health equipment, to semiconductors and other advanced technologies—can overcome

market failures and unfair competition.

Tariffs change the price signals in markets from which investors decide to shift resources between different sectors. But price signals alone are often not sufficient to ensure key market failures are overcome. But there are many market failures *besides* getting prices wrong that domestic capital owners and workers need to overcome in order to be willing to invest in producing in tradeable goods sectors.

At the technology frontier, by definition, no one knows the likelihood of success in achieving technological advances or what the market potential is for such innovation—although technological progress is highly desirable, the potential risks and rewards cannot be accurately priced. Another example is where complementary investments are needed to make an individual investment financially viable, such as the need to upgrade electrical grids and build charging infrastructure for investments in electric vehicle manufacturing to be viable. Further, because it's easy to change tariffs on short notice, capital owners and workers are unlikely to see tariffs alone as a sufficient signal that they should make costly, long-term investments in the production of tradeable goods.

Who 'pays for' tariffs imposed on U.S. imports?

In brief: American households will bear most of the burden of higher tariffs. This will mostly come through higher prices for imported goods and, crucially, higher prices for domestic goods that compete with imports.

In detail: Tariffs are a tax on imported foreign goods and services. The legal incidence of these taxes falls on the U.S. company doing the importing. If a company imports $100 worth of goods and tariffs are 20%, the company must pay a tax of $20 to the federal government. However, one of the useful insights of economics is that the legal incidence of a tax and the economic incidence are different. Taxes set off a cascade of adjustments that can spread or concentrate their ultimate economic burden. In the case of tariffs, these adjustments essentially lead to U.S. households paying higher prices. Importers who pay the tax initially will typically raise prices to pass this additional cost along to consumers, known as "price pass-through." The precise degree of pass-through will differ by good and sector: It is driven largely by factors such as the degree of a company's market power and consumer sensitivity to price changes. But substantial research convincingly demonstrates that it is U.S. households who ultimately pay for tariffs.

It is important to note that if tariffs do not raise prices in the U.S. market, they will not shift consumer preferences to domestic goods from foreign goods, thereby failing to provide any useful protection to domestic industries. And if they are not providing effective protection to domestic producers, it is hard to see the point of imposing them. Tariffs provide effective protection to domestic producers by raising U.S. prices of foreign goods and services relative to similar domestically produced goods and services. This enables

companies producing import-competing goods in the United States to raise prices, too, without fear of losing market share to lower-priced foreign competition. These higher prices enable domestic firms to maintain or expand production at a viable scale.

Because the tariff on a competing foreign good does not change a U.S. company's production costs, in the short-run, the higher prices U.S. consumers pay for import-competing goods go directly into higher profits for the company. In the longer-run, and with complementary supporting policies, some of those profits might be redirected to investment and wages as the import-competing sector looks to expand its output.

What's more, for goods that the United States does not or cannot produce domestically at adequate levels to meet demand, tariffs raise prices for U.S. consumers and businesses without giving a boost to domestic industries. This includes a wide range of agricultural goods (e.g., coffee, avocados, and bananas) and commodities and minerals that are relatively scarce in U.S. territory. Tariffs on imports that do not compete with "Made in America" goods simply raise prices for U.S. consumers without spurring domestic production of these goods. They represent a pure cost to U.S. consumers without any countervailing benefit.

Should policymakers try to make tariffs a significant revenue source for government spending?

In brief: No. Tariffs are essentially a tax on consumption and are, hence, more regressive than most current federal revenue sources. This means that with tariffs, people with lower incomes will pay a larger share of their earnings in taxes than high-income people. For the significant amount of revenue we need to raise in the coming years, we should build on the existing progressive revenue sources we have (income and estate taxes) and institute new progressive taxes.

In detail: President Trump has suggested that tax revenues from new tariffs could replace the federal income tax. This would require tariffs to reach historically high and broad levels and would constitute a large, regressive shift in who finances the federal government. In this scenario, the tax burden would shift from higher-income households to low- and moderate-income households. Large, across-the-board tariffs of this magnitude would also have many negative economic side effects relative to income taxes.

In 2024, the federal government will collect an estimated $2.5 trillion in individual income tax revenues. To raise this much revenue, the base of any tariff would have to be extremely broad—effectively universal, falling on all imports. If one starts with the implausible assumption that a universal tariff would not change U.S. demand for imports, the tariff rate would need to be 78% to replace the individual income tax. More realistically, if tariffs deter Americans from importing goods, then these taxes on imports would need to be *significantly* higher to replace income tax revenues. In fact, most estimates of how

sensitive U.S. purchases of imports are to their prices indicate that tariffs *literally could not* replace even half of the income tax.

Further, even if tariffs could somehow replace income tax revenue one for one, this would be an extremely damaging shift for most U.S. families who would end up paying a greater share of their incomes in taxes. Revenues from progressive income taxes are preferable to those from tariffs for a few reasons.

First, tariffs are a regressive tax, meaning people with lower incomes will pay a larger share of their earnings in taxes than high-income people. Tariffs are essentially a consumption tax, and consumption as a share of income tends to fall as incomes rise.

Second, progressive taxation achieves more than merely raising revenues to fund essential public services supplied by our government from those who are most able to pay—it also creates incentives that shape economic behavior in socially productive directions. The runaway growth of incomes for top earners are driven by rent-seeking practices—income gained from the exploitation of power that is unrelated to an individual's contribution to overall economic growth. Progressive taxation disincentivizes such rent-seeking among those with power and instead allows incomes to be more broadly dispersed. This disincentive effect of the federal income tax has been greatly eroded since the 1980s as top marginal rates have fallen, but relative to a scenario with no income tax, it is significant and worth preserving.

Finally, tariffs lead to efficiency losses as the potential benefits of international specialization are lost. At tariff levels that have persisted for the past 70 years, these efficiency losses are quite small (and often very exaggerated by economic commentary). But at tariff levels needed to replace the federal income tax, these efficiency losses would be high. Progressive income taxes also have some distortionary effects that might reduce economic output, but they also have countervailing influences that might boost economic output and welfare. For example, by raising revenue from the rich and financing federal spending targeted toward low- and middle-income families, this progressive redistribution supports growth in economywide demand. Again, richer households save higher shares of their income, so, redistribution away from them boosts spending. Substituting tariffs for progressive taxation forgoes these economic benefits beyond tax revenues.

Are tariffs easier and more transparent to collect than other forms of taxes?

In brief: No, tariffs involve multiple compliance costs, and across-the-board tariffs will offer many more chances for corrupt dealing than exist under current taxes.

In detail: In 2018, tariffs imposed under Sec. 301 and Sec. 232 authorities by the first Trump administration included a process whereby importers could petition for tariff exclusion. Essentially this provided a huge new tax loophole for politically connected large

companies to exploit. In total, the Trump administration granted more than 100,000 exclusions from the tariffs. Audits by the U.S. Government Accountability Office and the Department of Commerce's Inspector General found the exclusion petition processes were plagued by a lack of transparency, followed capricious and inconsistent internal procedures, and issued contradictory and seemingly arbitrary decisions.

New empirical research indeed confirms that tariff exclusions have been used systematically to reward political contributions, as well as to punish political opponents, rather than to accommodate economic need. In one instance in 2019, Apple lobbied President Trump to secure exemptions for iPhone imports from China and pledged to repatriate some Mac computer manufacturing from China to the United States, though they never delivered on this promise. The scope of companies that will be incentivized to apply for exclusions (and potentially offer improper favors in exchange for them) and the financial benefit of avoiding tariff charges will grow enormously if the Trump tariffs that were promised during the campaign actually come to pass.

Will the impact of tariffs on consumers vary a lot across U.S. states?

In brief: Not a lot—the effect of tariffs on consumers' purchasing power will mostly depend on the share of consumer spending on categories of goods and services facing new tariffs. This doesn't differ widely by state—consumers in California, for example, aren't necessarily more likely to spend vastly more money on durable goods or food (products facing high new tariffs) than consumers in Montana. Essentially, residents of all states are in the same boat when it comes to these price increases.

In detail: Tariffs are a tax on imports that, in effect, redistribute "surplus" from U.S. consumers and foreign producers to subsidize domestic producers of import-competing goods. When used strategically to support specific sectors, tariffs can be an effective tool of industrial policy—but consumers will face lower purchasing power as a result.

The effects of these price increases from tariffs will be mostly uniform across states. Below, we provide a rough estimate of the potential impact on U.S. consumers' purchasing power in each state from President Trump's new tariffs on Canada, Mexico, and China implemented on March 4, 2025. These tariffs apply a 25% tax on goods imported from Canada and Mexico, except for Canadian energy products that will be taxed at 10%, and raise tariffs on goods imported from China from 10% to 20%. On March 6, President Trump suspended these tariffs on many Mexican and Canadian goods for one month, but given that the administration has now twice announced and backed down from these tariff threats, we thought calculating their potential impact if fully implemented would be a useful addition to the policy debate. The final estimates are shown in the map below.

Narrow, strategic tariffs can be a useful tool. Trump's broad-based, chaotic tariffs would cost consumers in every state.

Impact of tariffs on Canada, Mexico, and China on average consumers ($2025)

<img style="max-width: 100%" src="../plain.png" aria-hidden="true" alt="fallback image"> (Please use a modern browser to see the interactive version of this visualization)
Source: Economic Policy Institute analysis of Bureau of Economic Analysis (2025) data and Galina Hale, Bart Hobjin, and Doris Wilson. 2019, "How Much Do We Spend on Imports?" FRBSF Economic Letter 2019-01.Get the dataEmbed Download imageCreated with Datawrapper

To estimate the impact on consumers, we analyzed personal consumption expenditures in each state, decomposed into durable goods, non-durable goods, and services consumption from the Bureau of Economic Analysis, using the most recent available data from 2023. We applied research from Federal Reserve Bank of San Francisco economists that identifies the import content of consumer spending in each of these consumption categories and then estimate the tariff-impacted component of imported consumption.

The main variation in how one state's consumers will face higher or lower costs from import tariffs hence depends on whether their consumption skews more or less toward those spending categories that are intensive in imports (i.e., goods). It is likely the case that states with high housing costs spend less (as a share) on goods and will hence face lower tariff costs, simply driven by the fact that housing is not import-intensive, and if it's expensive it is by definition claiming a bigger share of personal spending in those states.

Finally, to present a dollar value of tariff costs per capita, we adjusted the prices of 2023 consumption to January 2025 prices—the most recent measurement available from the

Personal Consumption Expenditures price index.

There are some estimates of import destination by state, but in the end, we did not use this information to allocate tariff effects. In this import destination data, Canada, Mexico, and China account for 43% of all U.S. imports, though there is considerable variation across states—from a mere 13% of total imports in Hawaii to 94% of all imports in Montana. However, many imports are intermediate inputs used as components in the production of more finished goods—just because something is *imported* to a state does not mean it will be *consumed in that state*. For example, 75% of Michigan's imports are from these three countries, but much of this represents parts that will be assembled into cars and trucks sold all across the country. It's not Michigan consumers alone who would face any particularly large cost increase from tariffs.

Finally, it's important to note that this analysis only allocates the effect of new U.S. tariffs across states. The potential effect of retaliation from trading partners might be much more focused on particular states. These three countries are the top export destination for 45 states, but retaliation might not stop at restricting U.S. exports. For example, a possible response by Canada could be to raise electricity prices to the U.S. states supplied by Canadian generation. This is a small subset of states that would face much greater costs than others. Other responses could include reduced tourism, as Canadian Prime Minister Trudeau suggested, which would also be more concentrated in particular states.

Are other countries' value-added taxes (VATs) an unfair barrier to U.S. exports?

In brief: No. Value-added taxes as they are administered in trading partners of the United States are neutral with respect to trade. They are not a barrier to U.S. exports and hence should not be penalized under "reciprocal" trade protection.

In detail: A value-added tax is a consumption tax on goods and services levied at each stage of the supply chain. Unlike sales taxes in many U.S. states and localities which tax the consumption of a good or service at its final user, a VAT levies taxes incrementally on each stage of production. President Trump's February 13, 2025, Memorandum on Reciprocal Trade and Tariffs falsely claims that value-added taxes are "unfair, discriminatory, or extraterritorial taxes imposed by our trading partners." President Trump has suggested treating VATs as a kind of tariff to be met with reciprocal tariffs from the United States. This is a mistake commonly made by people who don't really understand how these taxes or trade work.

Economists and tax practitioners have long recognized that in theory VATs do not inherently affect international trade flows, as summarized by Nobel Prize-winner Paul Krugman and chief economic advisor to President Reagan Martin Feldstein. In practice, when VATs fall more heavily on tradeable goods (like manufactured goods) than on non-

tradables (like housing and health care), they will reduce the size of a country's tradeable goods sector, leading to reductions in both imports and exports. Further, if a VAT (which is a consumption tax) substitutes one for one for an income tax, this can increase national savings and hence provide a small boost to net exports. But these real-world twists on VATs still in no way constitute an unfair barrier to U.S. exports.

According to the International Monetary Fund, more than 160 countries use a VAT; the United States is somewhat of an outlier in relying on a single-stage retail sales tax to raise revenues from consumption. To illustrate how a VAT taxes each stage of production, imagine that a farmer sells wheat to a grain mill, which makes it into flour, which is in turn purchased by a bakery to produce bread for final sale to consumers. Under a VAT:

1. The grain mill pays a tax on the value of the wheat.
2. The bakery pays a tax on the value of the flour minus the value of the wheat (which has already been taxed).
3. Consumers pay a tax on the value of the bread minus the values of the wheat and the flour (which have both already been taxed).

The value taxed for consumers of bread under a VAT in the third step already embody the taxes paid for the values of intermediate steps—1) wheat and 2) flour—in the supply chain. In contrast to a VAT, a retail sales tax like in U.S. states levies a tax on the full retail price of bread because, as intermediate inputs to production, the wheat and flour are exempted from tax.

It is true that VATs are levied on goods and services imported to the VAT country and rebated on products that the VAT country exports. But this treatment is exactly what keeps VATs neutral with respect to trade flows. In effect, this works like existing U.S. sales taxes: U.S. exporters do not pay a U.S. sales tax on goods that are sold outside the U.S., but U.S. consumers do pay a sales tax on imported goods. Similarly, when a good is sold across state lines into a state with no sales tax, businesses pay no sales tax in the "exporting" state. And consumers in a sales tax state pay taxes for "imported" goods from another state. Levying a VAT on imports and rebating VATs on exports merely serves to give all products the equivalent tax treatment.

In other words, with a VAT, there simply is no penalty for imports nor a subsidy for exports. Hence, other countries' VATS do not constitute trade barriers that demand reciprocal protection from the United States.