February 16, 2026

False Promises of the President's Tariffs

The President's favorite bullying tactic—although military force seems to be rising in prominence—has been tariffs. His avowed claims are that they would:

1. Raise federal revenues:
    - that would shirk the budget deficit, thus paying for the President's tax cuts
    - with the bulk of the "tariff taxes" being paid by foreign exporters
2. Reduce trade deficits, thereby increasing US manufacturing employment

Sorry Mr President! You were wrong!

Perhaps it's worth beginning with the most dramatic false promise: foreign exporters would pay the bulk of the tariffs. A study by economists at the Federal Reserve Bank of New York revealed the following startling facts[1]:

- The average tariff rate before February when the first round of tariffs were imposed was 2.6 percent. After an initial surge to over 16 percent, the subsequent reversals of policy for most tariffs

[1] *https://libertystreeteconomics.newyorkfed.org/2026/02/who-is-paying-for-the-2025-u-s-tariffs/.*

(with some increases), brought the average tariff rate (as of December, 2025) to 13 percent—a 5-fold or 400 percent increase, and the highest since the infamous Smoot-Hawley tariffs of the 1930s that fomented the Great Depression.[2]

- The incidence of tariffs paid in 2025 by foreign exporters vs US importers was:
  - January-August: foreign exporters: 6% vs US importers: 94%
  - September-October: foreign exporters: 8% vs US importers: 92%
  - November: foreign exporters: 14% vs US importers: 86%

These estimates were consistent with the results from other non-partisan researchers.[3]

So, what about the tariffs' impact on reducing the federal budget deficit? Here is the February, 2026 10-year baseline projections from the non-partisan Congressional Budget Office (CBO)[4]:

1. Relative to the 10-year projection in January, 2025:
   - The federal budget deficit over the period 2026-2035 will increase by $2.0 trillion, primarily

[2] https://www.visualcapitalist.com/the-average-u-s-tariff-rate-since-1890/

[3] See e.g. *https://www.kielinstitut.de/publications/americas-own-goal-who-pays-the-tariffs-19398/*

[4] Baseline projections made by the CBO assume no change in the policy going forward.

due the tax cuts ($4.7 trillion) not close to being offset by the increase in tariff revenues ($3.0 trillion). The other major factor according to the report was the massive increase in the cost of Immigration Enforcement ($0.5 trillion), predominantly due to the larger budget allocated to the Immigration Control & Enforcement (ICE).

- Without a policy change, the federal debt-to-GDP ratio, that is currently 100% of GDP, as compared to the 50-year average of 50%, is on a path to become explosive. By 2030, it is projected by the CBO to exceed the historic record level of 106% set during WWII and to reach 120% by 2036, thereby threatening a fiscal crisis.

- The "tipping point," when the federal debt threatens to bankrupt the US economy, occurs when economic growth is no longer sufficient to finance the interest on the debt. The principal metric that is seen as the basic driver toward this fiscal cliff is when the average interest rate paid on the federal debt exceeds the growth rate of nominal GDP. The CBO anticipates that this will occur later in this decade.

- To forestall this eventuality, their policy recommendation is that legislation be enacted to ensure a reduction of the deficit as a percentage of GDP to 3 percent. This target matches the criteria set by the Maastrict Accords for European countries to join the European Union, and it has been endorsed by the Current Administration.[5] As things stand, the CBO projects the deficit-to-GDP ratio will increase from its 2025 value of 5.8% to 6.1% in 2026 and to 6.7% by 2036.

There seem to be no significant reforms underway to meet the 3% deficit-to-GDP goal. Indeed, the false promises of the President that the additional tariff revenues will fix the budget, have proven to be a fantasy. Such reliance on these tariff taxes, nearly all of which are paid by American businesses and consumers, to justify the deep income tax cuts in the new federal budget has only served to worsen the fiscal picture that the nation faces.

The last of the Current Administration's claims for its tariff policies is that they would reduce the trade deficit, which in turn would revive US manufacturing and usher in a "new golden age," with a surge in employment in those "good-paying manufacturing jobs." Not so, I'm afraid! Here are the data:

- There has been a very modest reduction in the trade deficit since the original round of the Cur-

[5] https://www.crfb.org/sites/default/files/media/documents/CRFB_FullPage_final_electronic.pdf

rent Administration's tariffs were imposed in February, 2025. For the ten months from February through November of 2025, the merchandise trade deficit fell from its (seasonally adjusted) value of $991,243.4 million to $984,617.4 million, or by 0.668%.[6]

- During the same 10 months, employment in US manufacturing *fell* by 98 thousand workers, essentially continuing its secular decline, seemingly unaffected to date by the tariffs.[7]

These facts are difficult to square with the promises made by the President.

It should be noted that the jury is still out on the ultimate impact of these draconian tariffs. The press has reported anecdotal evidence that the initial response of the "pass-through" of tariffs to the price of imported goods was initially absorbed by US businesses through a combination of lower profit margins and reliance on inventories to offset import costs. The latter was aided by a surge of imports after the announcement of the tariffs, but before they went into effect.

Now, it appears—again anecdotally—that these avenues are being exhausted. US businesses are increasingly turning to higher prices for their products in an

[6]Source: US Census Bureau.
[7]Source: US Bureau of Labor Statistics

attempt to remain profitable, thus passing the "tariff taxes" on to consumers. The implications are likely to produce a drag on the economy over time, with a larger number of (mostly small) business closures.

While the impact on manufacturing employment and overall economic output would not be expected to happen overnight, we are most likely to see a continual erosion of US exports being a drag on the economy, as other countries impose retaliatory tariffs on US products and seek alternative suppliers.

Just in the past month, the two traditionally largest trading partners with US have signed new trade agreements that will reduce the demand for US goods: the EU (with a population 450 million consumers vs the US's 350 million) with Mexico; and Canada with China.

Lastly, it is hard to separate international trade from international diplomacy. And on this score, the 'America Alone' policy (aka 'America First') of the Current Administration cannot be seen as beneficial. It violates long-standing economic theory that validates the win-win nature of free trade—a policy once unassailable by Republican Presidents.

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