
MELFOSTER
MFC GROUP
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Endries International
MAYDAY!
TARIFF TURBULENCE
GLOBAL SUPPLY CHAINS
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FAST FACTS – THE NUTS & BOLTS OF ENDRIES

ENDRIES

Peace of Mind, Delivered

- **+$500M REVENUE**
- **+1,200 EMPLOYEES**
- **WORLDWIDE COMMITMENT TO QUALITY**
- **GLOBAL FOOTPRINT**
  45 Branch Locations
  30 Distribution Centers
- **+4,000 CUSTOMERS**
  Tenure: Top 25 20Y, Top 100 18Y
- **INDUSTRY CONSOLIDATOR**
  14 highly synergistic acquisitions
- **+800,000 SKU'S**
  $160M on-hand inventory
- **GLOBAL BUSINESS SYSTEM**
- **~70% OF BUSINESS VIA VMI**
  536 customer installs

Industrial Products Company, Lynchburg, VA

CERTIFICATE #1064.01

Endries is a proven partner trusted by thousands of OEMs worldwide to deliver precision fasteners, supply chain efficiency, and peace of mind.

With the latest sharp escalation in tariffs on China, U.S. orders for Chinese factories are getting canceled and Chinese manufacturers say they can't lower prices further for U.S. customers. Chen Qingxin, who runs a factory making toys and hand-clappers in the southern Chinese export hub of Guangdong province, said he got a call from a client in Baltimore minutes after another hike in President Trump's tariffs went into effect around noon in Asia on Wednesday. The client canceled an order placed in early March for a shipment in June. Chen had already agreed to cut his price by 10% after Trump announced a 34% additional tariff on China as part of his "Liberation Day" package on April 2. But when the White House raised that duty to 84%, his client said he couldn't do anything but cancel the order because Trump's tariff increase surpassed what he could bear. The White House later Wednesday further boosted tariffs on China to 125% while authorizing a 90-day pause on many other tariffs for other countries. "It is a deal breaker," Chen said, referring to the Trump tariff increases. "No room for doing business anymore, for both sides." Chen has been working with that customer for more than a decade, he said. A garment workshop in the Chinese port city of Guangzhou. Photo: Qilai Shen/Bloomberg News

"We're both very sad, but just can't do anything about it," he said, adding that the customer said "sorry" to him in Chinese. Chen expected more cancellations from U.S. customers, a major market for his business, in the next few days. If that happens on a large scale, it raises the possibility that the trade of goods between the world's two largest economies could slow dramatically. Capital Economics estimated on Wednesday that shipments from China to the U.S. could drop by more than half in the coming years if the duties remain in place. China has retaliated with levies and other measures, recently announcing an 84% blanket tariff on all U.S. goods. Both countries say they won't back down. Earlier in the year, some Chinese factory owners offered price cuts for American customers to help them manage two 10% tariff hikes that Trump imposed after returning to office. But now, with average U.S. tariffs so much higher, many say they can't discount further without operating at a loss. Some Chinese factories say they are willing to lose orders from U.S. companies and find buyers elsewhere—or idle production if they have to. That would leave U.S. importers with the bulk of the burden of tariffs, which they would likely then have to pass on to American consumers in the form of higher prices. "This could be a massive hit to American consumers and families," Jeffy Ma, who runs a hat manufacturer in Guangzhou called Ace Headwear, said in an interview Tuesday, after Trump had laid out plans for higher tariffs against China. Ma said his company lowered prices by around 4% earlier this year to give some tariff relief to his customers, which include companies such as Fila. He said he earns a profit of roughly 5% selling hats for a factory price of around $3 each, so there isn't more room for discounts. The U.S. market made up about a fifth of Ace Headwear's revenue last year, according to Ma, a share he expects to decrease as higher tariffs make Chinese goods more costly to U.S. importers. To make up for it, he aims to sell more domestically, and elsewhere in Asia and Europe. If overall orders decline in the short term, he says he could put a small portion of his roughly 350 workers on temporary leave. In a bid to protect market share by keeping prices under control, U.S. retailers such as Walmart and Amazon have asked manufacturers to lower the cost of goods made in China. Some buyers have asked Chinese manufacturers to reduce prices by around 20% to 30%, suppliers say. Walmart's efforts to negotiate lower prices with Chinese suppliers earlier this year caught the attention of authorities in Beijing, who summoned the retailer for a meeting after manufacturers complained. The Trump administration has argued that tariffs won't be as inflationary as many economists fear because Chinese suppliers can shoulder much of the cost. Tariffs are paid by importers in the U.S., but overseas suppliers can help offset higher duties by decreasing the prices they charge. However, economic research has largely found that tariffs are paid for by American customers. Shipments from China to the U.S. by one estimate could drop by more than half in coming years if tariffs remain in place. Chen Qirun, a producer and exporter of PVC pipes in Guangdong, has received multiple emails from U.S. clients since Trump's "Liberation Day," asking for lower prices. That is after he already agreed to cut prices by 8% following Trump's earlier tariff rounds. In an email sent Friday and seen by The Wall Street Journal, an Ohio-based client wrote three paragraphs to express gratitude to the Chinese supplier and described the difficulties and uncertainty the world was facing under Trump's tariffs, before asking for price cuts: "We'd really appreciate any help you could offer in reducing pricing around 25-30% where possible." "I've never received an email in such a humble tone," Chen said. "I can imagine how much pressure he has felt, but so have I." Since late last year, the pipe maker has traveled frequently to the Middle East and elsewhere to look for new clients, anticipating that trade with the U.S. could decline as geopolitical tensions escalate. He says he used to receive 60% of his orders from American clients, but that figure had declined to around 30% as of March.

Some economists say it will be difficult for Chinese manufacturers to replace U.S. customers. Demand from Chinese households and businesses has been weak. Some other countries have erected their own trade barriers against China, as they worry about a flood of cheap Chinese goods hurting their own domestic industries. Analysts also say U.S. importers have limited alternatives to Chinese suppliers in some cases. The owner of a footwear manufacturer in eastern China's Zhejiang province with the surname Zhang has been in Canada for the past few months to try to drum up business. He said the U.S. makes up about two-thirds of his sales, down from around 90% before Trump's first term. In an interview Tuesday, Zhang said his company has cut prices by about 5% to 10% for customers this year but can't go any further. Some of his friends have had U.S. customers suspend shipments due to the recent tariff increases, he added. He anticipates that his own clients may soon pause orders. "It's too high for anyone to bear," Zhang said of the tariffs on Chinese goods. If orders decline, he plans to reduce or pause production at his roughly 100-person factory. Zhang, who is almost 50 years old, isn't ruling out early retirement, or pivoting into accounting, which he studied in college.

WASHINGTON/HOUSTON March 24 (Reuters) - U.S. President Donald Trump on Monday issued an executive order declaring that any country buying oil or gas from Venezuela will pay a 25% tariff on trades with the U.S., while his administration extended a deadline for U.S. producer Chevron (CVX.N), opens new tab to wind down operations in the South American country. Trump's new policy relieves some pressure on Chevron to quickly exit Venezuela after the U.S. Treasury Department on March 4 gave it 30 days to wind down operations. Trump had issued the initial wind-down after he accused President Nicolas Maduro of not making progress on electoral reforms and migrant returns. The Reuters Power Up newsletter provides everything you need to know about the global energy industry.   Treasury said on Monday it would wait seven more weeks until

May 27 before terminating a license that the U.S. has granted to Chevron since 2022 to operate in sanctioned Venezuela and export its oil to the United States. Chevron's extension came hours after Trump announced the new tariff, saying Venezuela has sent "tens of thousands" of people to the United States who have a "very violent nature." The two moves temporarily focus Trump's pressure on buyers of Venezuelan crude oil other than the United States, such as China, though it is uncertain how his administration will enforce the tariff. "The United States has long abused illegal unilateral sanctions and so-called long-arm jurisdiction to grossly interfere in the internal affairs of other countries," said Guo Jiakun, spokesperson at the. Chinese foreign ministry, on Tuesday.

"China firmly opposes this."
David Goldwyn, president of consultancy Goldwyn Global Strategies, said the moves allow a compromise between those in the Trump administration who were concerned about pushing Western companies out of Venezuela and those, including Secretary of State Marco Rubio, who are concerned about enriching Maduro's administration. "This potentially provides a sweet spot for both of them," Goldwyn said. Punishing foreign buyers of Venezuela's oil with tariffs could hit its crude exports, forcing price discounts, and have a similar effect to secondary sanctions on the country that Trump imposed during his first term in 2020. The extension of Chevron's wind-down period would secure payments to the company for oil cargoes delivered to U.S. customers, while avoiding a collapse in crude volumes exported from Venezuela in coming weeks, especially to the U.S., according to analysts and sources.

Mexico and Canada have no domestically based automakers — yet U.S. vehicle manufacturers have relied on labor from their neighbors to the north and south since the early days of auto production in North America.
President Donald Trump's decision Wednesday to slap 25% tariffs on imported cars and parts stirs economic worry across the three countries. Canada and Mexico are integral to the North American supply chain and have relationships with auto manufacturers dating to the early 1900s. Those ties remained strong throughout the 20th and early 21st centuries. When the automotive industry plummeted into catastrophe during the Great Recession, it wasn't just the U.S. government that pitched in to preserve it. Canada offered its own tax dollars as part of President Barack Obama's task force that led General Motors and Chrysler through bankruptcy. K. Venkatesh Prasad, senior vice president of research at the Center for Automotive Research, said modern vehicle production in Mexico began with components before full-vehicle production was gradually introduced. "As you draw a line over the last 20 years or so, there's been steady investments made in Canada and in Mexico by the Detroit Three, as you might

expect, primarily for cost reasons, and in a gradually increasing manner of complexity," Prasad said.

In Canada, manufacturers started with systems and jumped directly to producing cars, largely due to the proximity of Windsor to Detroit. "Over the last four years, what you see is the same pattern, a little bit of inversion with how the dollars are being spent, with potentially more growth in money going to Canada than Mexico because of the investments in electrification," Prasad said. Harley Shaiken, a labor expert and professor emeritus at the University of California, Berkeley, said that with the most recent trade agreement, the United States-Mexico-Canada Agreement, Trump aimed to address flaws in the North American Free Trade Agreement of 1994 that led to American manufacturing job losses, a deal the UAW and other unions opposed. The 2018 agreement has stronger language than NAFTA on worker rights and environmental protections, Shaiken said, but it hasn't lessened the U.S. trade deficit with its neighbors the way the president intended. "We were running over $100 billion trade deficit in 2023, most of it in the auto sector," Shaiken told the Free Press. "U.S. shareholders are enjoying the gains, but the benefits are largely bypassing U.S. workers."

Mexican production origins

Though much has changed since the earliest days of automotive manufacturing, the ties that link the Detroit Three to Mexico go back 100 years. In 1925, Ford Motor Co. opened a new company in Mexico City and built its first assembly plant there five years later. The plant had 260 employees and produced five Model T's a day. Over time, production expanded to include the Model A, Mercury Cougar and Ford Mustang. One advantage offered by the Mexican government was a 50% discount on import duties on inputs, rail freight tariff concessions and the promise of no union workers. General Motors and Chrysler followed suit, with both having started Mexican vehicle production by 1938.

Japanese invasion and NAFTA

Automotive parts production in Mexico flourished in the 1960s with the creation of maquiladoras, foreign manufacturing facilities through which companies can import vehicle parts or assembly products without paying tax. The goal of the duty-free facilities was to encourage international investment in production, while foreign countries like the U.S. and Canada would benefit from cheaper labor. In the 1970s and 1980s, the influx of Japanese automakers prompted further investment in Mexico, as U.S. automakers sought to offshore labor and cost-intensive production. The establishment of NAFTA also made it easier for companies to move goods across the continent without paying duties. The revised agreement signed during Trump's first term still supports this process.

Mexican wages are far lower than those in the U.S., with Mexican autoworkers making roughly about 10% of their northern neighbors today. Nonetheless, Shaiken said, "What I've found on the ground in many plants in Mexico is, in fact, Mexican productivity is. comparable or even higher than U.S. productivity, and the quality is very high," he said. Shaiken calls it "high productivity poverty" — Mexican workers produce great products but aren't earning a living wage. "That affects U.S. workers because the combination of high productivity and low wages attracts investment, plants are closed here that are in many cases opened there," he said. "But Mexican workers are also short-changed. They have small parking lots in Mexican auto factories because workers can't afford the products they produce."

Canadian roots

Trade relationships with Canada go back just as far as Mexico, but workplaces are different thanks to the country's strong unions. They also began with Henry Ford, who built his first Canadian automotive plant in 1904, largely to escape tariffs levied on Canadian imports. A vestige of carriage production, the 35% tariff on vehicles coming into Canada prompted the Detroit automaker to set up branch operations across the river, according to Dimitry Anastakis, the L.R. Wilson and R.J. Currie Chair in Canadian Business History at the University of Toronto. "It makes no sense to have a Ford Motor Plant in Detroit and a Ford Motor Plant in Windsor, but that's exactly what happened because of the tariff wall," he said. This lasted until the 1960s, when Canada launched a trade war of its own against the United States after the invention of the automatic transmission, which flooded the Canadian market with vehicles made in Canada, and thus not subject to the tariff. By then, only U.S. companies' branch plants remained in operation due to the scale and investment the auto industry requires. In 1965, the Canada–United States Automotive Products Agreement was enacted, a precursor to NAFTA that removed tariffs between the two countries. This led to increased auto manufacturing in Canada and more jobs. The agreement was abolished in 2001, but by then NAFTA had more or less superseded it.

Big jump in Canadian-built cars sold in US

Without tariffs getting in the way, Ford, General Motors and Chrysler were able to "rationalize" their production in North America, including their Canadian facilities, to streamline and focus on the continent rather than one market at a time. The effects were immediate and profound. In 1963, before the auto pact, out of the 632,000 vehicles built in Canada, a grand total of 921 were exported to the United States. In 1973, with the auto pact in full bloom, Canada built 1,589,000 vehicles and exported 1,092,000 of them to the United States. "In the '60s and '70s, the Canadian industry was integrated right into the American industry," Anastakis said.   As for labor, in its earliest incarnation, Canada's union presence was an extension of the UAW, formed in 1937 following a strike at General Motors' Oshawa, Ontario, plant.   Under Bob White, the legendary president of the Canadian Auto Workers, the branch split off and formed an independent union in 1984. Since then, it has merged with others to form Unifor in 2013.   "Canada has good labor laws. In a number of ways, they're better than the U.S.," Shaiken said.   Many of the jobs these agreements created favored blue-collar workers, but most of the decision-making behind vehicle and parts production stayed in the U.S. "For more than 60 years, the Canadian and American auto industries have depended on each other. Together, we build best-in-class cars and trucks that remain the envy of the world," Unifor National President Lana Payne said in an emailed statement. "Unionized autoworkers fought for and won gold standard collective agreements that created good jobs, raised living standards and built strong, vibrant communities." She added: "Two-way trade in automotive goods is about $160 billion per year and split virtually down the middle in near perfect balance. Threatening damage to this relationship, as Trump is doing, threatens good, union jobs on both sides of the border. It is both reckless and dangerous."

North American labor counts
General Motors currently employs about 120,000 people in North America. Of those, 90,000 work in the U.S., 23,000 work in Mexico, and 6,000 work in Canada.   Ford Motor Co. has approximately 71,974 employees in North America, as of estimates provided on the company's website for the third quarter of 2024. Of those, 5,480 are employed in Canada, and 7,000 in Mexico.   Stellantis has about 75,500 total North American employees, with 52,000 in the U.S., 8,600 in Canada and 14,900 in Mexico.

Federal Reserve Chair Jerome Powell on Wednesday reiterated the long-held view of Fed chairs going back decades that growth in the U.S. federal debt needs to be reined in, but he suggested that politicians are going about it the wrong way. "We're running very large deficits at full employment, and this is a situation that we very much need to address" Powell said at an event at the Economic Club of Chicago. "All of this domestic discretionary spending, which is essentially where 100% of the conversation is, is small as a percentage of federal spending and is declining ... When people are focusing on cutting domestic spending, they're not actually working on the problem." Powell did not specifically mention Elon Musk's Department of Government Efficiency, which has drawn headlines for large cuts to the federal government workforce, among other efforts to reduce the federal government's discretionary spending. But his remarks appeared to dismiss that kind of push as largely irrelevant to federal debt and deficit reduction. "So much of the dialogue that the politicians offer is about domestic discretionary spending, which is not the issue," Powell said. To make real headway on reducing government debt and deficits, Powell said, politicians must reduce spending on the largest parts of government outlays: Medicaid, Medicare, Social Security and the rising cost of interest payments. "Those are issues that can only be touched on a bipartisan basis," Powell said. "Neither party can figure out what to do without both parties being at the table. So that's critical."

President Donald Trump has promised not to make cuts to broadly popular health and social welfare programs and is counting on revenue raised from his large tariffs to help pay for planned tax cuts currently under consideration in Congress. The U.S. had a $1.31 trillion budget deficit in the first six months up fiscal 2025, up 23% from a year earlier. The large majority of the federal government's outlays during that period went to cover nondiscretionary spending on healthcare programs, Social Security and interest payments, data from the U.S. Treasury shows.

TARIFFYING AGENDA

1. Level Set
2. De-politicizing
3. Tariff Objectives
4. Tariff Impact
5. The Fix Is In
6. Tariff Alternatives
7. Action Planning
8. Appendix

LEVEL-SET | COMMON EXPECTATIONS THAT UNITE US

WE HAVE A HOME TEAM, A HOME LIFE, A HOME COUNTRY, AND A HOME PLANET

A Bill of Rights

as provided in the Ten Original Amendments to

The Constitution of the United States

in force December 15, 1791.

Amendment I

Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

Amendment II

A well-regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed.

Amendment III

No Soldier shall, in time of peace be quartered in any house, without the consent of the Owner, nor in time of war, but in a manner to be prescribed by law.

Amendment IV

The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized.

Amendment V

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offense to be twice put in jeopardy of life or limb; nor shall be compelled in any Criminal Case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

Amendment VI

In all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed, which district shall have been previously ascertained by law, and to be informed of the nature and cause of the accusation; to be confronted with the witnesses against him; to have compulsory process for obtaining Witnesses in his favor, and to have the Assistance of Counsel for his defense.

Amendment VII

In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise reexamined in any Court of the United States, than according to the rules of the common law.

Amendment VIII

Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.

Amendment IX

The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people.

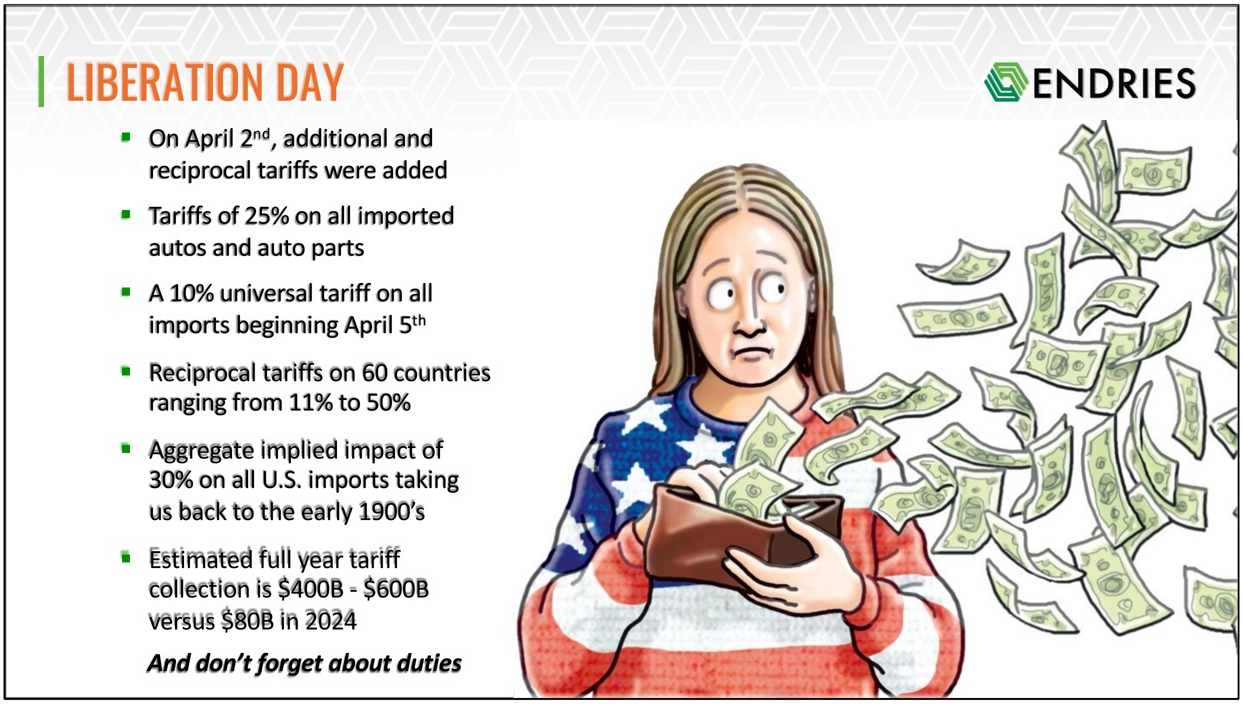
Amendment X

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

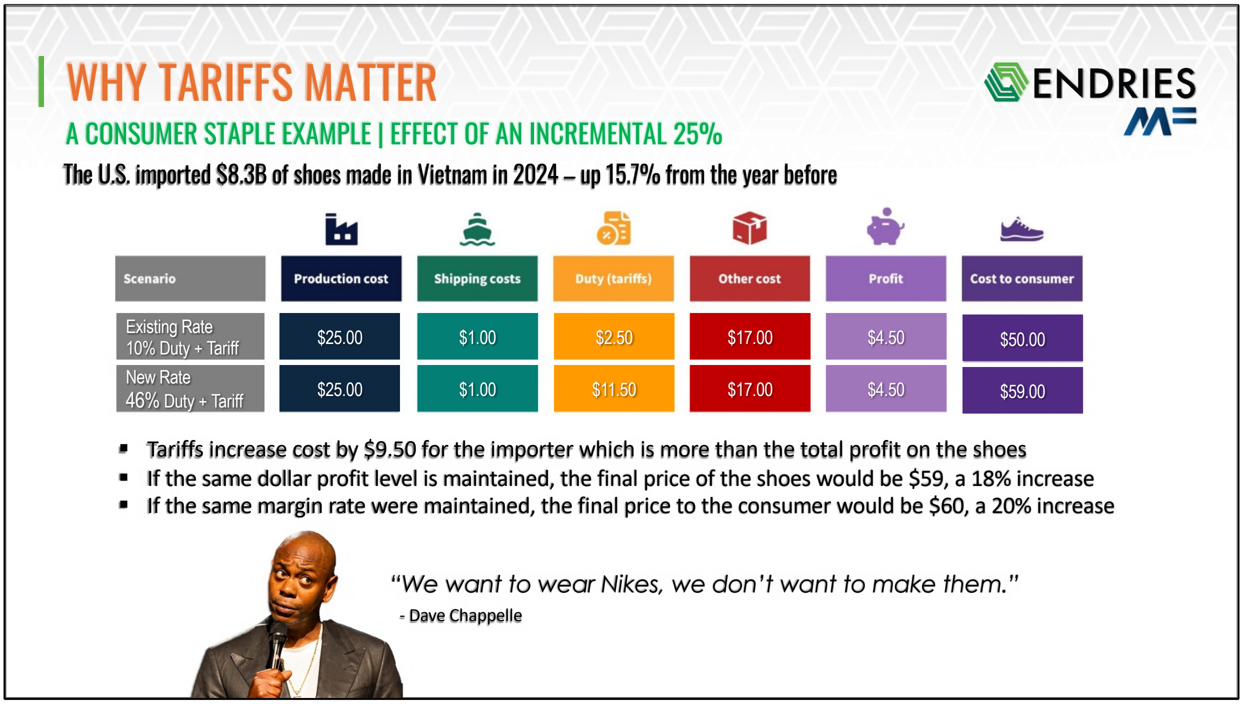
- Security
  - physical, legal, economic
- Civil liberties
- Shelter
- Food
- Energy
- Healthcare

Cheap goods mean more money to save, to invest, to allocate elsewhere; we are far better off because of access to international trade

The current administration is using tariffs to force other countries to do not trade related things.



$2.5T in individual income taxes and $1.7T in social security and medicare taxes.



In 2023, Vietnam exported over $20.2B worth of footwear—accounting for ~10% of the global market share and exporting to 150+ countries. The U.S. alone imported $7.1B in Vietnamese shoes last year—rising to $8.28B in early 2024, up 15.7% YoY.

From Nike (63 factories) and Adidas (61) to Puma, Crocs, and Timberland, the world's biggest brands rely on Vietnam's 2,200+ manufacturers, trained labor force, and resilient production ecosystems—especially in Ho Chi Minh City and Dong Nai.

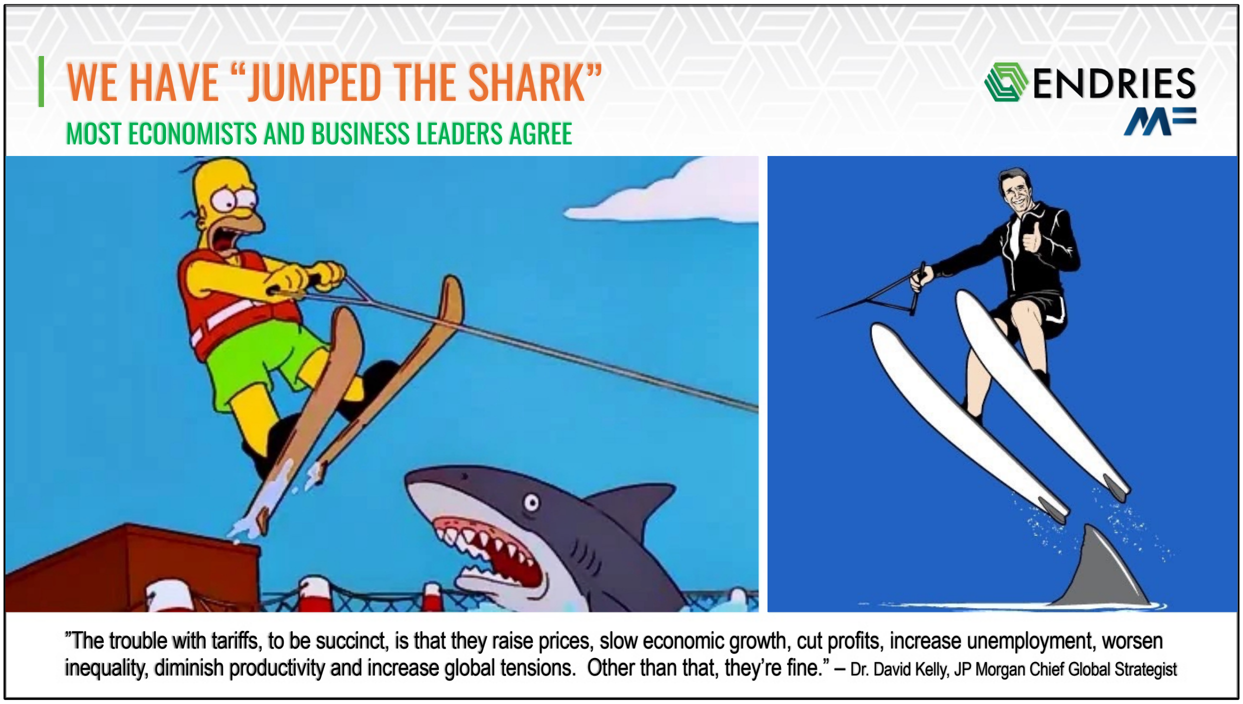
But now? A proposed 46% U.S. tariff (currently under a 90-day pause) could disrupt more than pricing.

Here's the kicker:
- It takes 12–18 months to switch suppliers and meet brand compliance
- A single new sole mold? Up to $50,000
- Seasonal launches are mapped 9–12 months in advance
- And many "alternatives" still rely on Vietnam for inputs

Footwear isn’t just fashion—it’s a high-velocity, high-precision supply chain. What’s at risk? Not just cost, but capacity, consistency, and control.

As tensions rise, supply chain leaders must:
- Audit switching costs beyond labor—tooling, transport, ESG…
- Avoid knee-jerk shifts—Vietnam remains irreplaceable in the near term
- Rebuild with resilience in mind, not just tariff avoidance

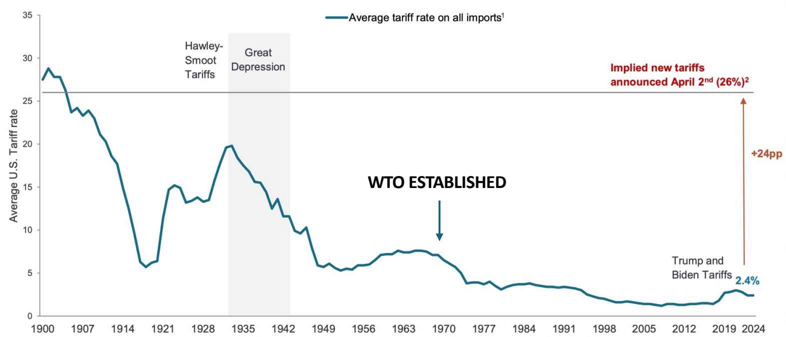
This isn’t a sourcing shuffle. It’s a systems disruption. And footwear is just the start.



When politicians and special interest groups—the latter usually domestic manufacturers averse to competition—talk about trade deficits, they imply that US businesses and workers are being hurt. Vice presidential candidate J.D. Vance, for instance, said in a July 30 speech, "We believe that a million cheap, knockoff toasters aren't worth the price of a single American manufacturing job." What he means is that if Americans choose to buy one million toasters from foreign manufacturers because they are less expensive than US-made toasters, it isn't worth it; one US job trumps consumer freedom. In another speech, Vance said, "We're done sacrificing supply chains to unlimited global trade, and we're going to stamp more and more products with that beautiful label, 'Made in the U.S.A.'" The implication is that a US-made product or service is better than a foreign good and "unlimited global trade" is bad. Never mind Sony TVs, Toyota cars, Columbian coffee, French wine, or Swiss chocolate. In their criticism of global trade and imports, Vance and the GOP platform don't mention several important things: the American consumer, private property, and the freedom that people should enjoy to voluntarily exchange goods and services. Some folks call this liberty and the pursuit of happiness: people freely choosing to buy and sell what they want, not what the government dictates. In *The Wealth of Nations*, the great economist Adam Smith wrote, "If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them .... In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind. Their interest is, in this respect, directly opposite to that of the great body of the people." Simply, it is in everyone's interest to get the best deal. This applies to both the buyer and the seller who voluntarily engage in an exchange where each feels he is benefiting. If American consumers and businesses end up buying more goods from foreign manufacturers than they sell to foreign consumers, resulting in a trade deficit, so what? "American citizens and firms deal with partners all over the world," reports Cato adjunct scholar Daniel Griswold. "There is no rational economic reason why Americans should be expected to sell exactly the same value of goods and services to people in a particular foreign nation than they buy from them." Trade deficits or surpluses will always occur and will vary by product and from country to country. Keep in mind, you may buy lots of things from Amazon or Whole Foods yet they never buy anything from you. That's a huge trade deficit on your end. But it does not matter because both parties benefited. The same economic relationship exists on the international level. As the libertarian economist and historian Robert Higgs explains, "People—individuals, firms and other organizations, and governments—trade in order to improve their economic condition. Whether they trade with people inside or outside the USA has nothing to do with economics or human well-being. ... **Nations as such don't gain or lose from trade; only individual traders do**. If the trades into which these people voluntarily enter entice them by the prospect of mutual gain, it simply cannot be the case that the sum total of their transactions [a trade deficit or surplus] amounts to a bad deal." (Emphasis added.) When Trump claims that trade deficits hurt the United States, he ignores the US consumers and businesses that engage in those trades (imports) for mutual gain. Their interests apparently don't matter. But if Americans want to buy toasters or washing machines or steel from China, for instance, why should the government try to stop them? The government only does so, as Adam Smith said, because of "the interested sophistry of merchants and manufacturers" who have "confounded the common sense of mankind." The merchants and manufacturers in question usually are the large domestic businesses and special interests (lobbyists and unions) who want to dominate the US market and keep competition out. They lobby Congress and the White House to protect them from foreign competitors. When they succeed, the government places tariffs (and other prohibitions) on selected imports, which are nothing more than taxes that are passed onto consumers. Thus, Americans pay higher prices for goods to help keep selected US businesses "protected" from the marketplace. The federal government gets the tax revenue. For instance, a 2024 report by the Cato Institute, "Separating Tariff Facts from Tariff Fictions," found that the 2018 tariffs on imported foreign goods "cost US consumers up to over $4 billion per month in additional taxes and deadweight loss (or lost income)." As an example, the Trump administration's "tariffs on washing machines resulted in an aggregate increase in consumer costs of more than $1.5 billion," noted the report. Protectionists rarely talk about things like that. Nor do they like to discuss America's trade balance when you include not just "goods and services" but also investment income and "unilateral transfers," such as remittances and foreign aid. As Dan Griswold wrote, "the total outflow of dollars each year from the United States to the rest of the world is matched by an equal inflow of dollars from the rest of the world to the United States. ... Dollars spent on imported goods and services return to the United States, if not to buy US goods and services, then to buy US assets in the form of an inward flow of investment." In other words, if you measure the value of US exported goods and services vs. imported goods and services, there may be a deficit. But if you include "all the dollars that flow into and out of the United States each year, the accounts are always balanced," said Griswold. Contrary to protectionist claims, there is nothing to "rebalance." "This net inflow of investment funds to America balances out the trade deficit," said Prof. Donald J. Boudreaux, co-director of the Program on the American Economy and Globalization at the Mercatus Center. "Because investing is every bit as much an economic activity as is buying (importing) and selling (exporting), when investing is included in the economic picture—as it should be—the existence of a trade deficit signals neither decline nor imbalance." Moreover, that investment in the US stimulates the economy in myriad ways and creates jobs. When the US consistently attracts "a disproportionately large share of investment funds from around the world, [it] can hardly be said to be on the decline or unbalanced," said Boudreaux. Nonetheless, the protectionists ignore this reality. If you believe in private property and that individuals should be allowed to buy and sell whatever they want—at local shops, among states, online, and from foreign businesses (Honda cars, anyone?)—then you know that all trade is good. It benefits the parties involved and brings people closer together. You also realize that complaints about trade deficits, imbalances, and protection from foreign goods are nothing more than the "sophistry of merchants and manufacturers" and politicians who seek to confound "common sense," whose "interest is opposite to that of the great body of the people"—the American consumers.

HISTORY OF AMERICAN TARIFFS

ENDRIES



The World Trade Organization's (WTO) mission is to ensure that trade flows smoothly, predictably, and freely, ultimately ***improving the welfare of people around the world****. This is achieved through various functions, including setting and enforcing rules for international trade, providing a forum for trade negotiations, resolving trade disputes, and helping developing countries build their trade capacity.*

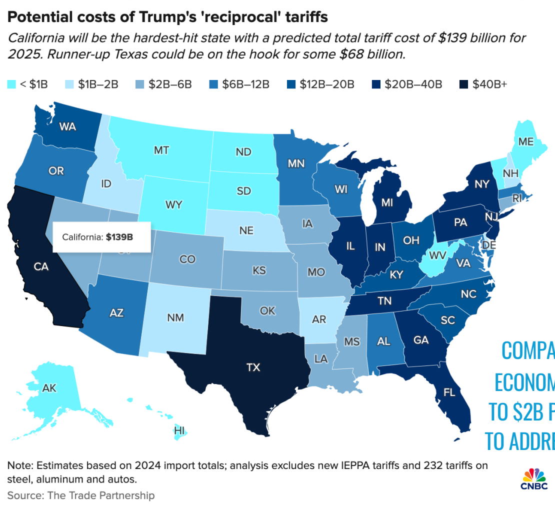
Source: Tax Foundation

- Prior to WWII, the US pursued a protectionist policy from the 1800's intended to generate revenue for the federal government and give infant domestic industries some shelter from foreign competitors
- Between 1790 and 1860, tariffs accounted for 90% of federal income
- Between 1861 and 1933, tariffs averaged 50%, one of the highest in the world
- Post WWII, we moved to wanting unfettered access to the world and began to actively promote free trade with the result that the average tariff fell to 5%
- In the 1970's, 1-in-5 U.S. workers worked in manufacturing; today it is 1-in-12 and manufacturing accounts for <10% of GDP

TRADE DEFICIT

NEW TARIFFS CONSTRUCT A +$1 TRILLION TRADE WALL AROUND THE U.S. ECONOMY

IEPPA and Section 232 Tariffs Add Up To $300M More



COMPANIES ACROSS THE U.S. ECONOMY WILL SHELL OUT $1B TO $2B PER DAY AS WE ATTEMPT TO ADDRESS OUR TRADE DEFICITS

In 2024, the United States exported about **$2** trillion in physical goods and imported about **$3.3** trillion. At face value, that would translate into a trade deficit of $**1.3** trillion. But for some time now, the U.S. has also been exporting through *routers*… every time a foreigner streams a movie on Netflix or buys an ad on Facebook, the U.S. is exporting. It is estimated that the U.S. enjoys a trade surplus of at least $600 billion in digital products.

Tariffs are generally regressive, in that they more ***heavily affect lower-income*** people who spend a greater share of their resources on goods, particularly necessities like food and fuel.

Trade experts tell CNBC that the tariffs announced by President Donald Trump on Wednesday are equivalent to building a trade wall around the U.S. economy of nearly $1 trillion.

With the way tariffs work, the estimated costs of the new tariffs U.S. businesses will be paying is $654 billion a year, according to Trade Partnership Worldwide, and it's a number that will grow — the figure does not include up to $300 billion more in new tariffs under the International Emergency Economic Powers Act (IEPPA) and Section 232 of the Trade Expansion Act tariffs on steel, aluminum and autos. American companies will now be on the hook for $1 billion to $2 billion per day, based on estimates using tariff costs paid in 2024. The U.S. stock market, which saw its worst daily loss since 2020 on Thursday, originally anticipated reciprocal tariffs tied directly to tariff rates on U.S. goods in other nations, but instead the Trump administration devised a formula based on trade deficits which has left many economists confounded and investors surprised by the overall level of tariffs that resulted from the approach. “If this holds up in court, then we are waking up to a new global economy with a different set of costs than we have known for the last several decades,” said Josh Teitelbaum, senior counsel at the law firm Akin and a former Deputy Assistant Secretary of

Commerce during the Obama administration. “Every sector — clothes, shoes, groceries, manufacturing will be touched. It is hard to overstate the impact,” he said.

Beyond Apple, tech sector trade surplus will be a target
The market’s biggest and long-time best-performing sector is among the casualties, but the potential damage extends far beyond Apple, which is seen as acutely exposed given its Asian-based manufacturing, and suffered its worst stock drop since Covid. on Thursday. According to Cesar Hidalgo, a professor at the Toulouse School of Economics, technology, is a good example of the limitations of the new approach to settling trade scores. Tech giants, now at risk of being targeted by trading partners. for tariff retaliation, have been running a big trade surplus with the rest of the world — a $705 billion surplus — as opposed to a deficit.

Topping the list is Alphabet, which exported $141 billion in services, followed by:
•Meta $71.2 billion
•Oracle: $45.2 billion
•Amazon: $40.2 billion
•IBM: $31.9 billion
•Microsoft: $31.6 billion

In 2024, the United States exported about $2 trillion in physical goods and imported about $3.27 trillion. At face value, that would translate into a trade deficit of about $1 trillion. But for some time now, the U.S. has been exporting through routers: every time a foreigner streams a movie on Netflix or buys an ad on Facebook, the U.S. is exporting. “We estimate that the U.S. enjoys a trade surplus of at least $600 billion in digital products,” said Hidalgo. “This is comparable to the total exports of France, which is the seventh-largest exporter in the world,” he added. U.S. exports in digital advertising & cloud computing alone represent about $260 billion and $184 billion, respectively, according to his data. “Which is larger than the exports of the U.S. in crude or refined petroleum, the biggest export products of the U.S.,” Hidalgo said. “It’s reasonable for world leaders to look at U.S. tech for retaliation. If you are in a war with Russia, you target gas and oil. If you are trying to push around Germany, your target is cars. In the case of the U.S., the big export sector is the web,” he said. Tech services won’t be the only target of trading partners, according to Jason Miller, assistant professor of logistics in the department of supply chain management at Michigan State University’s Eli Broad College. He expects massive foreign retaliation aimed at U.S. aerospace, machinery, food, beverage, primary metals, electrical equipment, computers & electronic products, energy, and especially, agriculture, and says that other nations have leverage in the fact that it’s been decades since the U.S. has had the ability to produce many of the products that other nations supply. On a collective tariff basis, the hardest hit states in the U.S. will be its biggest economies one of the reddest and bluest states. Texas will see a 9.5-fold jump in tariffs paid by businesses, increasing from a 2024 level of $7.2 billion to new potential costs of $66 billion. California, will see an eight-fold increase in tariffs paid by businesses, from $17 billion last year to potential costs as high as $139 billion. "The magnitude of these tariffs, their global coverage, and the fact they affect many types of goods for which the U.S. has limited domestic manufacturing capacity, means they will inevitably cause inflation," said Miller.

Not just Nike: U.S. lacks manufacturing capacity in key sectors
Nike was among the market's worst-hit stocks on Thursday, with massive manufacturing operations tied to China and Vietnam, and Miller says apparel and footwear is a good example of where pain will be felt as a result of a lack of manufacturing capacity in the U.S. The Commerce Department's Bureau of Economic Analysis estimates that roughly 90% of U.S. consumption for these goods comes from imports, and the U.S. today has only one-eighth to one-tenth of the capacity to make apparel compared to 30 years ago. "Switching to domestic substitutes isn't feasible, and wouldn't be so for many years," Miller said. The White House has signaled that it isn't interested in quick negotiations with trading partners, and while many market watchers were skeptical of that as stocks tanked, Eurasia Group wrote in a note to clients, "These rates are intended to be a durable 'tariff wall' around the United States, and as such are not likely to be easily negotiated away, though individual nation rates may be adjusted downward based on ongoing negotiations or potential future concessions or conversely escalated depending upon the level of tariff retaliation." The White House sent mixed signals on Thursday. Top Trump trade advisor Peter Navarro told CNBC the tariffs are "not a negotiation." Then, later in the day Reuters quoted the president himself as saying on Air Force One that he would be open to tariff talks with other counties if they offer something phenomenal.

Shipping giant Maersk: 'Clearly isn't good news for global economy.'
As trade negotiations are pursued, supply chain costs will rise for importers and consumers. BIMCO's chief shipping analyst Niels Rasmussen wrote to clients on Thursday that the vow to retaliate by key U.S. trading partners, such as China, South Korea, Japan, and the European Union will increase the cost of global trade and the U.S. market foot the biggest part of the bill. "U.S. businesses appear likely to suffer more than businesses and consumers in the countries that may retaliate. … In the U.S., the tariffs are likely to lead to increased inflation and lower economic growth. Considering the importance of the U.S. economy,

this could in turn slow down global economic growth," Rasmussen wrote. The fear of retaliation led to months of trade frontloading by many U.S. companies, with BEA data tracking imports for January and February showing a dramatic pulling forward of freight, from cell phones to finished metal goods and pharmaceuticals where there were soaring volumes. That has continued in recent days and the supply chain disruptions will grow. "In recent days, we've seen shippers react in real-time, some rushing to move goods before costs rise, others pausing to reassess their strategies," Uber Freight CEO Lior Ron wrote in an email to CNBC. "These policies affect global trade networks. Shippers who rely on imports from regions like the EU, India, Thailand, and Taiwan now face new financial and logistical challenges." Uber Freight is working closely with customers, he said, to "quickly adjust freight strategies to stay ahead of disruptions and keep goods moving." The broader impact could be more disruptive, according to Uber Freight's senior economist Mazen Danaf. The latest data already shows contraction, with declining orders and production, while inflationary pressures continue to mount. "Higher tariffs on imported goods — ranging from cars to raw materials — threaten to slow manufacturing, cut jobs, and drive up costs at a time when supply chains are still stabilizing," Danaf said. Shipping giant Maersk, the second largest ocean carrier in the world, said in a statement emailed to CNBC that the tariff plan is significant, and in its current form, "it clearly isn't good news for [the] global economy, stability, and trade." In the "very" short term, Maersk expects to see some rush airfreight orders in the U.S. ahead of the announced tariffs going into effect. But it generally expects customers to be "a bit more cautious about their inventory levels." "It is still too early to say with any confidence how this will ultimately unfold. We need to see how countries will respond to these plans — and to what extent they choose to negotiate, impose counter-tariffs, adjust import duties, or pursue a combination of these measures," Maersk wrote. It said customers "will need the ability to speed up or slow down goods and potentially redirect flows to alternative markets to keep their goods moving efficiently. We will closely monitor customer reactions and be ready to adapt accordingly."

Critical sector CEOs such as medical are headed to Capitol Hill

Top CEOs in the market are reportedly not happy with the tariff plans, and business leaders are already planning their trips to Washington, D.C., to make their case directly to lawmakers. Medical device company CEO Casey Hite of Asheville, North. Carolina-based Aeroflow Health is headed to the Hill next week to speak with his congressman and senator. Aeroflow Health services over 1.5 million patients annually through health insurance, with medical devices ranging from breast pumps (half are manufactured in China) to CPAP and BPAP machines, sleep apnea and severe sleep apnea devices, and diabetic equipment, such as glucose monitors. The company gets paid by insurers at prenegotiated rates. The company is busy calculating the impact of the tariffs and prices could increase anywhere between 7%-12%. Hite explained that most insurance contracts are evergreen from a pricing standpoint, where manufacturer contracts are renewed on an annual basis. Depending on the product, the adjusting of tariffs because of these schedules can take months or even years, and patients will see the result of that market dynamic through limited choice and overall availability of products. “Businesses like Aeroflow Health are forced to find lower-cost products or accept significantly lower margins. This situation negatively affects both healthcare consumers and businesses,” he said. With patients on Medicare, which have fixed fee schedules, the passing of the tariff cost directly to the consumer isn’t feasible. “We are unable to pass those costs over to the patients,” Hite said. The lower volume products, like lymphedema pumps to treat the symptoms like swelling from a condition estimated to affect as many as 10 million Americans, could see high pricing more quickly than others. “Products like this have only one or two overseas manufacturers and if margins are already slim, that tariff trickle-down effect would be seen sooner,” Hite said. “The quality of medical care needs to be taken into consideration.”

What a Cadillac Escalade reveals about supply chain cost challenges

The complexity of supply chains and the multitude of components in a single product add numerous layers of cost. Supply-chain consultant Exiger used the 2025 Cadillac Escalade OLED infotainment system as an example.

The OLED display panels are produced by LG in South Korea, while the specialty curved cover glass is formed in Japan, and the touch-sensitive film sensors and semiconductor driver electronics are made by companies LX Semicon and MagnaChip, based in South Korea. Meanwhile, the connectors and wiring harnesses are made by TE Connectivity, with some assembled or partially integrated in Mexico. “The challenge is tracing each of these carefully manufactured components across multiple borders, through various stages of assembly and integration, to clearly understand where exemptions exist and where tariffs might bite,” said Brandon Daniels, Exiger CEO. “Every time a product crosses a border, it adds layers of complexity — costs, paperwork, and potential delays,” said Ronald Kleijwegt, CEO at Vinturas, a global supply chain collaboration network, serving global manufacturers and OEMs, like Mitsubishi, and The Association of European Vehicle Logistics. “Many supply chains today are built for efficiency, but new tariffs are forcing companies to rethink their strategies. This could mean adjusting trade routes, shifting sourcing, or even relocating production to manage costs and minimize disruptions.” And it likely means more cost of doing business for many. “Smaller importers may face higher brokerage costs because of their inability to navigate all the different tariffs,” said Andre C. Winters, founder and principal of supply chain consultancy and planning company, HudsonWinters. “This new trade war is more than tariffs. It’s the rising costs from sourcing, manufacturing, to the logistics costs. There will be a need for individuals that see the big picture, not just experts in one piece of the supply chain to quantify the costs.” Winters is among those doubtful that companies will bring manufacturing back to the U.S. in a hurry. “This trade war is not an incentive to come back to the United States,” said Winters. “Companies will look to other countries that are being hit with lower tariffs. If I’m paying 40% in Vietnam and I can get 20% tariff in another country, I’ll go there, because in the end, it is still cheaper than coming back to America.”

LARGEST U.S. TRADE DEFICITS BY COUNTRY

ARE TRADE DEFICITS REALLY A PROBLEM? WHO'S TAKING ADVANTAGE OF WHO?

ENDRIES

Billions $	Trade Deficit	Imports	Deficit %
China	295.4	438.9	67%
EU	235.6	605.8	39%
Vietnam	123.5	136.6	90%
Taiwan	73.9	116.3	64%
Japan	68.5	148.2	46%
South Korea	66.0	131.5	50%

Cheap goods mean more money to save, to invest, to allocate elsewhere; we are far better off because of access to international trade

Deficits are not necessarily a negative; we run trade deficits because we consume… our appetite for consumption is greater than our capacity to produce

A trade deficit does not mean you're losing or getting beat. It usually just means you're getting a good deal.

Sources: Census Bureau, Haver Analytics. Data as of December 31, 2024. Bloomberg Finance L.P. Data as of April 3, 2025

To win a game of Scrabble, start at the bottom of the periodic table. The 17 "rare earths" that reside there have longish names, such as dysprosium and praseodymium, which are replete with point-worthy letters. They share other traits, too. All are produced and used in minuscule amounts, yet are crucial to a range of high-tech goods, from batteries and renewables to weapons and medical devices. More important still, all are largely supplied to the world by China. Rare earths are also part of the trade war. On April 4th, responding to Donald Trump's tariffs, China restricted sales to America of seven rare earths. The move forces producers to apply for export licenses. It is not an outright ban, but it could turn into one. China has already imposed such bans on exports of three less rare, but still critical, metals, and tightened controls on others. How damaging would a rare-earth embargo be?

Two years ago, China restricted exports of gallium and germanium, which are used in chips, radars and satellites. In December it banned all exports to America of both metals, as well as antimony, a flame retardant. Since then, prices have rocketed, and the global market has fractured. Gallium bought in the West is two to three times dearer than that bought in China, according to Jack Bedder of Project Blue, a consultancy. The supply crunch is not yet crippling

America. Many buyers had built stocks before the ban; China did not cancel existing supply contracts, which often run for years; and some material has continued to come in via third countries. A source close to America's defense ministry detects no gallium-related panic in the Pentagon. Yet China's latest restrictions could cause more damage, for three reasons. First, the "heavy" rare earths it has picked are the hardest to substitute. Dysprosium and terbium regulate heat in magnets that power offshore wind turbines, jets and spacecraft. The second problem is that China is even more dominant in the production of heavy rare earths than it is for the lighter types. It controls most of their mining, both at home and in Myanmar. Crucially, it processes 98% of the extracted material. This worsens the third problem: China has powerful tools to enforce a ban. Its government can track every tonne of rare earth mined and processed at home and trace where it ends up.

As China imposes export controls on rare earth elements, the U.S. would be unable to fill a potential shortfall, according to the Center for Strategic and International Studies — and this could threaten Washington's military capabilities. Amid U.S. President Donald Trump's escalating tariffs on China, Beijing earlier this month imposed export restrictions on seven rare earth elements and magnets used in defense, energy and automotive technologies. The new restrictions — which encompass the medium and heavy rare earth elements samarium, gadolinium, terbium, dysprosium, lutetium, scandium and yttrium — will require Chinese companies to secure special licenses to export the resources. Though it remains to be seen exactly how China will implement this policy, the CSIS report, published Monday, warns it will likely result in a pause in exports as Beijing establishes the licensing system, and cause disruptions in supply to some U.S. firms.

The New York Times reported earlier this week that a pause in China's rare earth element exports was already occurring. As China effectively holds a monopoly over the supply of global heavy rare earths processing, such restrictions pose a serious threat to the U.S., especially its defense technology sector. China wants to send a clear message with its rare earths export ban: Advisor
"The United States is particularly vulnerable for these supply chains," CSIS warned, emphasizing that rare earths are crucial for a range of advanced defense technologies and are used in types of fighter jets, submarines, missiles, radar systems and drones. Along with the export controls, Beijing has placed 16 U.S. entities — all but one in the defense and aerospace industries — on its export control list. Placement on the list prevents companies from receiving "dual-use goods," including the aforementioned rare earth elements.

Not ready to fill gap

According to CSIS' report, if China's trade controls result in a complete shutdown of the medium and heavy rare earth element exports, the U.S. will be incapable of filling the gap.

"There is no heavy rare earths separation happening in the United States at present," CSIS said, though it noted the development of these capabilities is underway. For example, the Department of. Defense set a goal to develop a complete rare earth element supply chain that can meet all U.S. defense needs by 2027 in its 2024 National Defense Industrial Strategy. Since 2020, the DOD has committed more than $439 million toward building domestic supply chains and heavy rare earths processing facilities, according to data collected by CSIS. However, CSIS said that by the time these facilities are operational, their output will fall well short of China's, with the U.S. still far from meeting the DOD's goal of an independent rare earth element supply. "Developing mining and processing capabilities requires a long-term effort, meaning the United States will be on the back foot for the foreseeable future," it added. Trump has also been seeking a deal with Ukraine, which would give it access to its deposits of rare earth minerals. However, questions remain about the value and accessibility of such deposits.

Implications

The CSIS report warns that the export controls pose direct threats to U.S. military readiness, highlighting that the country is already lagging behind in its defense manufacturing. "Even before the latest restrictions, the U.S. defense industrial base struggled with limited capacity and lacked the ability to scale up production to meet defense technology demands," its authors said. They cite an estimate that China is acquiring advanced weapons systems and equipment five to six times faster than the U.S., originating from a U.S. Air Force official in 2022. "Further bans on critical minerals inputs will only widen the gap, enabling China to strengthen its military capabilities more quickly than the United States," the report concludes. The U.S. is not alone in its concerns about China's monopoly on rare earths, with countries like Australia and Brazil also investing in strengthening domestic rare earth elements supply chains. CSIS recommends that the U.S. provide financial and diplomatic support to ensure the success of these initiatives. However, China's new export licensing system for the rare earths could also incentivize countries across the world to cooperate with China to prevent disruptions to their own supply of the elements, CSIS said.

A research report from Neil Shearing, group chief economist at Capital Economics, on Monday also noted how controls on rare earths and critical minerals have become part of Beijing's playbook in pushing back against Washington. Shearing notes that in addition to China's hold on some rare earths, the supply of many other critical minerals, including cobalt and palladium, is concentrated in countries that align with Beijing. "The weaponising of this control over critical minerals — and the race by other countries to secure alternative supplies — will be a central feature of a fractured global economy," he said.

•**Oilseeds and Grains**:

•Soybeans are the top export, with the U.S. exporting nearly twice as much in soybeans as any other product in 2022, according to USAFacts.

Electrical Machinery and Sound Equipment:

This category saw significant growth in 2024, reaching $15.3 billion in value.

Mineral Fuels, Oils, and Distillation Products:

This includes crude oil, petroleum gas, and other related products.

Civilian Aircraft, Engines, Equipment, and Parts:

Aircraft and parts are a major export category, including both civilian and military aircraft.

Other Important Exports:

Other significant exports include machinery, nuclear reactors, and boilers, as well as chemicals, plastics, rubber, and leather goods

RESHORING

TRADE TRENDS FOR THE TWO LARGEST ECOMOMIES

DURING THE 21ST CENTURY CHINA'S GLOBAL TRADE POSITION HAS EXPLODED... BUT SO HAS OURS

ENDRIES

	2000				2024			
	IMPORTS	EXPORTS	TOTAL	DEFICIT	IMPORTS	EXPORTS	TOTAL	DEFICIT
U.S.A.	$1.2T	$780B	$2.0T	($420B)	$3.3T | +172%	$2.1T |+164%	$5.3T | +167%	($1.2T) | +186%
CHINA	$225B	$242B	$474B	$17B	$2.6T | +1,047%	$3.6T | +1,375%	$6.2T | +1,200%	$1.0T | +5,2872%

U.S. imports from China as a percent of total exports was about **40%**... ***lots of leverage***

U.S. imports from China as a percent of total exports was about **15%**... ***lots less leverage***

Source: U.S. Census Bureau

•FROM THE TAX FOUNDATION

• Economists Pablo Fajgelbaum, Pinelopi Goldberg, Patrick Kennedy, and Amit Khandelwal examinedthe tariffs on washing machines, solar panels, aluminum, steel, and goods from the European Union and China imposed in 2018 and 2019. They found that US firms and final consumers bore the entire burden of tariffs and estimated a net loss to the US economy of $16 billion annually, including more than $114 billion in losses to firms and consumers, offset by small gains to protected producers and revenue gains to the government.

•Economists Mary Amiti, Stephen J. Redding, and David E. Weinstein found nearly complete pass-throughfor the tariffs, noting that "US tariffs continue to be almost entirely borne by US firms and consumers." Some differences emerged across product types. For instance, for steel, the authors found that an initial pass-through of 100 percent fell to 50 percent a year after the tariff was applied. Foreign exporters—mostly in the European Union, South Korea, and Japan—lowered their steel prices somewhat, but US firms and consumers still paid higher prices than they would have without the tariffs.

•A recent United States International Trade Commission (USITC) report also confirmed near complete pass-through to import prices. USITC found that imported steel and aluminum prices rose by 22 percent and 8 percent, respectively, following the tariffs. For China 301 tariffs, US importers absorbed the costs of the tariffs through a combination of less favorable margins for sellers and higher prices for consumers or downstream buyers.

•Researchby economists Aaron Flaaen, Ali Hortaçsu, and Felix Tintelnot found washing machine prices increased by about $86 per unit in the months following tariffs—and dryer prices increased too, by $92 per unit, even though dryers were not subject to the tariffs. Other research has also supported the finding.

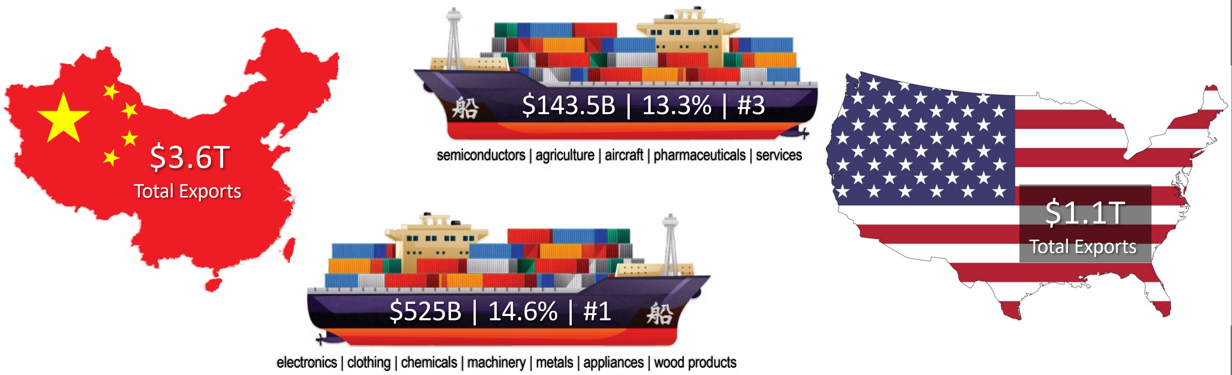
•Economists Sebastien Houde and Wenjun Wang found that a $1 increase in tariffs on solar panels increased the final price of an installed solar panel system by $1.34. As the authors noted, "[m]anufacturers and installers thus over-shift the burden of the trade tariffs on US consumer." Over-shifting can occur when domestic firms have "market power," which enables them to raise prices above costs and increase profits.

RESHORING

ENDRIES

A CLOSER LOOK AT U.S. CHINA TRADE FLOWS

THE TWO ECONOMIES ARE INCREDIBLY INTERTWINED AND CODEPENDENT



Source: U.S. Trade Representatives Office

See appendix for more details

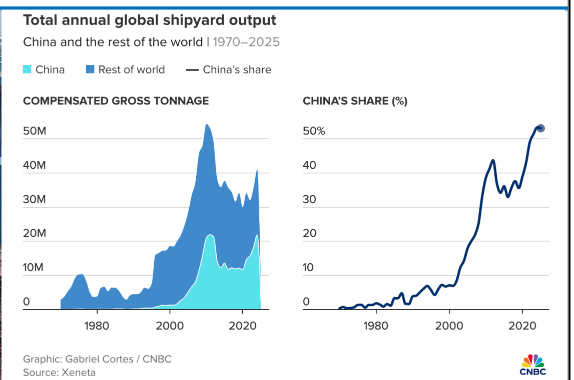
RESHORING

ADDITIONAL PENALTIES ON IMPORTS

$1.5M PORT FEE PER CONTAINER SHIP | $300 PER CONTAINER

"If Chinese-built container ship fines take effect, we are out of business in the U.S."

03/27/2025 Andrew Abbott, CEO of Atlantic Container Line on CNBC News



Niche ocean carrier Atlantic Container Line is warning the fines the U.S. government is considering hitting Chinese-built freight vessels with would force it to leave the United States and throw the global supply chain out of balance, potentially fueling freight rates not seen since Covid. "This hits American exporters and importers worse than anybody else," said Andrew Abbott, CEO of ACL. "If this happens, we're out of business and we're going to have to shut down." The United States Trade Representative held its second day of this week's hearings on the fines that would be levied under Section 301 of U.S. trade law on Wednesday, with over 300 trade groups and other interested parties warning the government across comments letters and in testimony that the U.S. is no position to win an economic war that places ocean carriers using Chinese-made vessels in the middle. Soon, Chinese-made vessels will represents 98% of the trade ships on the world's oceans. The policy proposal, begun under the Biden administration and culminating in a January report concluding China's shipbuilding industry had an unfair advantage, would allow the U.S. government to impose steep levies on Chinese-made ships arriving at U.S. ports. For. Chinese-owned operators (such as Cosco), a service fee of up to $1 million could be charged on each vessel. For non-Chinese-owned ocean carriers with fleets containing Chinese-built vessels, the service fee would be up to $1.5

million for each U.S. port of call. In ACL's submitted commentary to the USTR, Abbott laid bare the economic difficulties his company would face, saying that if the U.S. government went ahead with the fines, it "would render us totally uncompetitive versus the other carriers in the US trades." ACL, which is the oldest continually operating container line in the world and is owned by Grimaldi Group of Italy, is the only operator of combination container-roll-on-roll-off ships between North America and North Europe. If ACL abandoned the U.S. market, domestic manufacturers would lose their only U.S.-headquartered North Atlantic carrier, and primary North Atlantic carrier of oversized and project cargo to Europe. ACL handles vehicles, construction equipment, aircraft including Airbus wings, and project cargo, including more than half of the American construction equipment, agricultural equipment and oversized machinery moving from the ports of New York, Baltimore and Norfolk to Europe. "All the Airbus wings are made here in the U.S. and we carry those to the UK," Abbott told CNBC. "If we disappear, you'd have to find another brake bulk ship." Abbott made clear to CNBC that his company's situation is unique and the largest ocean carriers will be able to better mitigate the impact of the potential fines. "I'm going to end up hitting a customer with a $2,000 to $2,500 charge, where the big guys might only have $800, so in today's world, that is an enormous amount of money, and potentially could put us out of business. So we'd be forced to pull our ships out of the Atlantic, out of the U.S. trades, and probably stick them in Asia, that's what we would do." The goal of the policy proposals are to revive the U.S. domestic shipbuilding industry, but many commentators have argued that these fines are the wrong way to pursue that goal. Abbott said this is why he went public with his company's situation. "The Chinese operators that they're trying to go against because of the way they operate their ships, and the number of ports that they're calling, are probably going to be among the least affected by this new setup. So the guys you want to target are getting off scot free, and the guys who were in your own country get nailed," Abbott said. The closing of ACL's U.S. offices would impact 300 employees in addition to the supply chain pipeline that supports them, such as truck drivers and warehouse workers. President Trump said in his recent speech to Congress that his administration will create a special office dedicated to shipbuilding and offer tax incentives for domestic manufacturing. Abbott says the current reality in the U.S. shipbuilding industry is one of the forces leaving ACL reliant on China. "The only reason why I use the Chinese is because when we went to the American yards, they told me they couldn't build a ship for seven years. … The shipyards that we were talking to were booked up with military. They didn't have any space to build a commercial ship. If you're getting $2.5 billion for a destroyer, why are you going to mess around with a $75 million-$80 million cargo ship? It wouldn't make any sense." The threat of shutting down in the U.S. as a result of the fees comes at a time when the trade route has been on an upswing because of changes to trade policy, Abbott said.

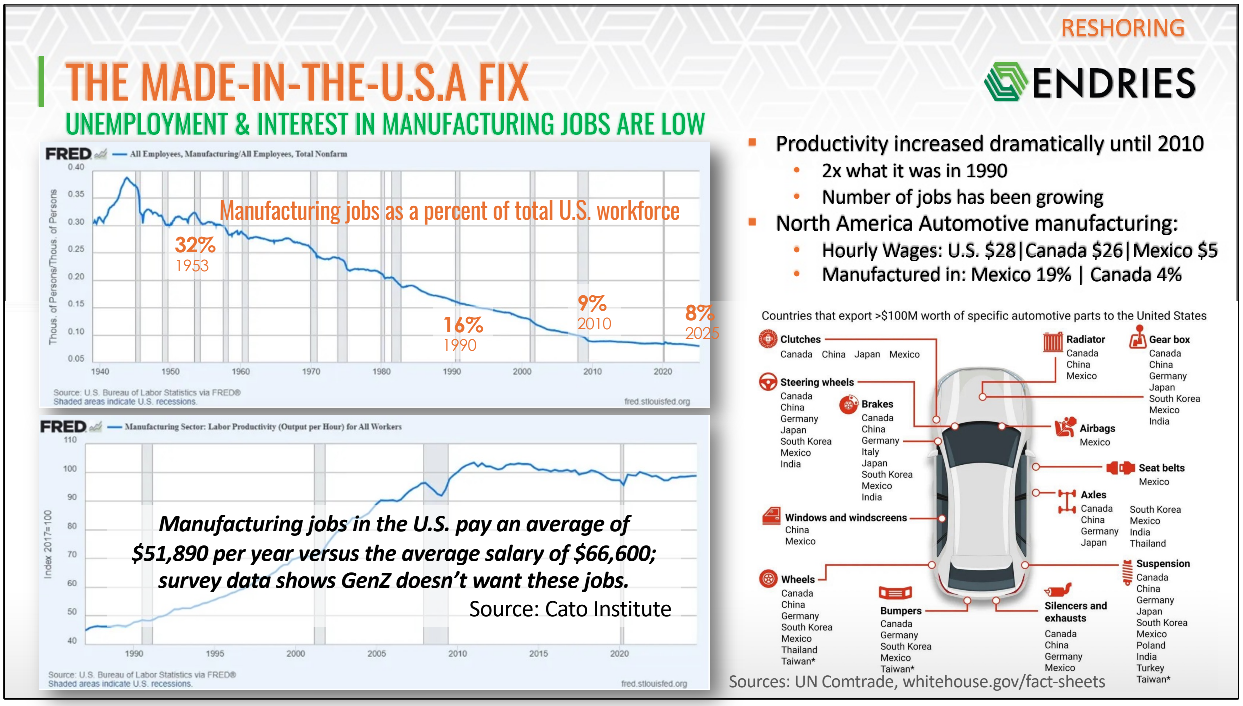
After a 2024 that Abbott said was its smallest volume year since 1967, since January ACL's U.S. exports are up 50%. "That is all front-loading. It's all fear of not being able to get your stuff, and getting retaliatory tariffs put into place," he said. " Major ocean carriers are making plans to work around the fines if the U.S. government enacts them, with significant consequences for some U.S. ports. Soren Toft, CEO of the world's biggest ocean carrier, MSC, told CNBC at the recent TPM Conference in Long Beach, California, that at least one port, the Port of Oakland, could be eliminated, with containers diverted to alternative ports such as Los Angeles and Long Beach. Rerouting ACL's U.S.-bound imports or exports to Canadian or Mexican ports does not make economic sense, Abbott said, because "the inland transport costs are prohibitive." He also warned that port cancellations would create congestion at the ports where containers are being re-directed, which creates an artificial crunch in container availability, and as a result, fuels freight rates higher. "There are going to be Covid-era rate increases," Abbott warned. "All that's going to do is put a lot of American exporters out of business. They won't be able to compete with the rest of the world."

WASHINGTON, March 26 (Reuters) - Fossil fuel and agriculture industry executives on Wednesday criticized a plan by President Donald Trump's administration for big fees on China-linked ships entering U.S. ports, arguing at a hearing in Washington that the move would hobble their ability to export everything from coal to soybeans. The proposed fees on China-built vessels could top $3 million per U.S. port call. The Reuters Tariff Watch newsletter is your daily guide to the latest global trade and tariff news. Sign up here.. The administration says the fees would curb China's commercial and military dominance on the high seas and promote a U.S. shipbuilding renaissance. Opponents say the plan could backfire on farmers, miners and other groups that Trump hopes would drive orders at domestic shipyards. Few vessels would be exempt, making U.S. export prices unattractive, and foisting up to $30 billion of annual import costs on American consumers. "The suggested policies do not punish China as intended, but rather punish American industry and will put American laborers out of work," said Gregory Kravitz, senior vice president of transportation at Oxbow, a South Texas-based oil and gas company, at the congressional hearing. Groups have asked the U.S. Trade Representative for exemptions to the plan or phased-in fees, since it will take several years for U.S. shipbuilders that turn out around five ships per year to compete with China's output of more than 1,700 annually. The energy industry is the top U.S. exporter by value and is at risk because, like most others, it relies on fleets that own or have ordered ships from China. Aaron Padilla, vice president of corporate policy at the powerful American Petroleum Institute, said the proposals will add significant costs to shipping. "As a consequence, the proposed actions would harm the U.S. position as a net energy exporter and undermine President Trump's energy dominance agenda," he told the hearing. The move also threatens Trump's goals of revitalizing the U.S. industrial base, protecting American jobs and leveling the global playing field, said Veronika Shime, vice president of international policy and sustainability at the National Mining Association. The issue, along with the administration's escalating trade wars with China, Europe, Canada and Mexico, has revealed an unlikely fault line between Trump and executives from industries he promised to support. the Democrats always do, but we get the job done and we're really grateful to have had the big victory on the floor just now. Coal and agriculture officials had told Reuters last week the proposed levies already were making it difficult to charter ships for exports and causing some products to pile up stateside. A study by Trade Partnership Worldwide found the fees could send exports of oil down as much as 18.6%, and coal down as much as 24.5%. It said exports of soybeans, the top U.S. agriculture export, could tumble as much as 42.2% and wheat could dive 64.4%.

BYE-BYE BANANAS?

Foes of the port fees likened them to a tax that will cascade costs throughout global supply chains. The fees already have sent the bulk shipping costs for critical exports like wheat, corn and soybeans up 40%, United Grain Corp said in a letter last week. MSC, the world's largest container shipping company, warned it would likely reduce U.S. port calls to contain costs - a disruptive move that could spark the return of early pandemic-era product delays and shortages. Bananas, the No. 1 consumed U.S. fruit, could get more expensive or scarce, Jared Gale, chief legal officer of banana supplier Dole Plc (DOLE.N) , opens new tab, testified. Dole makes 300 U.S. port calls annually and higher port fees would either make bananas too expensive for consumers or financially unaffordable for the company to import, Gale said. The fees would be a double whammy for Perdue AgriBusiness, hitting both the animal feed it imports and the chickens it exports, the Maryland-based company said in a letter to USTR this week. "We can't tax our way into a competitive ocean shipbuilding program," said Peter Friedmann, executive director of the Agriculture Transportation Coalition. He recently alerted maritime executives that exports of high-value, U.S. perishables like almonds and fresh beef. would be devastated if vessel owners bypass the small ports they rely on for speedy exports. The hearing on Wednesday will be the last before the administration makes a decision on the proposal. During a hearing on Monday, U.S. ship operators notified USTR that the fees would hurt their businesses, while representatives of the domestic steel industry expressed support.

#Container throughput from hashtag#China 's main ports fell by 6.1% over the past week and cargo bookings over the next three weeks are projected to be down by 30-60% in China and by 10-20% in the rest of Asia as the trade war intensifies. Market intelligence group Linerlytica said the Labor Day holiday in China will further dampen cargo demand in May which could force carriers to hashtag#cancel additional sailings over the coming weeks to slow the decline in cargo rates. Linerlytica said that recent tariff concessions are likely insufficient to restore transpacific volumes with about 30-40% of transpacific container imports still effectively halted by the tariffs that remain in place. The trade war is principally affecting carriers with the largest exposure to Chinese transpacific exports to the US. Meanwhile, US container imports surged over the first three months of the year as retailers pulled forward volumes to get ahead of the tariffs. “Imports during the second half of 2025 are now expected to be down at least 20% year over year,” Hackett Associates, LLC founder Ben Hackett said. “Even balanced against elevated levels earlier this year, that could bring total 2025 cargo volume to a net decline of 15% or more unless the situation changes.”



CNBC survey: tariff pressure won't spark reshoring boom
Most companies say they won't move factories to U.S. or hire American labor, citing high costs.
Apr 15, 2025

The Trump administration [says it is using its controversial tariffs to spark a reshoring trend] and encourage more factories to be built in the U.S., but a survey released yesterday by CNBC shows that [most companies say high costs will keep them from moving manufacturing back to the U.S.]. The survey results showed that 57% of companies said cost was the top reason for saying they would not be reshoring production, followed by the challenge of finding skilled labor (21%). The majority of respondents taking the survey estimate that the price tag of building a new domestic supply chain would at least be double their current costs (18%), and would likely be more than twice as expensive (47%). Therefore, instead of moving supply chains back to the U.S., 61% said it would be more cost-effective to relocate supply chains to lower-tariffed countries. Those results came from a total of 380 respondents from companies in the supply chain who provided replies between April 14-18. The survey was sent to members of the U.S. Chamber of Commerce, National Association of

Manufacturers, National Retail Federation, American Apparel and Footwear Association, Footwear Distributors and Retailers of America, the Council of Supply Chain Management Professionals (CSCMP), OL USA, SEKO Logistics, and ITS Logistics. Additional results from the survey showed that even respondents indicating interest in reestablishing U.S. supply chains said that process would take many years, with 74% expecting a three-to-five-year timeline, if not longer. Another hurdle to reshoring is a shortage of low-cost American labor to staff potential factories. Facing that challenge, 81% of respondents said they would use automation more than human workers if they did bring manufacturing back to the U.S.

"The U.S. labor market is a concern when considering movement back to the U.S.," Mark Baxa, CEO of supply chain trade group CSCMP, said in a published report. In the meantime, survey respondents said the current chaotic economic climate in the U.S. is causing fears of a recession this year (63%), planned headcount reductions through layoffs (47%), plans to raise prices to offset the new tariff costs (61%), and the cancellation of orders (89%) as consumers pull back on spending. "The immediate impact is order cancellations and the risk of consumer spending pullback is noteworthy," Baxa said.

What's Really Going On with U.S. Manufacturing

April 17, 2025 9:49 AM

A Reality Check for U.S. Manufacturing

There's a lot of doom and gloom about U.S. manufacturing, with constant talk of how jobs only disappear, and we don't make anything here anymore. The trend that these talking points describe is real, and it was very apparent from the late '90s to the late '00s, but it has mostly stopped. Manufacturing employment as a percentage of total employment in the U.S. has been declining pretty steadily since the mid-'50s. It peaked at around 32 percent in 1953. It halved to 16 percent in 1990. In the 20 years from 1990 to 2010, it nearly halved again, from 16 percent to 9 percent.

But that steady drop basically stopped in 2010. In the 15 years since 2010, manufacturing's share of total employment has only dropped by one percentage point, from 9 percent to 8 percent. That's because the number of U.S. manufacturing jobs, with the exception of the Covid years, increased from 2010 to 2022. That's right, the supposedly hollowed-out industry that only loses jobs actually gained jobs for most of the past 15 years. That doesn't come close to undoing the enormous job losses in the manufacturing sector from 1998 to 2010. And inconveniently for politicians, a lot of the manufacturing jobs gains since 2010 haven't gone to swing states, but rather to states that aren't competitive in presidential elections. Many of the manufacturing jobs that politicians promise to bring back to Pennsylvania have already come back . . . in Texas: Pennsylvania (solid blue line) and Texas (dashed green line) had basically the same number of manufacturing jobs in 1990. Texas has slightly more today than it did then. Pennsylvania has about 400,000 fewer. While this shift in regional industry composition is politically annoying, there's no reason to treat it as a problem for the country in general. Earlier in American history, manufacturing moved from the Northeast to the Midwest; now it is moving from the Midwest to the South.

So, if manufacturing's employment share stopped declining in 2010, and the number of manufacturing workers has actually been increasing since 2010, why aren't we seeing a manufacturing boom? Because 2010 is also the year that manufacturing labor productivity stopped increasing: A U.S. manufacturing worker in 2010 was twice as productive as a U.S. manufacturing worker in 1990. A U.S. manufacturing worker in 2025 is slightly less productive than a U.S. manufacturing worker in 2010. This is an example of why targeting job growth is not a very good economic policy. There are all sorts of ways to create jobs that don't make people better off. There's the famous example of Milton Friedman surveying a construction site in China and being told by the authorities that the workers were using shovels instead of machinery so that more people could have jobs. Friedman suggested that if they really wanted to create jobs, they should give them spoons instead of shovels.

A bookstore in Chelsea, Mich., recently moved to a new location about a block away, and to transport its 9,100 books, a few hundred people stood in a line on the sidewalk and passed each book to one another. This was just a fun publicity stunt, of course, but if creating jobs was your sole economic goal, it would be a good policy to ban trucks and force all goods to be transported this way. The problem with U.S. manufacturing, to the extent that there is one, is that it isn't destroying enough jobs. When all those jobs were being destroyed in the '90s and '00s, the workers who were left were becoming much more productive. Output has been rising despite workers becoming slightly less productive over the past 15 years, only because employment has been increasing. The U.S. has actually succeeded in raising the number of manufacturing jobs over the past 15 years, but it has done so in effect by doing a milder form of giving construction workers spoons or having people transport books by hand. That's not a policy success, and more obsession with increasing the number of manufacturing jobs will make the situation worse, not better. American manufacturing needs more automation and technological advancement to increase worker productivity, which is ultimately what increases worker pay and quality of life.

But Why *Has* Manufacturing's Share of Employment Fallen?

At the same time as U.S. manufacturing's employment share has fallen, China has become the world's largest manufacturer. The Chinese Communist Party has engaged in industrial policy to encourage manufacturing. It's tempting to believe that if not for the plotting of a foreign dictatorship, U.S. manufacturing would still be what it was. The real story, though, has a lot more to do with what naturally happens to the structures of economies as they develop. As long as modern economics has existed, economists have been thinking about stages of development. In his *Lectures on Jurisprudence*, Adam Smith divided economic development into four stages: the age of hunters, the age of shepherds, the age of agriculture, and the age of commerce. It was conjectural history when Smith wrote it, but we now know it lines up pretty well with what modern anthropologists say about humans' advancement from hunter-gatherer bands to nation-states. Smith was sensitive to the fact that Britain, where he lived, was one of the countries furthest along that development path in the late 1700s when he was writing, and that other countries weren't as far along. Even though different places have different cultures and different economies, Smith thought they would all generally follow the four stages, albeit at different speeds. This same pattern of thought informs economists today. And there's good empirical evidence to support the idea that countries pass through similar stages as they become richer. The industrial revolution, occurring after Smith's death, added a new stage, and then deindustrialization and the transition to services in the richest countries added another. Rather than Smith's four stages, one of the descriptions economists use today of development has three stages, and their names emphasize that they occur in roughly the same order everywhere in the world: Primary (agriculture), secondary (industry), and tertiary (services).

Like Britain in the 1700s, the U.S. today is one of the countries furthest along this path of development, with services making up a large share of employment and output. Countries such as India are currently in the process of moving from agriculture to industry. Countries such as Ethiopia are still mostly agricultural. China, contrary to JD Vance's descriptions of "peasants" and "slave labor," is an upper-middle-income country. It is in the early stages of the transition from industry to services that the U.S. began to experience decades ago. The economist word for this passage from the secondary stage to the tertiary stage is "tertiarization." The economists Xilu Chen, Guangyu Pei, Zheng Michael Song, and Fabrizio Zilibotti look at this transition in a recent paper called "Tertiarization Like China" for the National Bureau of Economic Research. It used to be true that China's secondary employment share was unusually high for a country at its stage of development, but this is no longer the case. In recent years in China, there has been a surge in tertiary employment, bringing China's secondary employment share in line with what other countries have done at similar levels of GDP per worker. That's still a much higher share than in the U.S., but that's because China is poorer than the U.S. and not as far along the development path. When the U.S. was at a similar stage of development, it had a similar share of secondary employment. The paper includes this very helpful series of graphs to visualize the stages of development for many different countries: The graphs compare the percentage of the workforce employed in each of the three types of sectors with a country's wealth as measured by GDP per worker. The top three graphs are comparing China to rich countries, and the bottom three are comparing China to other non-rich countries. The rich countries illustrate the general trend much more cleanly, since they are the furthest along. As countries become richer, employment in the primary sector, agriculture, declines. That's because the industrial revolution kicks off, and employment in the secondary sector, industry, increases. But at the same time, employment in the tertiary sector, services, also begins to increase. Eventually, the tertiary sector begins to eat away at the secondary sector as well. And so we see, in basically every rich country, a hump shape in its secondary employment share. The primary employment share falls, the tertiary employment share rises, and the secondary employment share rises then falls. Because the U.S. is so rich, it is very far along the right side of the hump, with a very low share of its workforce in industry. China is the red line on the graphs. As you can see, China is following the same path that the rich countries did; it's just not as far along. It is currently reaching its peak employment share in industry and has seen a surge in its employment share in services, illustrated by the upward tick in the red line in graph (c). Politically, China has seemed immune to international trends toward democracy, but economically, it has not been immune to international trends of development. This is a key point: If China had the same level of GDP per worker as it does today, but it was a democracy instead of a dictatorship, manufacturing's share of China's output and workforce would probably be about the same as it is in real life. China is an upper-middle-income country with 1.5 billion people; *of course* it has the world's largest manufacturing output. When the U.S. was at a similar stage of economic development, it had the world's largest manufacturing output, too. A few decades from now, India will probably have the world's largest manufacturing output as its enormous population passes from agricultural to industrial. employment and more of China's workforce passes from industry to services. These things happen as countries become richer, and it's basically impossible to turn back the clock because people don't want to live in a poorer country.

ADDENDUM: Happy Easter, which I can safely say to Western *and* Eastern Christians this year for the first time since 2017. Easter will next be the same date for both in 2028. The reason for the usual discrepancy in dates is too complicated to explain briefly, but you can read a full explanation here. It says, "Over time, the celebration of Orthodox Pascha will drift later into spring, into summer, and beyond. Unless action is taken, the year AD 2698 will be the final time that Orthodox Pascha and Western Easter occur on the same day."

Nearly 4 million new manufacturing jobs are coming to America as boomers retire—but it's the one trade job Gen Z doesn't want

Gen Z is ditching corporate careers to become electricians and plumbers. Yet they're turning their noses up at factory jobs that come with rock-bottom salaries.

America's manufacturing industry is expected to add 3.8 million new jobs by 2033, but Gen Z won't be rushing to hand in their applications. The young workers are ditching corporate careers and turning to trade work like carpentry in their droves. However, they still aren't thrilled by the idea of working factory floors for rock-bottom salaries. President Trump's immigration policies won't help the problem. Gen Zers are steadily abandoning the college-to-corporate pipeline, opting for trade school and blue-collar jobs instead. They're suiting up as electricians, plumbers, and carpenters for six-figure salaries—but there's one thriving industry they're still turning their nose up at. Manufacturing is one of America's hottest growing professions, with 3.8 million new jobs expected to open up by 2033, according to research from Deloitte and the Manufacturing Institute. Yet half of those roles are predicted to go unfilled. Just 14% of Gen Z say they'd consider industrial work as a career, according to a separate study from Soter Analytics. Gen Z's interest in degree-less manufacturing jobs should be obvious—after all, they're already ditching cushy air-conditioned offices for blue-collar horizons. But they're choosing to sit this one out. That's likely because a quarter of them believe the industry doesn't offer flexibility and isn't safe, as per Soter Analytics' study—two non-negotiables for Gen Z, who value hybrid work and being cared for on the job.

Gen Z wants blue-collar work—just not on the factory floor

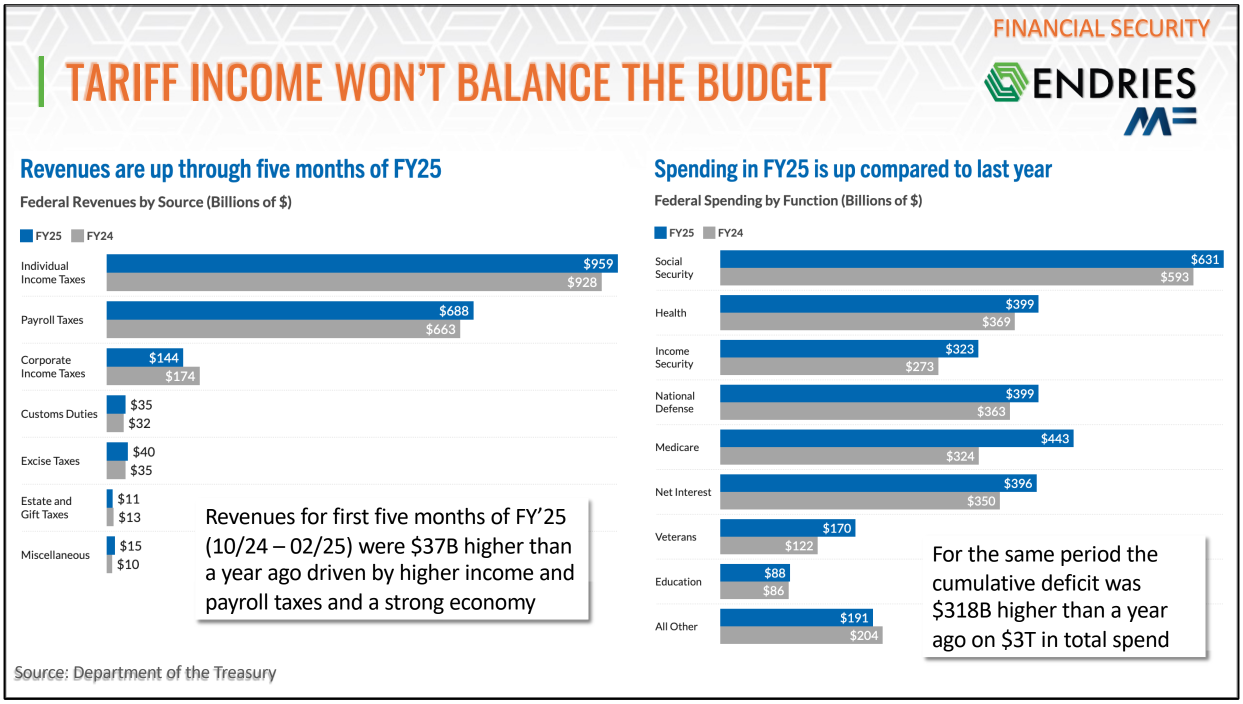
The workforce's youngest generation is swapping "office siren" attire for hard hats and neon vests. But they won't be rushing to fill open seats on factory floors. Enrollment in vocational-focused community colleges jumped 16% last year—reaching the highest level since the National Student Clearinghouse began tracking the data in 2018. There also was a 23% surge in Gen Z studying construction trade from 2022 to 2023, and a 7% hike of participation in HVAC and vehicle repair programs. Most Americans, 78%, have seen a rising interest in trade jobs from young adults. These blue-collar careers allow Gen Z to be their own boss, have more flexibility over their hours, and still rake in six-figure salaries. The work is in high demand, and doesn't require a costly college degree, sinking many young people into debt. But factory work faces some issues that are complete turn-offs to Gen Z.

Indeed, Manufacturing was once advertised as a stable career—padded with a pension, the industry was rife with opportunities in America's industrialized society. But today, plumbing and even waitressing present better financial opportunities (and are more dynamic) than being a functioning cog in an assembly line. Manufacturing jobs in the U.S. pay an average of about $25 per hour, or about $51,890 per year—far below the average American salary of $66,600. One reason why wages in the sector have stagnated may be chalked up to corporate suppression of factory labor unions. Workers have far less bargaining power to barter for better salaries that once made the jobs so attractive. Gen Z also don't want to be sequestered to 'boring' factory floors, when they might find more intrigue bartending or unclogging drains for better wages.

Gen Z are not alone—but someone needs to fill the gap

The U.S. is desperate for more assembly workers and machine operators, and Americans recognize the need, with 80% believing the country would be better off if more U.S. workers were funneled into manufacturing.

But talk is cheap—and few are actually willing to do it themselves. The same CATO Institute poll found that only 25% of Americans think they'd be better off working in a factory. "You're up against these huge technological changes in addition to trade and in addition to the fact that people are getting more educated," Kyle Handley, an economist at the University of California, San Diego's School of Global Policy and Strategy, told *Business Insider*. "The country's growing richer, and there are these other jobs in the service sector, which people have gravitated toward." The once-thriving industry is under the microscope now more than ever as President Trump's policies wreak havoc on the sector's labor supply. America's manufacturing industry has long relied on immigrant workers to take on the jobs that U.S.-born citizens don't want to do. Deloitte's research found that a decline in immigration in recent years has already strained the labor supply. Now, Trump's crackdown on immigration and deportation efforts could set back the sector even more. Now, the problem is reaching a boiling point as America's workforce saddles up for a big change: baby boomers exiting for retirement.

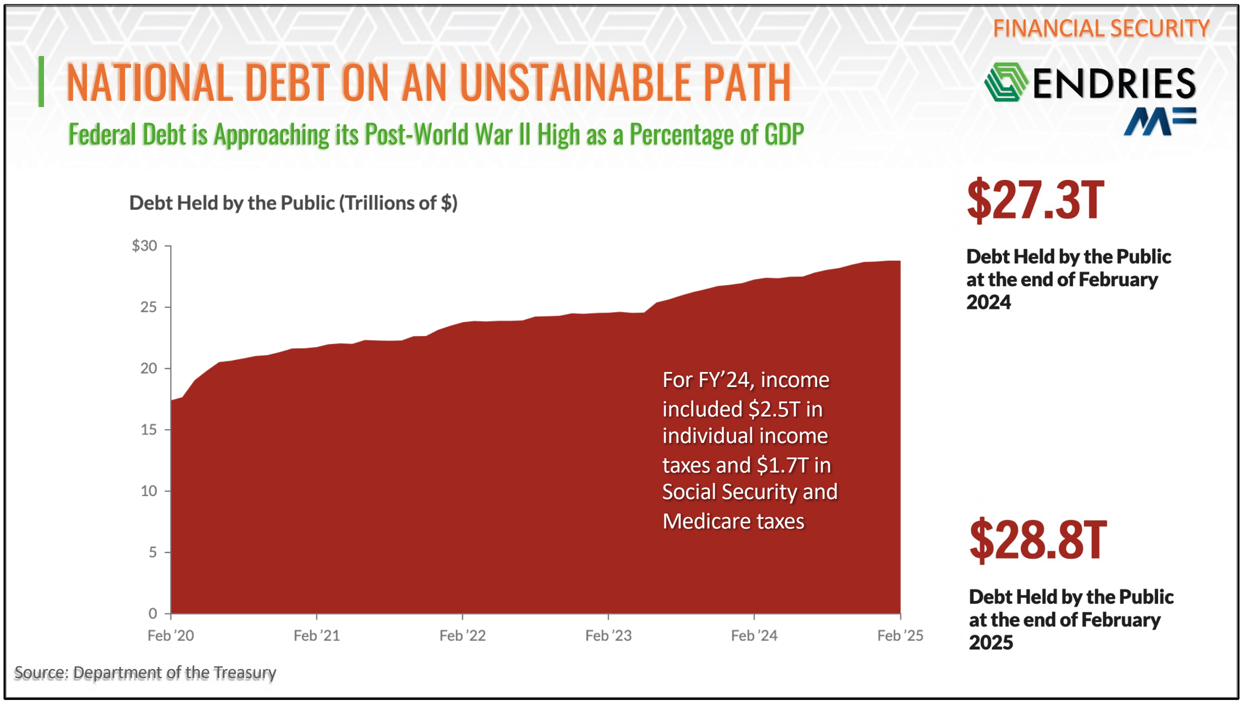


Revenues through the first five months of FY25 were $37 billion above collections from a year ago, driven by a $55 billion increase in the category of individual income and payroll taxes. Receipts were boosted last year by deferred collections of payments from taxpayers in locations that suffered natural disasters. If not for those postponed payments (about $35 billion), the difference in revenues in the first five months of 2025 relative to the prior year would have been larger.

Through the five months, the fiscal year's cumulative deficit was $318 billion above last year's level. However, October 1, 2023, fell on a weekend, thereby causing certain federal payments to be shifted into the previous fiscal year (FY23) and artificially reducing the deficit in FY24. Additionally, outlays for the first five months of FY25 were inflated by March 1 payments, which fell on a weekend, thereby shifting into February. Without those effects, the deficit for FY25 through the end of February would have been $1,063 billion, $162 billion more than last year's adjusted total of $901 billion.
For the first five months of FY25, total outlays were $3.0 trillion, $355 billion higher than the same period in the previous year. Adjusting for the aforementioned shifts, spending was $199 billion above the same period last

year. That increase was driven mainly by three categories: net interest rose by $46 billion; Social Security spending was up by $38 billion, mainly stemming from cost-of-living adjustments; and spending on national defense increased by $36 billion. Partially offsetting those and other increases was a $68 billion decrease in outlays by the Federal Deposit Insurance Corporation related to the resolution of bank failures that occurred last year.

The Senate budget resolution would also green-light a $5 trillion hike of the debt ceiling that GOP lawmakers hope will get them through the 2026 midterms.



Fiscal year 2025 has gotten off to a bad start in terms of growth in the deficit. The federal debt is approaching its post-World War II high as a percentage of gross domestic product and is on track to continue rising rapidly, which is unsustainable. The new Administration and Congress must take action to put the nation on a more sustainable footing.

Why Did Americans Stop Caring About the National Debt?
Both parties—and the voters—are to blame for the national debt fiasco.
Brian Riedl | From the August/September 2024 issue

When President Joe Biden delivered his 2023 State of the Union address, Washington was drowning in a sea of red ink. The annual budget deficit was in the process of doubling from $1 trillion to $2 trillion in a single year due to some student-debt cancellation shenanigans. That year's budget deficit would become the largest share of gross domestic product (GDP) in American history outside of wars and recessions. Economists at the Congressional Budget Office (CBO) and across the political spectrum warned that continuing to ignore the escalating Social Security and Medicare shortfalls while also opposing new broad-based taxes was unsustainable and could bring a painful debt crisis.

How did the nation's highest elected officials respond to this economic challenge? Biden promised that "if anyone tries to cut Social Security [or] Medicare, I'll stop them. I'll veto it." He also accused congressional Republicans of plotting to reform these programs—prompting outraged shouts from Republicans who resented the accusation of caring about the looming insolvency of the Social Security and Medicare trust funds. When the president triumphantly taunted that such boos reveal a new bipartisan consensus to do nothing about Social Security and Medicare shortfalls, both Republicans and Democrats leaped to their feet with thunderous cheers. For good measure, both parties endorsed Biden's prohibition on any new taxes for 95 percent of families. Washington's dangerous borrowing spree would continue with enthusiastic bipartisan support.

Paradoxically, the faster government debt escalates toward an inevitable debt crisis, the less politicians and voters seem to care. In the 1980s and 1990s, more modest deficits dominated economic policy debates and prompted six major deficit reduction deals that balanced the budget from 1998 through 2001. That era is long gone. In the past eight years, President Donald Trump and then Biden enacted $12 trillion in deficit-expanding legislation even as Social Security and Medicare shortfalls drove baseline deficits higher. When even liberal economists warned politicians that the post-pandemic economy faced a modest degree of rising inflation and interest rates—and that a federal spending spree would pour gasoline on that fire—lawmakers responded by enacting the $2 trillion American Rescue Plan. When inflation and mortgage rates resultantly surged to 9.1 percent and 7.8 percent, respectively, lawmakers brazenly continued the inflationary spending spree. Why are we no longer responding to soaring debt and its economic consequences? While there are many factors, the three most important are these: 1) We've convinced ourselves that deficits do not matter; 2) partisan politics and the collapse of lawmaking have turned deficits into a weapon to be politicized rather than a problem to be solved; and 3) few of us are willing to face the unpopular reality that this issue cannot be resolved without fundamentally reforming Social Security, Medicare, and middle-class taxes.

Debt Drivers

Few voters, or even politicians, have fully grasped how perilous Washington's fiscal outlook has become. While budget deficits have historically averaged 3 percent of GDP—ensuring the debt grows no faster than the overall economy—the deficit reached 7.5 percent of GDP last year and is projected to swell to 14 percent of GDP over three decades if current tax and spending policies are extended. If the federal debt continues to roll over into the 4.5 percent interest rate seen at recent Treasury debt auctions, then the budget deficit may surpass \$4 trillion within a decade. When a debt becomes this enormous, interest rates become a budgetary time bomb. Even if rates stay below 4 percent forever—as the CBO's projections questionably assume—projected interest costs will consume a quarter of all federal taxes within a decade and become the largest annual federal expenditure within two decades. If rates rise, each percentage point will add \$35 trillion in interest over three decades—the cost of adding another Defense Department. Again, that's for *each percentage point*. To many economists, the most important debt figure is the total federal debt as a share of the economy. This "debt ratio" has already leapt from 40 percent to 100 percent since 2008, and it is projected to exceed 230 percent within three decades under current policies. If interest rates gradually rise to 5 percent or even 6 percent, the debt ratio could surpass 300 percent, with interest costs consuming nearly all annual tax revenues. There would be no tax revenues left to finance any federal programs. If this sounds unduly alarmist, consider that the economists at the University of Pennsylvania's Wharton School could not even project a functioning long-term economy on our current debt path. The economists write that their economic models "effectively crash when trying to project future macroeconomic variables under current fiscal policy. The reason is that current fiscal policy is not sustainable and forward-looking financial markets know it."

The driver of this debt is no mystery. The combination of rising health care costs and 74 million retiring baby boomers is driving annual Social Security and Medicare costs far above their payroll tax and Medicare premium revenues. These annual program shortfalls—which must be funded with general tax revenues and new borrowing—will exceed \$650 billion this year on their way to \$2.2 trillion annually a decade from now, when including the interest costs of their deficits. Specifically, by 2034 Social Security and Medicare will be collecting \$2.6 trillion annually in revenues while costing \$4.8 trillion in benefits and associated interest costs. And that's just the beginning. Over 30 years, CBO data show Social Security and Medicare facing an annual shortfall of \$124 trillion while the rest of the budget is roughly balanced. By 2054, these two programs will be contributing 11.3 percent of GDP to annual budget deficits, or the current equivalent of \$3.2 trillion in annual program shortfalls (including the interest costs of their deficits). As for the rest of the budget, CBO projects that tax revenues will continue to rise, and other program spending to fall, as a share of the economy. This means the entire long-term deficit growth is driven by Social Security, Medicare, and the interest cost of their shortfalls. Baby boomer retirements, health care costs, and rising interest rates combine to create what Bill Clinton's former White House chief of staff, Erskine Bowles, in 2012 called "the most predictable economic crisis in history." As far back as the 1990s, experts warned that surging retirements in the 2010s and 2020s

would push Social Security and Medicare costs dangerously far above their more-steady payroll tax revenues. Yet attempts in the 1990s and early 2000s to gradually phase in reforms while the boomers were still young enough to adjust to them went nowhere. Consequently, stabilizing the debt will now entail deeper and more drastic Social Security and Medicare reforms—as well as increases in middle-class taxes—that can no longer exempt current and near retirees. We cannot grandfather out of reform the 74 million boomers whose costs are driving the $124 trillion shortfall. Nor can we tweak our way out of this. If the system is to be kept afloat, Social Security's eligibility age must rise, its benefit growth formulas must be significantly curtailed for above-average earners, and its taxes may need to rise too. Medicare premiums must steeply rise for above-average earners, and its elevated costs addressed either with a new choice- and competition-based premium support system or with ambitious price and payment reforms to scale back costly procedures.
Washington will not even discuss this.

Deficits Do Matter
Younger voters may not grasp how much deficit concerns dominated economic policy debates from 1982 through the end of the century. As deficits widened under President Ronald Reagan, due to tax cuts and military spending, deficit reduction became a top voter priority, driven by concerns of elevated interest rates, sluggish economic growth, and foreign debt ownership. These deficit concerns—colored by a modest recession—helped elect President Bill Clinton in 1992. In The Agenda, Bob Woodward detailed the Clinton White House's monomaniacal focus on budget deficits, interest rates, and the bond market when pushing its 1993 tax hike bill. Even with the debt roughly stable as a share of the economy, both parties demanded aggressive deficit reduction to cut interest rates, spur investment, and encourage economic growth. After six major deficit reduction deals and a temporary revenue surge finally brought balanced budgets from 1998 through 2001, triumphant lawmakers shifted the debate to how to spend $5 trillion in projected (and, in retrospect, fake) 10-year surpluses. Even as a sluggish economy eliminated those surpluses, Washington's appetite for replacing austerity with tax cuts, war spending, and new entitlements could not be stopped. Vice President Dick Cheney famously declared "deficits don't matter"—and when Great Recession stimulus spending brought the first trillion-dollar deficits without any immediately apparent danger, all of Washington wanted to join the party. Low interest rates made federal borrowing cheap, and the 2016 and 2020 presidential campaigns saw Sen. Bernie Sanders (I–Vt.) propose between $60 trillion and $97 trillion in new spending over a decade. Then Presidents Trump and Biden enacted $12 trillion in deficit-financed legislation in just eight years. Progressives even invented an absurd justification for enormous deficits. Modern Monetary Theory (MMT) inexplicably claimed that

Scandinavian-size spending could be financed by radically expanding the money supply without significant inflation. The 72 leading economists on the left and right responding to an expert survey *unanimously* rejected the MMT's ahistorical and nonsensical claims. The MMT's real purpose was to concoct an economic justification for progressives' longstanding desire to drastically expand government unconstrained from the limits of plausible taxation. In hindsight, the economy managed the post-2000 debt surge because the initial 32 percent of GDP debt level provided some fiscal space for additional borrowing. Furthermore, the sluggish economy, an accommodating Federal Reserve, and a global savings glut drove a historic interest rate decline that made debt more affordable for families, businesses, and the federal budget. That free-lunch era is now over. The federal debt exceeds 100 percent of GDP and is set to double or even triple over a few decades. These debt levels are rendered even more unaffordable by rising interest rates, as the structural factors that long reduced rates begin to reverse. Consensus economic analysis suggests that the debt surge itself will elevate interest rates by as much as three percentage points. Unfortunately, American politics has not caught up to this new economic reality—which brings us to one of the biggest barriers to reform.

Partisan Politics and the Collapse of Lawmaking

Washington was not always as hyperpartisan and dysfunctional as it is today. In 2019, I analyzed the 14 leading "grand deal" deficit negotiations from 1983 through 2019 to learn why six negotiations successfully enacted legislation and eight failed. The most important cause of the recent failures, I found, has been Congress itself. Up through the mid-1990s, Republicans and Democrats—despite public bickering—often collaborated well behind the scenes. During the 1983 Social Security negotiations to avert a looming trust-fund insolvency, Reagan and House Speaker Tip O'Neill (D–Mass.) pledged not to attack each other's approaches in public. President George H.W. Bush and congressional Democrats trusted each other in the 1990 budget deal negotiations that brought new spending controls and tax increases. Even the 1997 balanced budget agreement between Clinton and House Speaker Newt Gingrich (R–Ga.), coming two years after a rancorous government shutdown, was a. model of healthy, trustworthy, bipartisan negotiations. This bipartisan era ended abruptly in January 1998, when the Clinton-Lewinsky scandal broke. Clinton and Gingrich canceled a bipartisan fix to Social Security that was set to be announced just days later. Deficit concerns did not return until 2009, and by then Washington was far more polarized. Rather than stay in D.C. during the legislative session and build bipartisan relationships—which voters once rewarded—lawmakers now fly into Washington on Monday evening, attack the other party in press releases and floor speeches, and then fly out on Thursday afternoon. The media landscape has become fragmented, partisan, paranoid, and obsessed with narratives of betrayal. Gerrymandered House districts leave members more fearful of primary challenges from true-believing partisans than of losing swing voters in the general election. Most congressional policy making has been removed from relatively bipartisan congressional committees and centralized in the Capitol offices of the House and Senate party leaders. The result is 24/7 partisan warfare, with individual issues seen as little more than interchangeable weapons in the day's communication wars. For the past two years, Republicans and Democrats savaged each other over inflation—the voters' top issue—without either side bothering to offer serious legislation to solve the problem. (The cynically named "Inflation Reduction Act" had little to do with combating inflation.) In this environment, neither party dares to push politically risky entitlement reforms or broad-based taxes. Just ask former House Speaker Paul Ryan (R–Wisc.), whose earlier efforts earned him bipartisan hatred from voters and an attack ad portraying him *murdering* a senior citizen. Even if the parties could trust each other to negotiate a good-faith deficit deal, their own purity-test voters would accuse them of surrendering to the other side. decades but Republicans and Democrats just point fingers at each other. Deficits are not a problem to be solved, but instead another weapon in the partisan communications war.

No More Easy Solutions

In the 1980s and '90s, lawmakers could tweak their way to deficit reduction. Nearly half of federal spending was discretionary, and the Cold War victory brought vast military savings that minimized the need for austerity elsewhere. A late-1990s revenue bubble was enough to bump the deficit into surplus for four years. The political payoff of a balanced budget was worth these modest reforms.

Today's deficits of $2 trillion—headed toward $3 trillion or even $4 trillion—cannot be tweaked away. Balancing the budget is virtually impossible, and even stabilizing the long-term debt at today's 100 percent of GDP requires wildly unpopular changes to Social Security and Medicare (and will likely take broad-based taxes). Other reforms are necessary but far from sufficient. Yet Washington refuses to confront this budget math, relying instead on publicity stunts. Voters search for "one cool trick" that would quickly and painlessly balance the budget if only the out-of-touch politicians would listen.

Start with Republicans. The GOP canon begins by asserting that deficits are always driven by Democratic spending. This narrative is flatly contradicted by Presidents George W. Bush and Trump, both of whom expanded federal spending by trillions of dollars while enacting trillion-dollar tax cuts. The last time Republicans controlled both the White House and Congress, in 2017 and 2018, they immediately cut taxes by $1.5 trillion, expanded discretionary spending by 13 percent in one year, and rejected all entitlement savings. "But those tax cuts paid for themselves," Republicans retort, which incorrectly assumes that pre-cut tax rates are always above the Laffer Curve's revenue-maximizing rate. This math also requires that every tax cut dollar adds at least $5 in economic output, taxed at an average 20 percent rate to recover that lost revenue dollar. While tax cutters will point to rising tax revenues as evidence of "free" tax cuts, even a stable tax code will produce rising revenues due to inflation, population growth, rising real wages, and business profits. Despite the many positive attributes of GOP tax cuts, they undeniably resulted in lower tax revenues than otherwise.

On the spending side, Republican voters are quick to claim that a $2 trillion deficit can be mostly eliminated by cutting foreign aid (just 1 percent of federal spending) or the classic "waste, fraud, and abuse," as if such a line-item exists in the federal budget to be zeroed out. Some Republicans like to talk about eviscerating social spending, but that rhetoric tends to fall apart when you calculate how much of that spending you'd need to cut to meet the GOP's balanced-budget targets: You'd need to eliminate *all* funding for veterans' benefits, child credit payments, the earned income tax credit, school lunches, disability benefits, K-12 schooling, health research, unemployment benefits, food stamps, homeland security, infrastructure, embassy security, federal prisons, border security, and much more. There is not much Republican appetite for that. (And no, immigration does not significantly widen federal budget deficits, although it can raise state and local government costs.)

GOP leaders also rely on gimmicks. Trump absurdly promises to pay off the $27 trillion federal debt with oil and gas revenues. One recent Republican presidential candidate, Vivek Ramaswamy, promised to grow the economy to a balanced budget. That lazy contention not only requires nearly impossible growth rates; it fails to acknowledge that faster economic growth also raises Social Security and Medicare costs and interest rates on the federal debt.

Without a consensus around a serious deficit reduction agenda, many Republicans rely instead on gimmicks and publicity stunts. So-called government shutdowns affect less than a tenth of federal spending, eviscerate many of the most popular programs, and guarantee an intense voter backlash. Similarly, debt limit showdowns offend voters as a crude way of eliminating an undetermined quarter of federal spending, defaulting on federal contract payments, and potentially defaulting on the debt with devastating economic consequences. They never succeed. Another Republican gimmick is simply to demand a balanced budget amendment, or easy-sounding spending caps such as the "Penny Plan," without specifying how to meet their impossibly tight savings targets. Empty lawmaker pledges to quickly balance the budget while also extending the 2017 tax cuts and protecting key spending priorities—a mathematical and political impossibility—are meant to distract conservative voters from their runaway spending. Talk like Barry Goldwater; spend like LBJ. So, George W. Bush signed legislation collectively adding $6.9 trillion in debt, while Trump signed $7.8 trillion in just four years. The House GOP's balanced budget plan consists nearly entirely of gimmicks. Lawmakers engage in symbolic fights over small slivers of discretionary social spending while entitlement costs skyrocket. Freedom Caucus lawmakers give angry press conferences demanding colossal spending cuts without bothering to lay out any specific savings blueprint to meet their demands—or doing the necessary outreach, negotiating, and coalition building to win over skeptical lawmakers. It's all just a show; performative outrage for gullible voters. Democrats have also built their own bubble of misinformation and excuses. The most basic progressive narrative claims that deficits do not matter and are merely a green-eyeshade scheme to serve the wealthy over the people. These progressives offer no answer for who will lend Washington at least $120 trillion over 30 years, or how such debt will affect the economy. The MMT enthusiasts call for financing such deficits with new money creation and then pretend hyperinflation would not result. "Zombie Keynesians" assert that trillions of dollars in deficit spending is needed to keep the economy afloat, and that even slowing the growth of spending would bring recession, mass poverty, and social collapse. (Real Keynesians acknowledge that recessionary stimulus also requires offsetting austerity during economic expansions.). Liberal Democrats suddenly become anti-deficit when hammering Republicans. Flipping the GOP argument, they assert that Republicans drive the debt because deficits expanded during recent Republican presidencies and declined under Democrats. Yet such arguments measure only the first and last years of each presidency, which are often heavily affected by one- to two-year fiscal anomalies outside of presidential control, such as the 2000 revenue bubble, the 2008 housing crash, and the 2020 global pandemic. In fact, the partisan effect on deficits disappears if you measure deficits across entire presidencies, control for factors that are inherited or outside presidential control and incorporate the partisan makeup of Congress passing the budget bills. Unfortunately, these standard economic and statistical cleanups do not fit in a meme. Perhaps the most persistent Democratic myth is that tax cuts for the wealthy caused today's deficits and that taxing the rich can eliminate the problem. The math just doesn't back this up. Annual federal budgets since 2000 have fallen from a 2.3 percent of GDP budget surplus to a 7.5 percent of GDP deficit. That 9.8 percent decline results from annual spending jumping 6.3 percent of GDP; the bursting of the 2000 revenue bubble, which reduced revenues by 1.5 percent of GDP; and tax cuts, costing 2 percent of GDP. Approximately 70 percent of the 2001 and 2017 tax cut costs (and subsequent extensions) went to earners in the middle and lower classes. Out of that 9.8 percent of GDP fiscal decline, that leaves just 0.6 percent that can be attributed to "tax cuts for the rich."

So how do critics claim that "tax cuts for the rich" drive deficits? By including all tax cuts even for the nonwealthy. Or simply giving a free pass to the 5.5 percent of GDP entitlement spending hike since 2000 and then blaming tax revenues for not keeping up. In its more extreme form, this fiscal fallacy insists that simply taxing the rich can not only close between $120 trillion and $150 trillion (depending on current policy extensions) in total budget deficits over three decades, but also finance a full Nordic social democracy. The first problem with this claim is mathematical. Even seizing every dollar of wealth from America's 800 billionaires—every home, yacht, business, and investment—would merely fund the federal government for nine months. And then the money would be gone. So would your 401(k), given that most of this wealth would be seized from the stock market. Not even the Sanders fantasyland tax agenda of a 77 percent estate tax, 8 percent wealth tax, and huge corporate, income, and investment taxes could finance Washington's *current* spending promises, much less his enormous new spending agenda. There simply are not enough millionaires, billionaires, and undertaxed corporations to close a minimum $120 trillion shortfall or finance a generous social democracy for 330 million Americans. The second problem is economic. Only so many upper-income taxes can be layered on top of each other before surpassing their revenue-maximizing rates. At most, 1 percent to 2 percent of GDP in new taxes could be raised from high earners and corporations before their tax rates reach revenue-maximizing levels and the economy begins to capsize. The final problem is political. Even a unified, unconstrained Democratic government in 2021 and 2022 limited its tax-the-rich reach to a modest and exception-stuffed corporate minimum tax and some IRS funding. It turns out that a lot of high earners and corporations are located in California and New York, where they help elect Democratic congressional leaders, who are not eager to bury them in a socialist tax revolution.

Progressive lawmakers exaggerate tax-the-rich savings by recycling the same few tax proposals to pay for countless spending proposals. Liberals lionize the 91 percent income tax rates of the 1950s, without doing the basic research to discover that: 1) Virtually no one in those days actually paid marginal tax rates over 50 percent; 2) those high earners paid lower effective rates than today; and therefore 3) the high tax rates of the 1950s to 1970s collected a smaller share of GDP in revenues than the post-1980 era of significantly *lower* tax rates. And when tax-the-rich progressives call for matching Europe's higher tax revenues, they ignore the fact that virtually all of Europe's revenue advantage results from broad-based value-added and payroll taxes, not additional upper-income taxes. Taxing the rich should be on the table—as should all savings policies—but cannot close more than a modest fraction of the shortfalls. Democrats offer other dubious easy solutions to deficits. The popular target of Pentagon spending has already fallen from 6 percent to 3 percent of GDP since the 1980s and is projected to continue declining to 2.5 percent, which is not far above NATO's 2 percent target. Moreover, congressional calls to dramatically slash military spending have not been backed up by specific proposals, because even progressive lawmakers cannot figure out how to meet their savings targets. Similarly, Medicare for All is more of a talking point than a serious savings proposal. Bills from Sanders and Rep. Pramila Jayapal (D–Wash.) promise nearly impossible efficiency savings yet fail to specify any new provider payment system to achieve them. Instead, the bills lamely assign someone else to figure out how to make it all work. Meanwhile, economists estimate that any modest efficiency savings would be spent on expanded benefits, leaving national health expenditures largely unchanged. Additionally, no one has yet designed a "Medicare for All" tax large enough to replace the $3 trillion in annual private health spending that would be nationalized. Most crucially, none of these proposals would affect Medicare's projected $87 trillion three-decade shortfall, because, obviously, old-age Medicare already pays Medicare for All's lower provider rates. Some myths are bipartisan, such as claiming that Social Security and Medicare cannot legally run deficits, that most seniors are impoverished, and that retirees collect only as much as they paid into the systems. In reality, those two programs will run a combined deficit of $650 billion this year, senior incomes have soared four times as fast as worker incomes since 1980, and most retirees receive Social Security and especially Medicare benefits substantially exceeding their lifetime contributions.

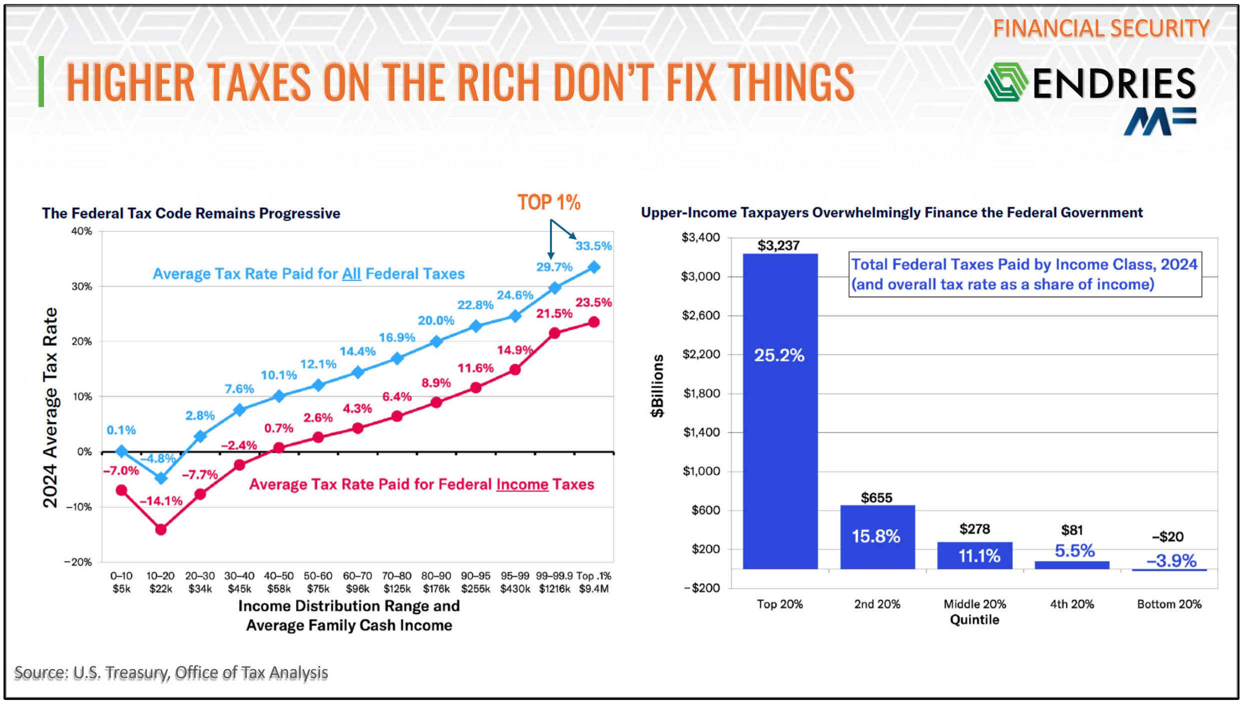
Another myth is that the Social Security trust fund contains real resources to pay benefits—or would have if politicians had not "raided it" for other spending. Some claim that long-term Social Security and Medicare projections are just guesses, even though their retirees already exist with benefit formulas set in law; or that we can shield everyone over age 50 from reform, even though that window closed 20 years ago. The media often encourage fake solutions and deficit denial. *Bloomberg* has hyped the mathematically impossible free-lunch fantasy that billionaire taxes can fix Social Security. Not surprisingly, it proved popular. Leading media organizations criticize runaway deficits but then respond to even modest proposed spending cuts with apocalyptic coverage of families who supposedly will be driven into destitution if their Social Security benefits grow at a slightly reduced rate or their Medicare co-pays rise by a few dollars.

Back to Reality

Our fiscal lies and myths reflect motivated reasoning because we refuse to confront the inevitable tradeoffs for Social Security, Medicare, and middle-class taxes. I have briefed dozens of lawmakers and some top presidential candidates. They are aware that the untenable fiscal situation is heading toward a painful reckoning. But most simply refuse to discuss it publicly—and some even demagogue political opponents who try to address it—because they admit that

the brutal politics of deficit reduction leave them no choice. And for that, the voters are to blame. We oppose real deficit reforms in favor of "one cool trick" gimmicks. We make self-righteous fiscal demands that are incoherent, contradictory, and reckless, such as simultaneously calling for a balanced budget, higher spending, and no more taxes. We vote for Santa Claus candidates of both parties who promise a free lunch and reject candidates who acknowledge fiscal tradeoffs. We blame the other party for deficits and savage any politician who dares to propose real reforms. Ultimately, we are the reason that admittedly craven politicians won't risk addressing our looming fiscal insolvency. And we will eventually pay the price.
It's time for voters and politicians to confront some inconvenient truths. Washington has promised substantially more spending than the economy and tax system will be able to deliver. There is no easy solution that everyone missed or that politicians are hiding from you. Washington cannot continue its current course toward a debt of 200 percent or even 300 percent of the economy. The financial markets will surely not be able to lend us between $120 trillion and $150 trillion over three decades at interest rates of just 2 percent or 3 percent. We do not know precisely *when* the financial markets will tap out and demand unaffordable interest rates, creating a vicious circle of rising debt and interest rates. But that day will almost certainly arrive unless Congress acts. Here's the painful reality for Republicans: You cannot stabilize the long-term debt with tax revenues remaining at 18 percent of GDP. Federal spending is headed toward 32 percent of GDP, due to 74 million baby boomers retiring into Social Security and Medicare, rising health care costs, and debt interest expenses. You can't simply cancel those costs. Nor can you more aggressively eviscerate popular programs just to honor a pledge to spare millionaires, billionaires, and corporations from one dollar in new taxes. Everyone must contribute. The most ambitious-yet-plausible conservative reforms would limit long-term spending to 23 percent of GDP, which in turn requires revenues of 20 percent to stabilize the debt. This means ambitious reforms to Social Security, Medicare, and defense, as well as new taxes. Every year of delay leaves the debt larger, interest costs higher, and aging boomers less able to absorb reforms—forcing a more tax-heavy eventual solution. Seek a compromise now, not later. Here's the painful reality for Democrats: You cannot chase spending heading to 32 percent of GDP with taxes. Even maximizing every tax-the-rich policy is not close to enough. Nor could deep military cuts or Medicare for All make a major dent in deficits heading toward 14 percent of GDP. Furthermore, middle-class families will not accept their taxes doubling merely to ensure that wealthier baby boomer retirees can continue to collect Social Security and Medicare benefits far exceeding their lifetime contributions. Nor is it "progressive" to squeeze every remaining progressive funding priority and soak up all plausible upper-income taxes simply to subsidize often-wealthy seniors. And the reality for both parties: You need each other. You

need to put all spending and taxes on the table to achieve the required savings, and you need each other to provide the necessary political cover. No party is strong enough to muscle through a partisan, one-sided austerity solution and then survive the brutal partisan onslaught that follows. The political model is the 1983 Social Security reforms, where both parties held hands, jumped together, and were overwhelmingly reelected. The most important reform variable is the voters. Lawmakers will not act as long as they fear that even discussing deficit-reduction proposals will provoke a furious backlash. For decades, we've been warned that a debt crisis is coming after the boomers retire. With budget deficits exceeding $2 trillion and likely surging past $3 trillion within a decade, does anyone care to stop it?



As **Figure 1** shows, the federal tax system is remarkably progressive. Within income taxes, the lowest-earning 40% pay a negative rate, and the median-earning family pays an effective rate of just 2%. Meanwhile, the top 1% of earners pay an average income-tax rate of 21.5% or higher.[6] The same chart includes IRS data on the average of all federal taxes paid—income, payroll (including the employer side), corporate, estate, and excise taxes. With these included, the tax code remains progressive, with the bottom-earning 20% paying negative federal taxes, middle-earners paying about 11% of their income in federal taxes, and the top-earning 1% paying a nearly 30% tax rate.[7] Indeed, the federal tax code has grown more progressive over time, mainly due to refundable tax credits and tax relief that removed 10 million low-earners from the income-tax rolls. Since 1979, the share of income taxes paid by the top-earning 20% has jumped from 65% to 90%, while their share of *all* combined federal taxes has increased from 55% to 69%. These increases in the share of federal taxes paid by high-earners well exceed the increase in their share of the total income earned during this period.[8] In fact, OECD data reveal that the U.S. has the most progressive income and payroll taxes of any OECD nation—even after adjusting for income distribution across countries.[9] America taxes the wealthy within international norms but taxes lower- and middle-earners far less than other nations (not to mention not imposing, unlike many of those countries, more regressive value-added taxes). Thus, the wealthy overwhelmingly fund the federal government. In 2024, the top-earning 20% paid just under $2 trillion in income taxes, while the second quintile contributed $228 billion. The remaining 60% of earners, by contrast, paid a collective income tax of negative $92 billion. Across all federal taxes, the top-earning quintile paid $3.2 trillion, while the remaining four quintiles paid $655 billion, $278 billion, $81 billion, and *negative* $20 billion, respectively (see **Figure 2**). Put another way, the top-earning quintile funded 201 days of 2024 federal spending, the next quintile funded 41 days, and the bottom-earning 60% of families collectively funded 21 days of spending (the remaining 103 days were financed with budget deficits and borrowing).[10] The notion that middle-earner taxes finance the federal government, while most wealthy families escape taxes, is simply preposterous.

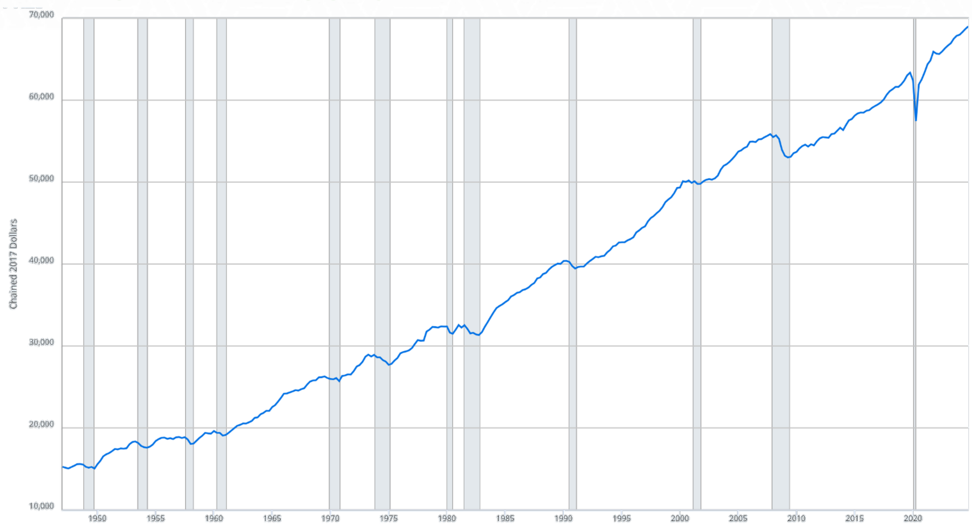

FINANCIAL SECURITY
HIGHER TARIFFS & TRADE WARS DON'T FIX THINGS
ENDRIES
$100. WILL
BUY THIS CAR.
MUST HAVE CASH.
LOST ALL ON THE
STOCK MARKET

ECONOMIC DISADVANTAGE

ENDRIES

WHAT EXACTLY NEEDS FIXING?

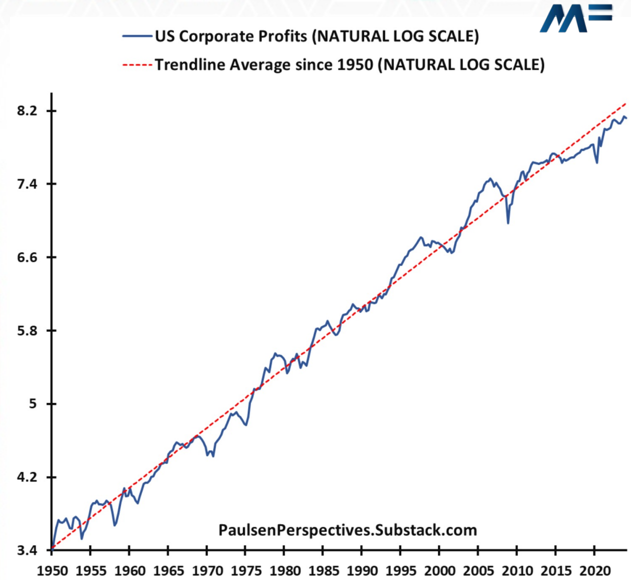
U.S. GDP PER CAPITA TRENDS SINCE WWII



Source: U.S. Bureau of Economic Analysis and St. Louis FRED

ECONOMIC DISADVANTAGE

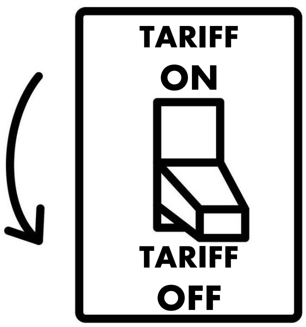
U.S. CORPORATE PROFIT TRENDS SINCE WWII

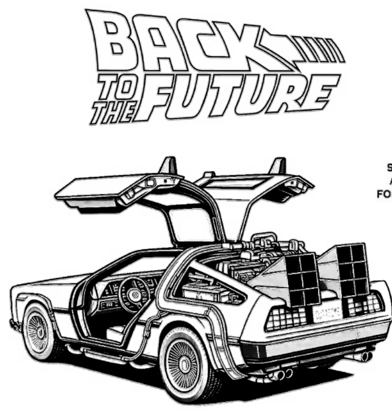


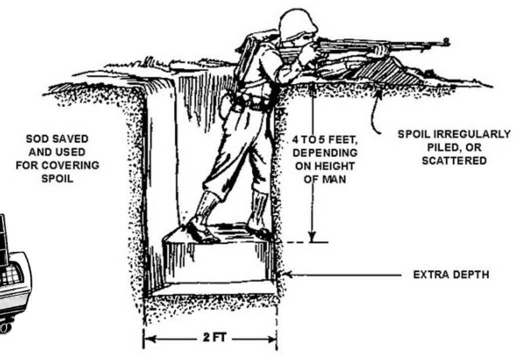

THE ONLY WAY TO AVOID TARIFFS IS TO SWITCH
TO A MANUFACTING SOURCE THAT IS EXEMPT
SOLUTIONS
ENDRIES
NOWHERE TO RUN, NOWHERE TO HIDE

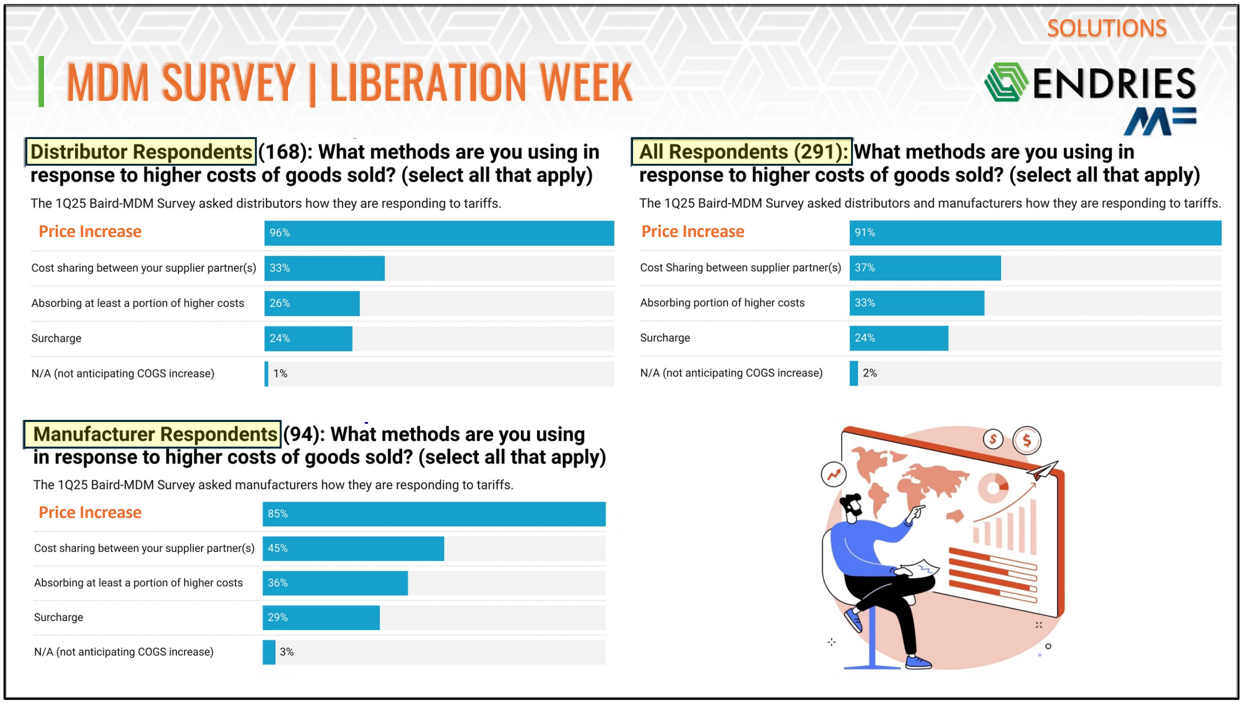
SOLUTIONS

EQUALLY IMPRACTICAL STRATEGIES









Distributors
<$10M in Revenue

•"We have no choice but to pass the price along and hope that competitors remain disciplined."
•"Paring back on investments and staff — will have layoffs. Difficulty is there are few domestic suppliers. Cost of production will rise and we'll have to pass the costs along to the OEMs."
•"Where possible, we will review how the tariff is being passed along and mitigate some of the increase where we have room to move. If the tariff is just being added to the cost and not a line addition, we are planning that those increases will be permanent."
•"We cannot be the gooey part of the Oreo that absorbs the increases. It must be covered by suppliers and primarily customers."
•"I see a major slowdown coming due to the COGS."

$10M-$25M in Revenue

•"Some things can be accomplished with more stock, more transparency, but some we just can't go back on our word."
•"Adding a tariff line to our invoices to show customers the effect of tariffs on the

cost of their purchases from us."
•"Too much uncertainty, but our competition is in the same boat. Inflation is going to happen, we will absorb very little of the tariffs, 95% of the increases will be passed on to customers."
•"We are currently limiting as much price increase as we can by reviewing country of origin and then passing on increases."

$26M-$50M in Revenue
•"We are seeing more and more customers demand cost breakdowns of tariffs we need to pass along. We are not in a position to share all of the information they are asking for. It is putting a burden on staff and cash flow trying to sort it all out. Overall, we are trying to pass on all tariffs, but the volume makes it difficult."
•"Some companies will not accept a tariff, so we are building an end to the list price, even if the vendor doesn't."

$51M-$100M in Revenue
•"All the wild tariff swings are causing pricing turmoil in our systems. It has also delayed a strategic pricing program we were trying to launch this year."

$101M-$250M in Revenue
•"We intend to fully pass along any supplier price increases, tariffs or surcharges as increases to our CoGS and will add our margin to that new cost."
•"We are having to educate suppliers as to how to reprice tariff impacted items. Some are using tariffs as an excuse for larger than necessary increases."
•"We will pass 100% of any tariff on to the consumer. Conversations have been had with manufacturers, but they're unable to take on much, if any, of the burden that tariffs will create. Sadly, many people at our locations will likely become unemployed as a result of what is assumed to be a major loss in business. Albeit, considering the administration's wavering in the face of imposing tariffs (think Canada & Mexico), I'm not sure what the outcome of any tariffs will be once announced."
•"Best way for us to implement tariffs for our customers is through price increases. No one wants to hear about tariffs and few organizations can process additional fees. What they can process easily are cost increases."

$251M-$500M in Revenue
•"Lots of Price Resistance from customers… Also, a trend of customers seeking Country of Origin (CoO) information, which we equate to Tariff Related Triggered Shopping Events, placing our business at risk, and also providing quoting activity for new business we can earn if we have the right CoO Manufacturing Partner."
•"We are being pushed by our customers to source Non-U.S. made goods. This could be a long-term play going forward with the lack of trust in the current U.S.

administration."

Manufacturers
<$10M in Revenue
•"Most customers do not want to see a separate line item for tariff costs, so we will roll them into price increases instead."

$10M-25M in Revenue
•"These tariffs needed to happen and will ultimately pay off and balance out trade between nations."

$26M-50M in Revenue
•"Tariffs fall into two categories for us: 1) Products we import and resell and 2) stainless steel. The response to imported items for resale will depend on market conditions. For stainless steel, we are anticipating increases coming through in 2Q, These will be passed on in price increases."
•"Margins are already compressed due to imported products we compete against. There is no ability to absorb the added cost of the tariffs."
•"We have stocked inventory in anticipation of tariffs. Our inventory build started in September 2024. We have enough low / non-tariffed inventory to last until December. Tariff-affected products only comprise 9% of total revenue."

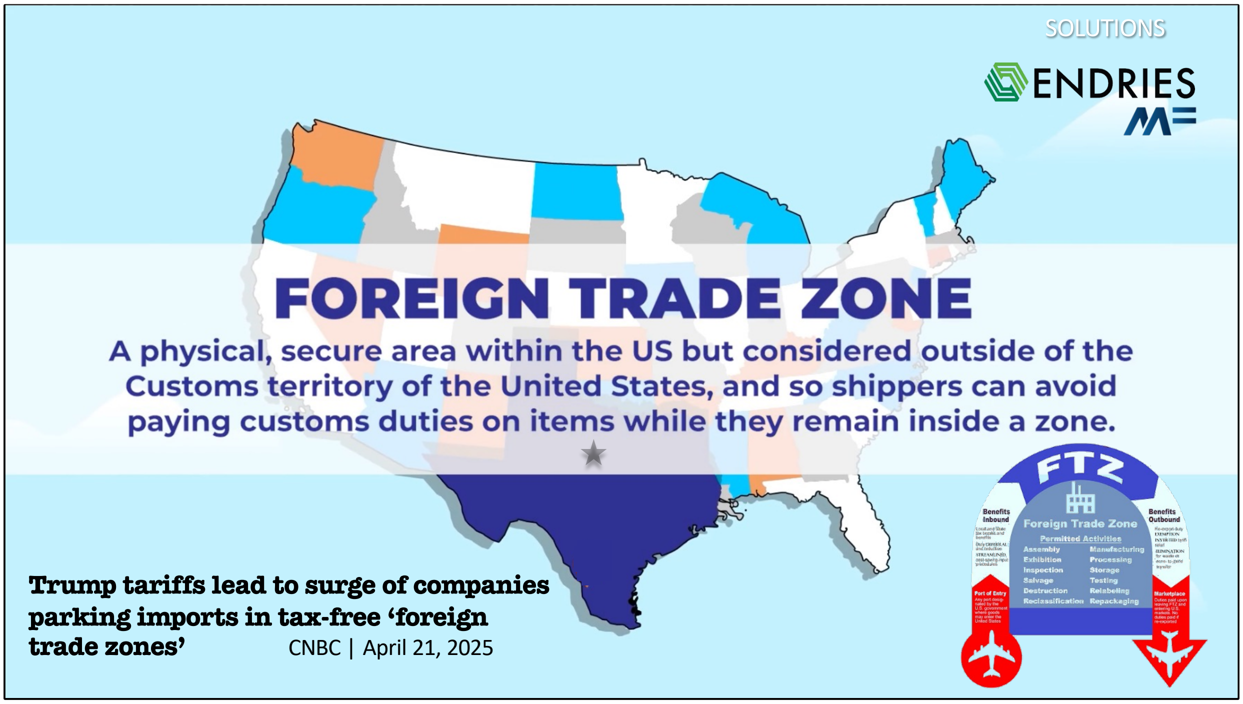
$51M-100M in Revenue
•"We are applying across-the-board price increases. This will prevent more drastic price increases on some of the most heavily impacted items and allow us to spread the cost across our entire organization."

$101M-250M in Revenue
•"Very hard to keep track of tariffs – hard data from government is slow vs actual charge implementation. Import planning is almost impossible to cost. Smaller companies with tight cash flow will really suffer."
•"One product category will continue to be sold in the USA with 25% price increase while two modest categories will be withdrawn."
•"We will not absorb any portion of the tariff fee. It will either be accepted or we will not ship the product. As always, a domestic version is available."

$251M-$999M in Revenue
•"Pushing through pricing aggressively and walking away from customers who will not accept it."

$1B-3B in Revenue
•"We have done surcharges in the past but have been asked by distribution to

change to price increase.”

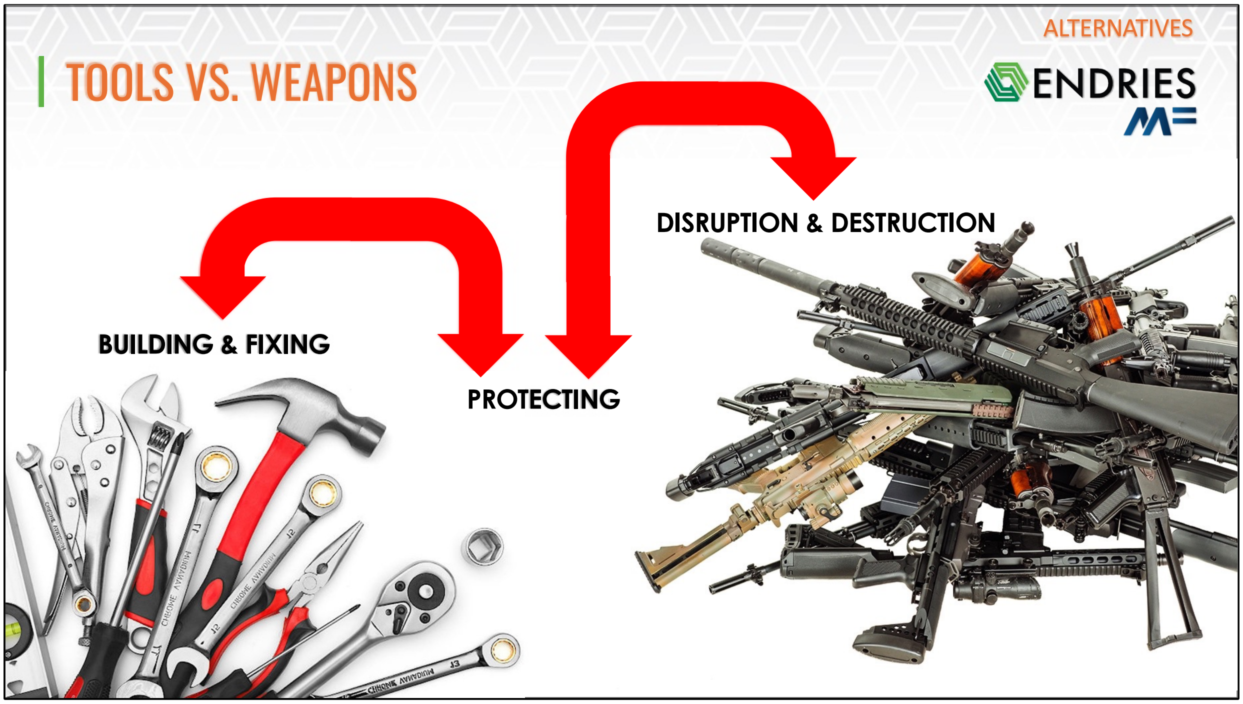


NAFTA made all of North America a Free Trade Zone

Companies large and small are turning to special U.S. Customs-approved sites to avoid, at least temporarily, the payment of new tariffs implemented by President Trump.
These locations, called foreign trade zones (FTZs) and bonded warehouses, are specially designated, secured storage or manufacturing sites approved by U.S. Customs where freight is not subject to U.S. duties or excise taxes. Duties are only paid by the importer when the goods are transferred out of the FTZ or bonded warehouse for U.S. market consumption. "A year ago, an FTZ was a nonstarter because of the investment a company would have to make," said Jackson Wood, director of industry strategy for Descartes Global Trade Intelligence, which provides FTZ technology system assistance. "Now they are crunching the numbers to see if it makes financial sense, and for some it does," Wood said, including smaller companies that are starting to consider FTZs as tariff rates soar. There is a 90-day pause in place for most countries before new tariffs hit, though tariffs for Chinese goods are now as high as 145%.
FTZs enable U.S. importers and manufacturers to store imports of finished goods for an indefinite amount of time without paying trade duties. Freight imported

under bond and placed in a bonded warehouse can be stored for up to five years starting the day it was imported into the country. Depending on the day the freight is moved out of an FTZ or bonded warehouse, importers might be able to pay either reduced customs duties, taxes, or fees, or none at all — a strategic approach to import management also known as an "inverted tariff." The deferment of duties, taxes and fees normally applicable upon importation can significantly enhance a company's financial position by providing cost savings, operational flexibility, and improved cash flow. Jeffrey J. Tafel, president of the National Association of Foreign Trade-Zones, says his organization started to see an increase in membership during the 2024 presidential election, and registrations have continued to pour in, with membership is at an all-time high. "With tariff changes happening so quickly, there are companies that are looking for FTZ storage space in order to defer the duties until they are able to decide how they want to proceed with the merchandise, much of which was purchased before the tariffs were known," said Tafel. "Any time tariffs are in the news, we see an increase in interest in all programs that help U.S. companies mitigate the impact." Tafel said there is also increased interest regarding FTZ grantees, which are authorized by the Foreign-Trade Zones Board to establish, operate, and maintain a foreign-trade zone, with inquiries up as much as two to four times what is typical.

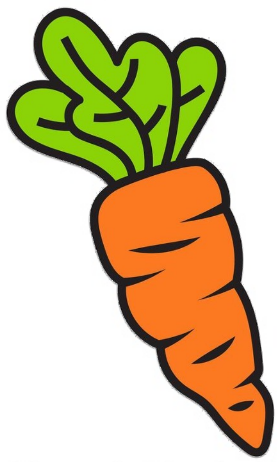
FTZs were created by Congress in the 1930s to incentivize domestic investment in U.S. The foreign-trade zones program employs more than 550,000 American workers across all 50 states and Puerto Rico, and in virtually every industry sector. Companies can choose to not ship goods at all, and recent data out of Asia shows a steep decline in manufacturing orders and freight vessel sailings. Bringing the goods in, and using duty-free zones, is the other option. "Recent tariff changes have made FTZs more appealing, as other duty reduction or recovery options, like duty drawback, are not eligible for the new tariffs," said Chelsea Pavona Gardner, a Maersk spokeswoman for North America. "As a result, companies that previously dismissed FTZs are now considering them as a viable strategy," she said. "We're at the point where we have a combination of clients waiting the next 30 days to see what happens," said Janet Labuda, head of customs and trade issues at Maersk. "We have others taking product and moving into bonded warehouses for 30 days or so to see if any of this blows over and then extract it out at the duties being charged that day," she added. Setting up an FTZ can be costly, with charges for professional services to navigate the initial process and approval of the zone usage, as well as trained staff and dedicated IT systems to manage the zone once operational. According to Gardner, using an FTZ depends more on the scale of a company's import activities rather than the industry itself, but the primary users of FTZs in the past have been consumer goods and retail, automotive, aerospace, and electronics. In addition to warehouse storage, manufacturing plants, or portions of plants, can become an FTZ in cases where a company's components have a higher tariff than the finished good. Once the finished good is released from the FTZ, the company pays a lower tariff. There is also an option for companies to have Customs approve the scrap of any leftover material not used in the manufacturing process, which would not be subjected to duty. This exemption can also include exporting the product to another country. Jordan Dewart, president of Redwood Logistics Mexico, said his company has been fielding many prospects and requests for FTZ services. While the Trump administration has said it is in talks with 75 countries for trade deals since announcing new tariffs, Dewart said the surge in FTZ interest is a sign that importers are worried about how long the trade war could last. "It seems customers are looking for a solution in case the tariffs stick long term," he said.



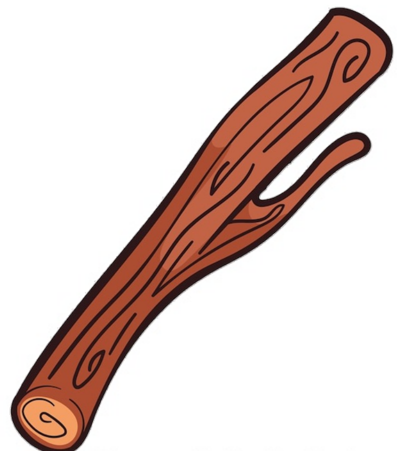
Tools can be used as a weapon, but the inverse is generally not true

ENDRIES

INCENTIVES VS. TARIFFS



VS.

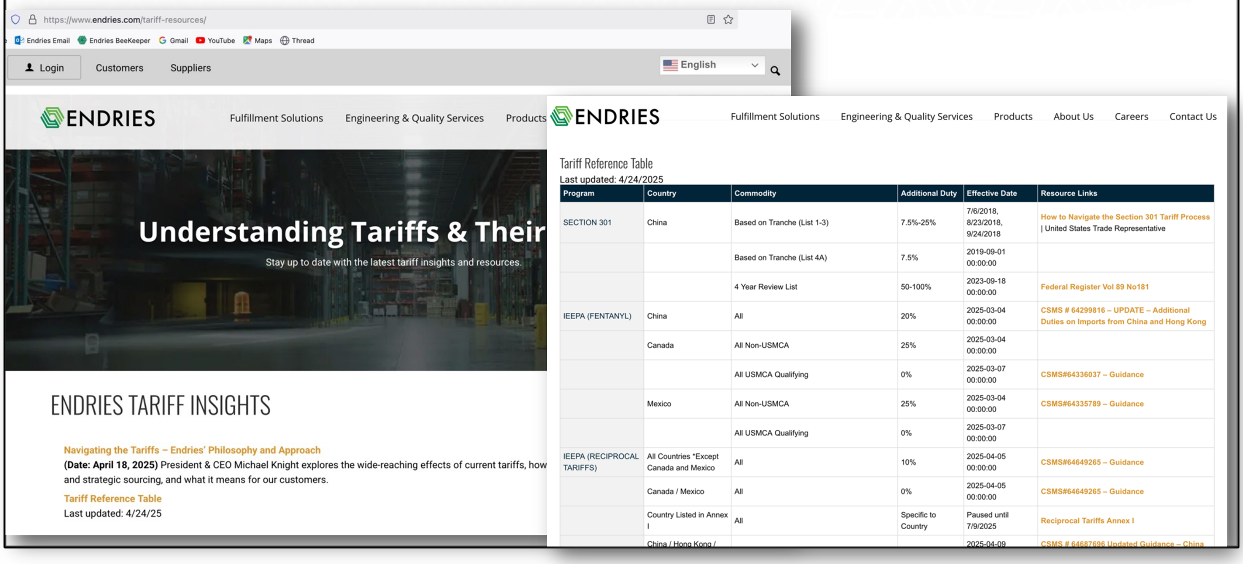


Slow & Feels Good

Fast & Painful

TARIFF RESOURCES

www.endries.com/tariff-resources



Tariff Reference Table

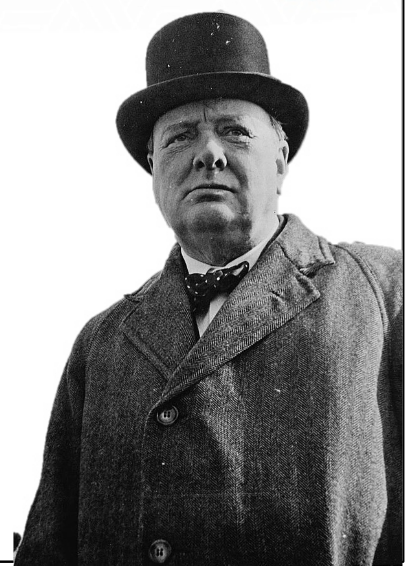
Last updated: 4/24/2025

Program	Country	Commodity	Additional Duty	Effective Date	Resource Links
SECTION 301	China	Based on Tranche (List 1-3)	7.5%-25%	7/6/2018, 8/23/2018, 9/24/2018	How to Navigate the Section 301 Tariff Process | United States Trade Representative
		Based on Tranche (List 4A)	7.5%	2019-09-01 00:00:00	
		4 Year Review List	50-100%	2023-09-18 00:00:00	Federal Register Vol 89 No181
IEEPA (FENTANYL)	China	All	20%	2025-03-04 00:00:00	CSMS # 64299816 – UPDATE – Additional Duties on Imports from China and Hong Kong
	Canada	All Non-USMCA	25%	2025-03-04 00:00:00	
		All USMCA Qualifying	0%	2025-03-07 00:00:00	CSMS#64336037 – Guidance
	Mexico	All Non-USMCA	25%	2025-03-04 00:00:00	CSMS#64335789 – Guidance
		All USMCA Qualifying	0%	2025-03-07 00:00:00	
IEEPA (RECIPROCAL TARIFFS)	All Countries *Except Canada and Mexico	All	10%	2025-04-05 00:00:00	CSMS#64649265 – Guidance
	Canada / Mexico	All	0%	2025-04-05 00:00:00	CSMS#64649265 – Guidance
	Country Listed in Annex I	All	Specific to Country	Paused until 7/9/2025	Reciprocal Tariffs Annex I
	China / Hong Kong /			2025-04-09	CSMS # 64687696 Updated Guidance – China

ENDRIES

There is only one thing worse than fighting with allies, and that is fighting without them.

Winston Churchill



The U.S. Is Playing Checkers in a Game of Go. This isn't a tit-for-tat trade war anymore. It's an ideological and economic realignment. The U.S. is trying to isolate China. China is trying to replace the system entirely. And guess what? In many parts of the world, that pitch is working.

This is the backfire. The boomerang. The cost of short-term thinking. Tariffs are a 20th-century tool being used in a 21st-century fight. And we're swinging it like a club while China is designing circuit boards, building alliances, and writing the next chapter of globalization.

This isn't about picking sides. It's about seeing the full board. If the goal is American strength, then it's time to stop fighting fire with gasoline. Real power isn't in blockades. It's in breakthroughs.
It's not about walls—it's about wins: economic, technological, diplomatic. We don't win by trying to slow China down. We win by speeding ourselves up.

APPENDIX

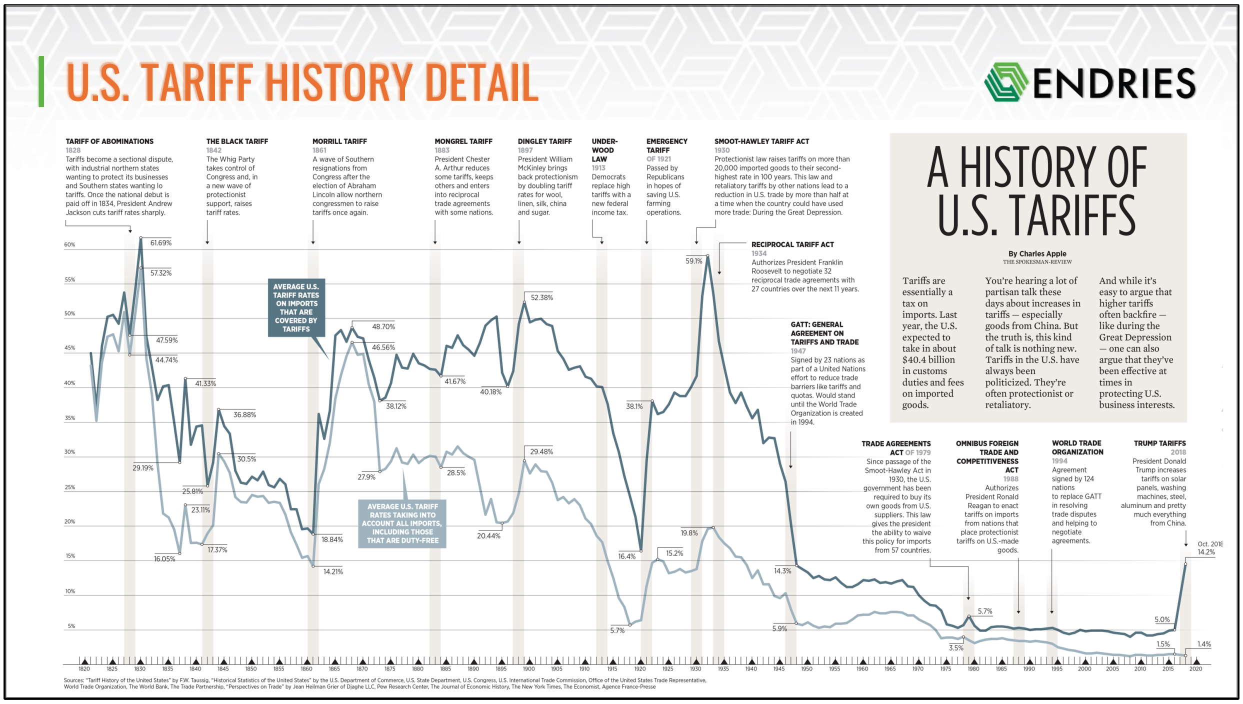
ENDRIES

DEFINITIONS:

TAXES: Mandatory contributions imposed by governments on individuals and businesses to fund public services.

TARIFFS: A specific tax applied to imported goods to regulate trade and protect domestic industries by making foreign products more expensive.

LEVIES: A broader term encompassing various government-imposed charges used to regulate imports, maintain trade balances, or generate revenue for public projects.


U.S. TARIFF HISTORY DETAIL
ENDRIES
A HISTORY OF U.S. TARIFFS
By Charles Apple
THE SPOKESMAN-REVIEW
Tariffs are essentially a tax on imports. Last year, the U.S. expected to take in about $40.4 billion in customs duties and fees on imported goods.
You're hearing a lot of partisan talk these days about increases in tariffs — especially goods from China. But the truth is, this kind of talk is nothing new. Tariffs in the U.S. have always been politicized. They're often protectionist or retaliatory.
And while it's easy to argue that higher tariffs often backfire — like during the Great Depression — one can also argue that they've been effective at times in protecting U.S. business interests.
TARIFF OF ABOMINATIONS
1828
Tariffs become a sectional dispute, with industrial northern states wanting to protect its businesses and Southern states wanting lo tariffs. Once the national debut is paid off in 1834, President Andrew Jackson cuts tariff rates sharply.
THE BLACK TARIFF
1842
The Whig Party takes control of Congress and, in a new wave of protectionist support, raises tariff rates.
MORRILL TARIFF
1861
A wave of Southern resignations from Congress after the election of Abraham Lincoln allow northern congressmen to raise tariffs once again.
MONGREL TARIFF
1883
President Chester A. Arthur reduces some tariffs, keeps others and enters into reciprocal trade agreements with some nations.
DINGLEY TARIFF
1897
President William McKinley brings back protectionism by doubling tariff rates for wool, linen, silk, china and sugar.
UNDER-WOOD LAW
1913
Democrats replace high tariffs with a new federal income tax.
EMERGENCY TARIFF
OF 1921
Passed by Republicans in hopes of saving U.S. farming operations.
SMOOT-HAWLEY TARIFF ACT
1930
Protectionist law raises tariffs on more than 20,000 imported goods to their second-highest rate in 100 years. This law and retaliatory tariffs by other nations lead to a reduction in U.S. trade by more than half at a time when the country could have used more trade: During the Great Depression.
RECIPROCAL TARIFF ACT
1934
Authorizes President Franklin Roosevelt to negotiate 32 reciprocal trade agreements with 27 countries over the next 11 years.
GATT: GENERAL AGREEMENT ON TARIFFS AND TRADE
1947
Signed by 23 nations as part of a United Nations effort to reduce trade barriers like tariffs and quotas. Would stand until the World Trade Organization is created in 1994.
TRADE AGREEMENTS ACT OF 1979
Since passage of the Smoot-Hawley Act in 1930, the U.S. government has been required to buy its own goods from U.S. suppliers. This law gives the president the ability to waive this policy for imports from 57 countries.
OMNIBUS FOREIGN TRADE AND COMPETITIVENESS ACT
1988
Authorizes President Ronald Reagan to enact tariffs on imports from nations that place protectionist tariffs on U.S.-made goods.
WORLD TRADE ORGANIZATION
1994
Agreement signed by 124 nations to replace GATT in resolving trade disputes and helping to negotiate agreements.
TRUMP TARIFFS
2018
President Donald Trump increases tariffs on solar panels, washing machines, steel, aluminum and pretty much everything from China.
AVERAGE U.S. TARIFF RATES ON IMPORTS THAT ARE COVERED BY TARIFFS
AVERAGE U.S. TARIFF RATES TAKING INTO ACCOUNT ALL IMPORTS, INCLUDING THOSE THAT ARE DUTY-FREE
60%
55%
50%
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61.69%
57.32%
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25.81%
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36.88%
30.5%
18.84%
14.21%
48.70%
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38.12%
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28.5%
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20.44%
52.38%
29.48%
16.4%
5.7%
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Oct. 2018
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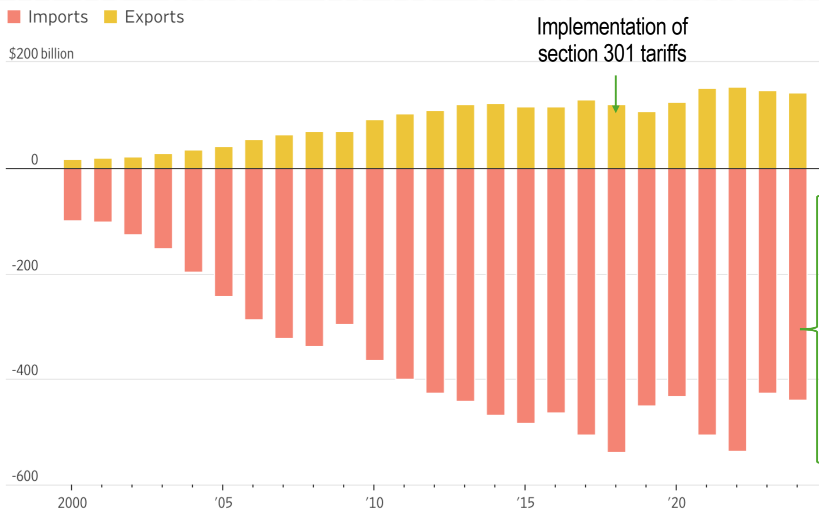
Sources: "Tariff History of the United States" by F.W. Taussig, "Historical Statistics of the United States" by the U.S. Department of Commerce, U.S. State Department, U.S. Congress, U.S. International Trade Commission, Office of the United States Trade Representative, World Trade Organization, The World Bank, The Trade Partnership, "Perspectives on Trade" by Jean Heilman Grier of Djaghe LLC, Pew Research Center, The Journal of Economic History, The New York Times, The Economist, Agence France-Presse

Mexico is particularly vulnerable to us as we have the power to knock them into recession, probably even a depression. Feels like we are the biggest bully in the school yard, and we are taking Mexico's lunch money.

The first Trump tariffs on China inflicted about 3X the damage on the Chinese economy as it did on ours.

U.S. TRADE WITH CHINA SINCE 2000

ENDRIES



Sector	China Exports to the U.S.	U.S. % of China
Other	$97B	25%
Consumer Electronics	$96B	22%
Textiles and Clothing	$68B	17%
Chemicals	$42B	12%
Construction/Traditional Machinery	$33B	13%
Electrical Equipment (excl. Semiconductor)	$30B	13%
Base Metals	$28B	11%
Home Appliance	$24B	19%
Transportation Equipment	$24B	9%
Clean Energy & Batteries	$15B	13%
Optical/Medical Instruments	$12B	17%
Agriculture Product, Food and Beverage	$10B	10%
Wood, Wood Product and Paper	$9B	17%
Semiconductor	$9B	4%
Stone, Glass and Precious Stones	$3B	9%
Mineral Products	$1B	2%
Total	**$501B**	**15%**

Source: Census Bureau

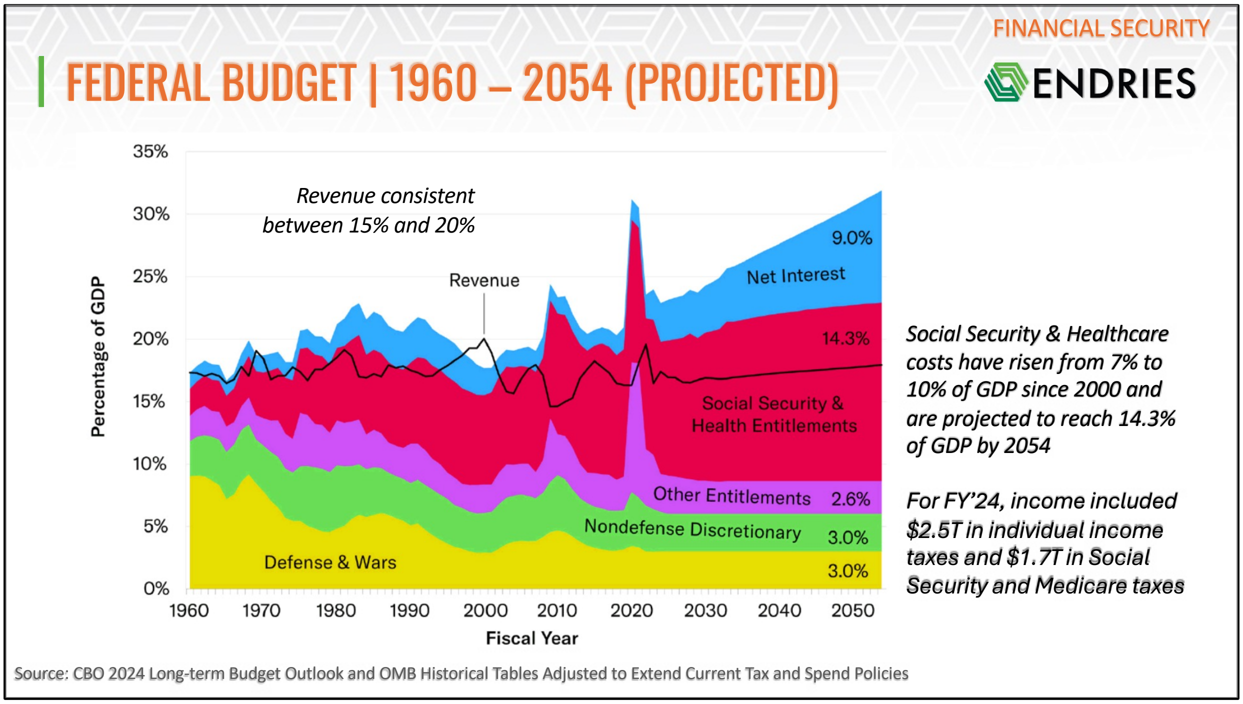
SHARE OF U.S. TAX INCOME PAID BY WEALTH BRACKET

ENDRIES

U.S. TAX INCOME FROM ALL TAXPAYERS IN 2022 | $2.14T

Data is the latest available as of February 27, 2025
Final tax burden after all adjustments, deductions and credits

Source: I.R.S via Tax Foundation



The combination of rising health care costs and 74 million retiring baby boomers is driving annual Social Security and Medicare costs far above their payroll tax and Medicare premium revenues. These annual program shortfalls—which must be funded with general tax revenues and new borrowing—will exceed $650 billion this year on their way to $2.2 trillion annually a decade from now, when including the interest costs of their deficits. Specifically, by 2034 Social Security and Medicare will be collecting $2.6 trillion annually in revenues while costing $4.8 trillion in benefits and associated interest costs.

This is not a problem caused by falling tax revenues. Even as tax rates greatly fluctuated, federal revenues have averaged 17.4% of GDP since 1960 and are projected by CBO over the next three decades to grow to 18.8% of GDP (or 17.9% if the 2017 tax cuts are renewed). On the spending side, both discretionary spending and outlays for smaller mandatory programs are projected to fall as a share of the economy over time. Instead, the entire increase in long-term debt will come from surging Social Security, Medicare, and other government health-care spending (**Figure 3**). According to CBO, these costs have risen from 7% to10% of GDP since 2000 and are projected to reach 14.3% of GDP by 2054—or 20.6% of GDP when the interest cost of Social Security and Medicare's annual deficits are included. By 2054, CBO data project the Social Security and Medicare systems to run an annual combined deficit of 11.3% of GDP—and the rest of the budget to run a 2.8% of GDP *surplus*.[7]