

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

by Schmitt-Grohé and Uribe (2025)

IMIM Seminar

Discussion by Daniel Ostry¹

¹Bank of England

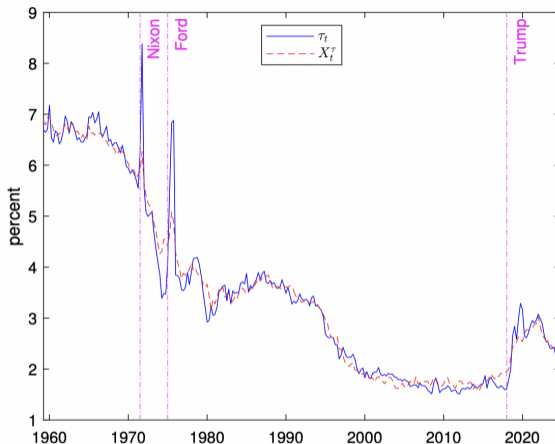
December 2025

The views expressed here do not necessarily reflect the position of the Bank of England.

Motivation

- ▶ Empirical evidence on macro effects of US tariffs is scarce and does not account for tariff persistence.
- ▶ In dynamic optimizing models, effect of tariffs depends on whether they are transitory or permanent.
 - See, e.g., Svensson and Razin, 1983 (SOE, 2 goods) and Ostry, 1991 (2-country, 3 goods)
- ▶ Huge contribution to have set of empirical results to compare to macro model predictions, and help distinguish between strengths of different channels.
 - E.g., intertemporal substitution vs. income effects vs. intratemporal effects vs. supply side

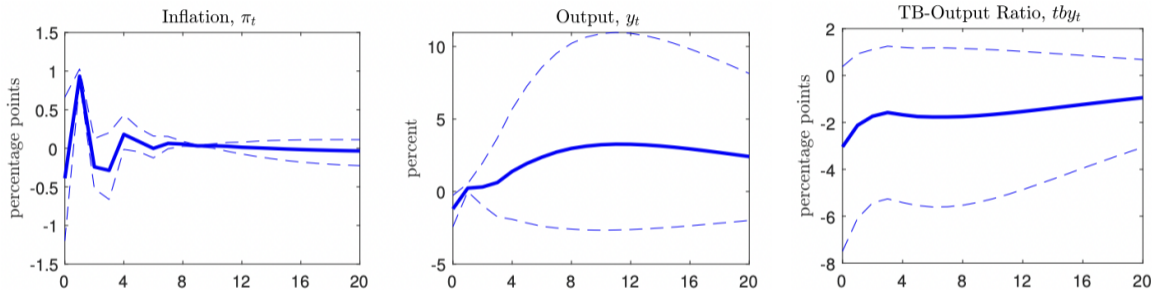
Permanent vs. Transitory Tariff Shocks in the U.S.



Source: Schmitt-Grohé and Uribe (2025)

- Transitory tariffs: Large shocks in 70s; Permanent tariffs: Secular decline + Trump I (and II?)

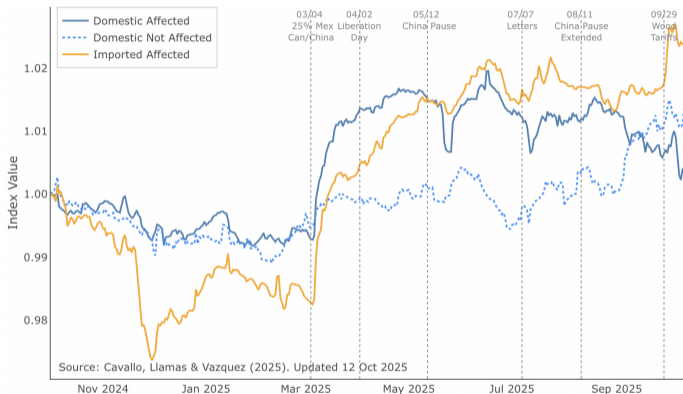
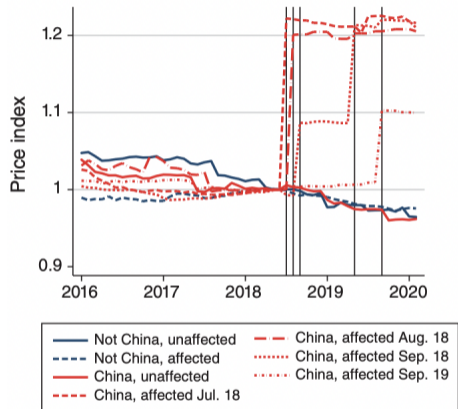
The Effects of Permanent U.S. Tariffs



Source: Schmitt-Grohé and Uribe (2025)

- Consistent with textbook model (when monetary policy stabilizes output!)

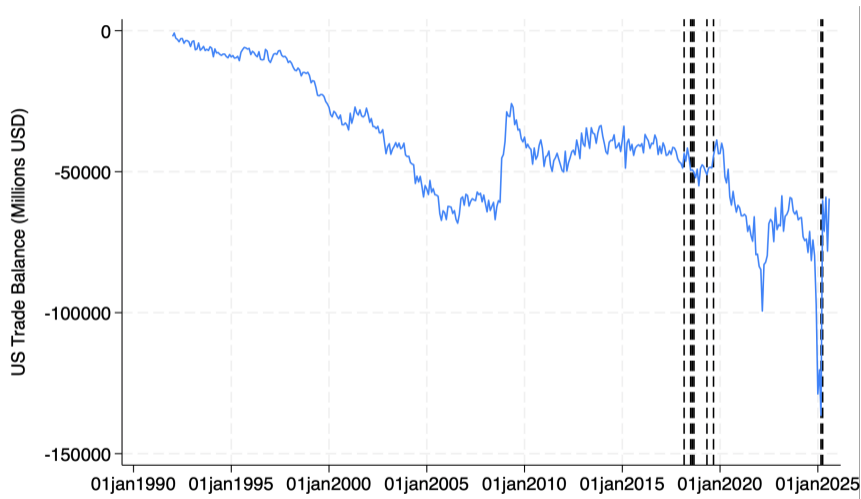
Micro Evidence on Prices from 2018-19 and 2025 Trump Tariffs



Sources: Cavallo et al. (2021) and Cavallo et al. (2025)

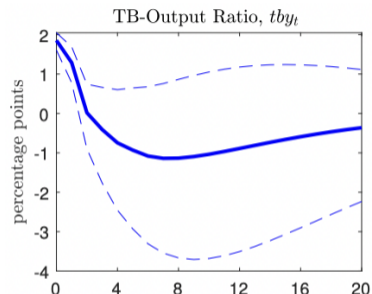
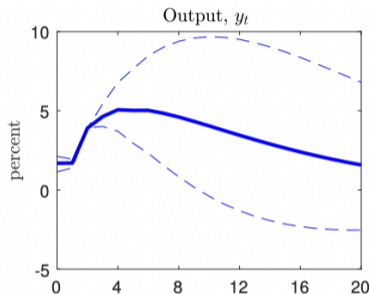
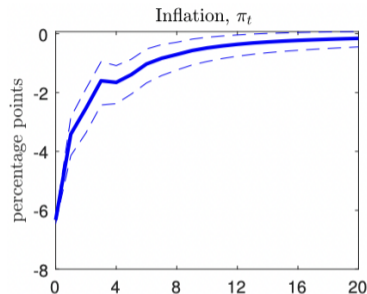
► Micro evidence also shows jump in import prices (left) and at the online store (right)!

Net Export Dynamics around 2018-19 and 2025 Trump Tariffs



- Trump tariffs seem to have relatively small effect on US trade deficit (except front-running).

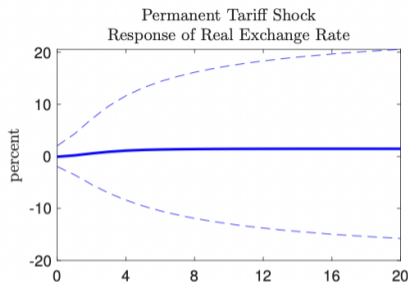
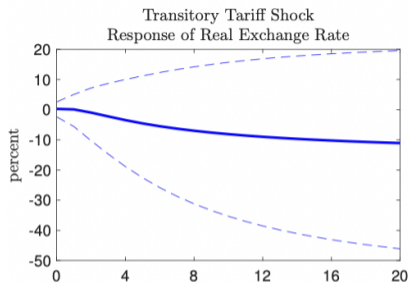
The Effects of Transitory U.S. Tariffs



Source: Schmitt-Grohé and Uribe (2025)

- ▶ Trade Balance improves (✓), Disinflation (Demand-side dominates?) but output improves?
 - Despite a fall in consumption (Fed cuts), is this due to government spending (e.g., Vietnam War) or investment/inventories (but real rate flat) or import front-running?

Tariffs and Exchange Rates



- ▶ Large empirical literature finds unilateral tariffs tend to appreciate a country's currency.
 - See, e.g., Furceri et al (2018) and Jeanne & Son (2024)
- ▶ Why might this not be the case?
 - Foreign retaliation (Ostry et al., 2025)—What about global trade liberalization?
 - Low import substitution (Auclert et al., 2025)—Large income effects?
 - Reserve currency shock (Jiang et al, 2025)—Nixon shock?
 - Monetary policy (Krugman, 1982; Bergin & Corsetti, 2023)—Changing monetary regimes?

Conclusion

- ▶ Large contribution to the tariff literature: provide empirical evidence on the macro effects of US tariffs, distinguishing between permanent and transitory shocks.
 - This is key to be able to compare against model predictions
- ▶ Important finding that US tariffs are not an important driver of the US business cycle.
 - How important are U.S. tariffs for other countries' business cycles? (E.g., transitory tariffs → foreign inflation)
- ▶ Permanent tariff effects ring true, curious still about effects of transitory tariffs.
 - To what extent are findings related to retaliations, other shocks, changing monetary regimes?