



Will Tariffs Make Wisconsin Rich?*

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Executive Summary

- Tariffs are taxes collected by the government from domestic firms when they import goods from other countries. The burden of higher tariffs could be passed on to consumers in terms of higher prices and to foreign exporters if they are forced to reduce their prices due to lower demand.
- Evidence from President Trump's first term suggests that the burden of tariff hikes fell almost entirely on domestic consumers and importers. Furthermore, the import and retaliatory tariffs had a negative effect on the U.S. economy even after accounting for the positive effect on customs duties and domestic producers.
- With tariff hikes, Wisconsin households and firms face higher prices and production costs related to imports, while the state government does not benefit directly from increased customs duties.
- The three countries (Canada, China, and Mexico) at the center of President Trump's recent tariff actions are Wisconsin's top three trading partners, accounting for about half of Wisconsin's imports and exports.
- Products Wisconsin imports almost exclusively from these countries are more vulnerable to import tariffs against these countries, e.g., almost all live animals and fertilizers imported to Wisconsin come from Canada.
- Products Wisconsin exports almost exclusively to these countries are more vulnerable to retaliatory tariffs by these countries, e.g., almost all beverages, spirits and vinegar exported from Wisconsin go to Canada.
- Sustained tariff hikes against Canada, China and Mexico and retaliatory tariffs by these countries will have a negative impact on Wisconsin's economy.

In December 2024, then President-elect Trump told reporters that tariff is "the most beautiful word in the dictionary" and that tariffs would "make our country rich" (Kurtzleben, 2024). After taking office in January, President Trump has tried aggressively to raise tariffs on imports from all countries, with a particular focus on Canada, China, and Mexico.

This paper evaluates the potential impacts of tariff hikes on the Wisconsin economy. By construction, tariffs are taxes collected by the government from domestic firms when they import goods from other countries. The burden could be passed on to consumers in terms of higher prices and foreign exporters if they are forced to reduce their prices due to lower demand. Tariffs could also boost domestic production and employment if higher prices of imported goods cause consumers to purchase more from domestic producers. However, the effect could be small or even negative if domestic production is reduced by retaliatory tariffs from other countries.

Evidence on tariff hikes from President Trump's first term suggests that

- the burden of tariff hikes has fallen almost entirely on domestic consumers and importers, with little effect on prices charged by foreign exporters
- the import and retaliatory tariffs caused large declines in both U.S. imports and exports, substantial increases in the prices of intermediates and final goods, and dramatic changes in the supply chain
- U.S. industries more exposed to tariff increases experienced relative reductions in employment, as a small positive effect from import protection is offset by larger negative effects from rising input costs and retaliatory tariffs
- counties more exposed to rising tariffs exhibited relative increases in unemployment and declines in labor force participation
- retaliatory tariffs reduced employment in agriculture

Overall, the evidence suggests that tariff hikes in President Trump's first term and retaliations from other countries had a negative effect on the U.S. economy. In particular, Fajgelbaum et al. (2020) estimate that the trade war in 2018

1. raised the federal revenue from customs duties by \$34.3 billion, or 0.18% of GDP
2. the resulting losses to U.S. consumers and firms that buy imports were larger at \$51 billion, or 0.27% of GDP
3. Accounting for both 1 and 2 and the gains to domestic producers, the aggregate loss was \$7.2 billion, or 0.04% of GDP

With tariff hikes, Wisconsin households and firms have to face higher prices and production costs, while the state government cannot benefit directly from increased customs duties. Thanks to the trade war in President Trump's first term, Wisconsin's imports and exports declined in 2018–20, and the contribution of China to Wisconsin's imports declined from over 25% before 2018 to about 15% in 2023–24.

Because Wisconsin imports much more now than before (\$38.9 billion in 2024 vs \$27.7 billion in 2017), and the three countries (Canada, China and Mexico) at the center of President Trump's recent tariff actions are Wisconsin's top three trade partners and account for half of the state's imports and exports, the impact of new tariff hikes and retaliations on the Wisconsin economy could be larger and more negative than it was during President Trump's first term.

We end this paper by highlighting some products for which Wisconsin is more vulnerable to import and retaliatory tariffs. The first group includes products and parts related to nuclear reactors, boilers, machinery and mechanical appliances, which accounted for over 20% of Wisconsin's imports and about 30% of Wisconsin's exports in 2024. The second group includes (1) live animals, (2) furskins and artificial fur, (3) fertilizers, (4) mineral fuels, mineral oils, bituminous substances and mineral waxes, and (5) cereals. Wisconsin's imports of these products come almost entirely from Canada. This suggests that Wisconsin importers could have a hard time adjusting to tariff hikes against these products from Canada. The third group of products include beverages, spirits and vinegar. Canada receives almost all of Wisconsin's exports of these products. This suggests that Wisconsin exporters could have a hard time adjusting to retaliatory tariffs by Canada against these products. We also report vulnerable products related to China and Mexico.

1 The Impact of Tariff Hikes in 2018–19

President Trump raised tariffs significantly in his first term, with a particular focus on goods from China. It began in March 2018 with a 25% tariff on imported steels and a 10% tariff on imported aluminum. In the same month, President Trump also announced tariffs on up to \$60 billion of imports from China, and the administration soon published a list of about \$50 billion worth of Chinese products to be subject to a new 25% tariff. York (2025) compiles a complete list of tariff changes since President Trump's first term. It shows that most of the tariff hikes during the first term occurred in 2018–19.

Amiti et al. (2019) find that, due to the tariffs introduced by the Trump administration in 2018, the United States experienced substantial increases in the prices of intermediates and final goods, dramatic changes to its supply-chain network, reductions in availability of imported varieties, and complete pass-through of tariffs into domestic prices of imported goods. Therefore, the full incidence of the tariffs has fallen on domestic consumers and

importers. Their estimates imply a reduction in aggregate US real income of \$1.4 billion per month by the end of 2018. Using another year of data including significant escalations in the trade war, Amiti et al. (2020) find that the costs of the US tariffs continue to be almost entirely borne by US firms and consumers after more than one year. They also find heterogeneity in the responses of some sectors, such as steel, where tariffs have caused foreign exporters to drop their prices substantially, enabling them to export relatively more than in sectors where tariff pass-through was complete.

Similarly, Fajgelbaum et al. (2020) analyze the short-run impact of the tariff increases in the U.S. in 2018 and the retaliations by major trade partners. They find that import and retaliatory tariffs caused large declines in imports and exports. Prices of imports targeted by tariffs did not fall, implying complete pass-through of tariffs to duty-inclusive prices. The resulting losses to U.S. consumers and firms that buy imports was \$51 billion, or 0.27% of GDP. After accounting for tariff revenue and gains to domestic producers, the aggregate real income loss was \$7.2 billion, or 0.04% of GDP. Import tariffs favored sectors concentrated in politically competitive counties, and tradeable-sector workers in heavily Republican counties were the most negatively affected due to the retaliatory tariffs.

Flaen et al. (2020) focus on washing machines, one of the first set of products targeted by tariffs in 2018. They find that the tariff increased the price of washers in the U.S. by nearly 12 percent. Interestingly, the price of dryers, which are not subject to tariffs, also increased by an equivalent amount. Factoring in dryer prices and price increases by domestic brands, the 2018 tariffs on washers imply a tariff elasticity of consumer prices of above one.

However, Cavallo et al. (2021) suggest that complete pass-through to retail prices may not hold broadly. They use microdata collected at the border and the store to characterize the price impact of recent US trade policy on importers, exporters, and consumers. They find that import tariff pass-through at the border is much higher than exchange rate pass-through. Chinese exporters did not lower their dollar prices by much, despite the recent appreciation of the dollar. By contrast, U.S. exporters significantly lowered prices affected by foreign retaliatory tariffs. In U.S. stores, the price impact is more limited, suggesting that retail margins have fallen. Their results imply that, at least in the short run, the tariffs' incidence has fallen in large part on U.S. firms.

Fajgelbaum and Khandelwal (2022) discuss possible explanations for the complete pass-through result. They show that inelastic demand in the U.S. and contracts with sticky prices are unlikely to be the main reason. In particular, the former cannot explain the negative effect of tariffs on imports, while the latter cannot explain why complete pass-through persists for up to 2 years. Moreover, any explanation based on contract inflexibility must allow for sticky prices with lower quantities.

In addition to import and retail prices and domestic consumption, tariffs and retaliations may also affect domestic production, employment and export prices. Flaaen and Pierce (forthcoming) estimate the relationship between the U.S. tariff increases of 2018-2019 and outcomes in domestic manufacturing. Despite being intended to boost manufacturing activity, they find that U.S. industries more exposed to tariff increases experience relative reductions in employment, as a small positive effect from import protection is offset by larger negative effects from rising input costs and retaliatory tariffs. Higher tariffs are also associated with relative increases in producer prices due to rising input costs. Moreover, they find that counties more exposed to rising tariffs exhibit relative increases in unemployment and declines in labor force participation.

Autor et al. (2024) study the economic and political consequences of the 2018–2019 trade war between the United States, China, and other US trade partners at the detailed geographic level, exploiting new measures of local exposure to US import tariffs, foreign retaliatory tariffs, and US compensation programs. They find that the trade war has not provided economic help to the US heartland: import tariffs on foreign goods neither raised nor lowered US employment; retaliatory tariffs had negative employment impacts, notably in agriculture; and these harms were only partly mitigated by compensatory US agricultural subsidies. They find no positive effects of the trade war on local earnings. Nevertheless, consistent with expressive views of politics, the tariff war appears to have been a political success for the governing Republican party. Residents of regions more exposed to import tariffs voice more support for tariffs, became less likely to identify as Democrats, and more likely to vote to reelect Donald Trump in 2020. Foreign retaliatory tariffs only modestly weakened that support. Voters from regions whose industries were heavily exposed to Chinese import competition in prior decades rewarded President Trump the most for import tariff protection.

2 Revenues from Tariffs

Figure 1 plots the U.S. federal government tax receipts from customs duties. The annualized value increased gradually from less than \$1 billion in the first quarter of 1959 to about \$41 billion in the first quarter of 2018. It then jumped quickly to about \$72 billion in the last quarter of 2018 and to over \$100 billion in the first three quarters of 2022, before dropping to around \$80 billion in 2023–24.

The average annual revenue from customs duties since 2018 is about \$81 billion, which is about twice of the value before 2018. Majority of the \$40 billion difference is a direct effect of the trade war. In particular, Fajgelbaum et al. (2020) find that the trade war in 2018 raised the federal revenue from customs duties by \$34.3 billion, or 0.18% of GDP.

In comparison, York (2025) estimates that the static impact, which is based on trade levels

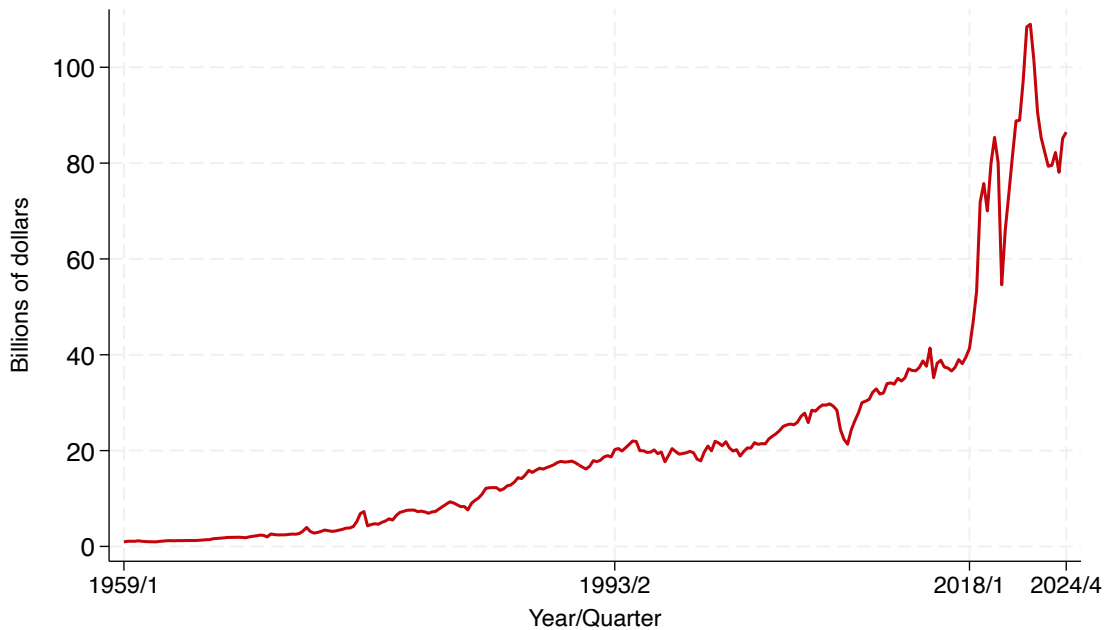


Figure 1: U.S. Federal Government Tax Receipts from Customs Duties

Notes: Seasonally adjusted annual rates are plotted on the vertical axis. Data source: U.S. Bureau of Economic Analysis, accessed through the *B235RC1Q027SBEA* series at FRED.

at the time of tariff implementation and excludes behavioral and dynamic responses from firms and households, would be much larger at \$79 billion. The difference between the static estimate and the actual impact reflects reductions in trade levels in response to the higher tariffs. As with any other taxes, the relationship between tariff revenue and the tariff rate could be characterized by a hump-shaped Laffer curve, where the tariff revenue increases with the tariff rate when the rate is low but decreases with the tariff rate when the rate is high. This is due to the competition between two opposite effects: A positive effect of the tariff rate on tariff revenue in the absence of any changes in the quantity of imports, and a negative effect of the tariff rate on the quantity of imports. The positive effect dominates when the tariff rate is low, but is dominated when the rate is high.

While significant, the finding that the trade war raised the annual federal revenue by 0.18% of GDP suggests that its fiscal impact is much smaller than some major tax changes in the U.S. history. York and Pastrone (2024) show that, (1) across the 15 largest tax increases since 1940, the average annual revenue change as a share of GDP ranges from 0.5% (Revenue Act of 1943) to 5.0% (Revenue Act of 1942), and (2) across the 15 largest tax cuts since 1940, the average annual revenue change as a share of GDP ranges from negative 0.4% (Revenue Act of 1971) to negative 2.9% (Economic Recovery Tax Act of 1981). In particular, the Tax Cuts and Jobs Act of 2017 reduced the annual revenue by 0.7% of GDP.

Figure 2 plots the revenue from customs duties as a share of total federal tax revenue. Despite the sharp increase since 2018, the revenue from customs duties only accounts for about 3% of total federal tax revenue, compared to about 2% in the two decades between 1997 and 2017.

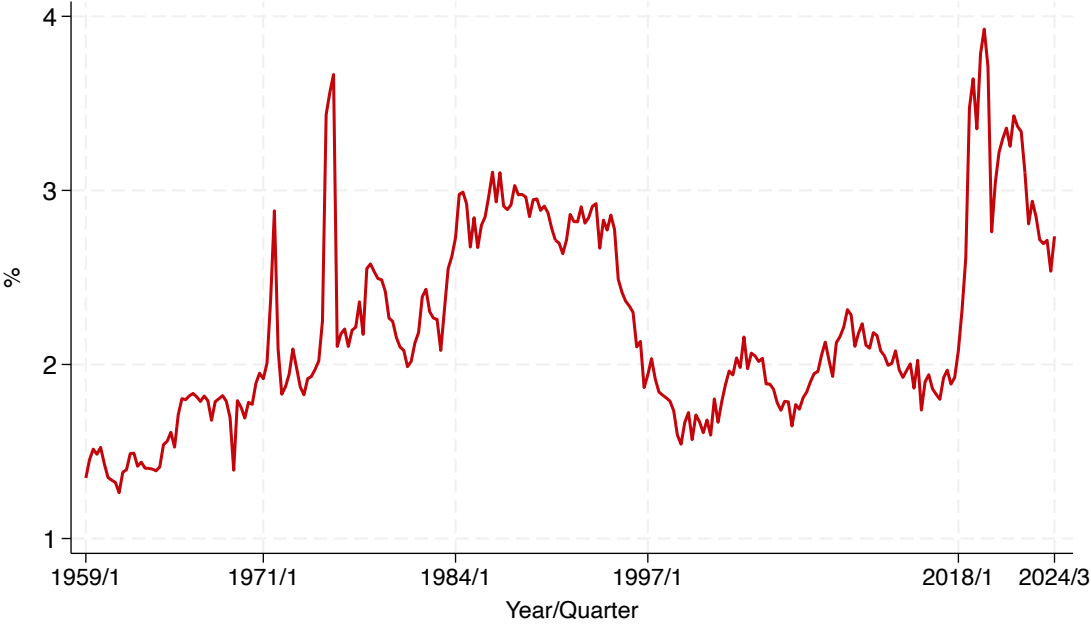


Figure 2: Customs Duties as a Share of U.S. Federal Government Tax Receipts

Data source: U.S. Bureau of Economic Analysis, accessed through the *B235RC1Q027SBEA* and *W006RC1Q027SBEA* series at FRED.

Figure 3 plots the revenue from customs duties as a share of the value of imports. As a measure of the average tariff rate, this share dropped from over 3.5% in 1989 to less than 1.5% around 2008, before rising sharply to around 3% since 2018.

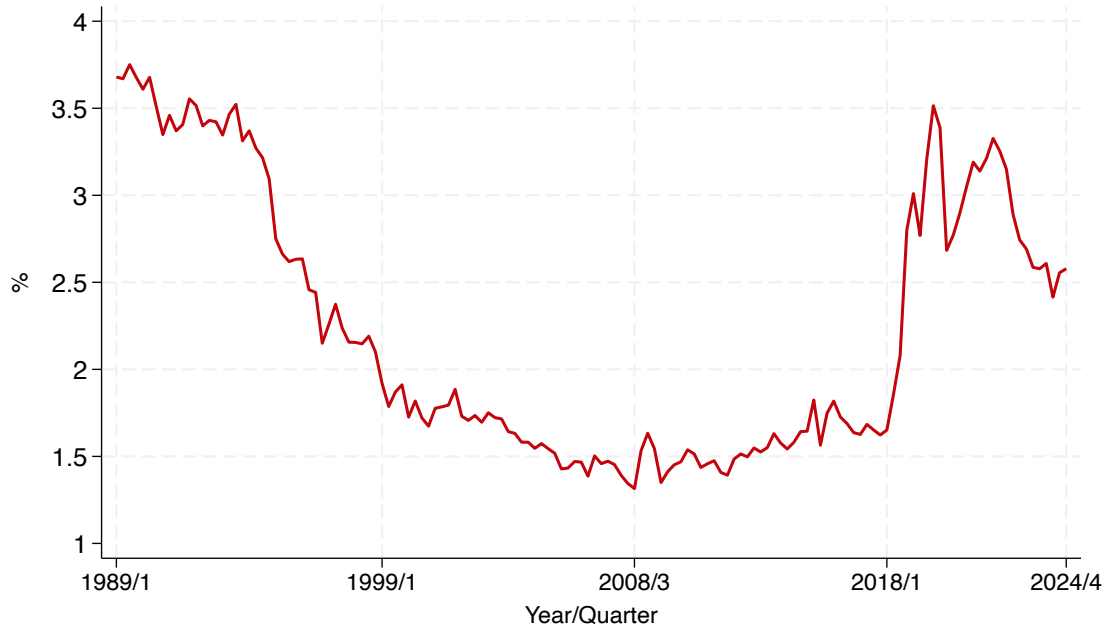


Figure 3: Customs Duties as a Share of U.S. Imports

Data source: U.S. Bureau of Economic Analysis, accessed through the *B235RC1Q027SBEA* and *IMP0004* series at FRED.

3 Wisconsin’s Imports and Exports

Since customs duties are collected by the federal government, Wisconsin cannot benefit directly from the additional revenue due to tariff hikes. On the other hand, Wisconsin households and firms have to face the same elevated prices and disruptions as other Americans. To better understand the potential effects of tariff hikes on the Wisconsin economy, this section studies Wisconsin’s trade (imports and exports) with other countries using data from the U.S. Census Bureau.[†]

Figure 4 shows that Wisconsin’s imports were almost the same as its exports in each year between 2008 and 2015. Since then, imports has been rising much more rapidly than exports, except for temporary declines in both exports and imports in 2019–20 that were presumably caused by the trade war in President Trump’s first term discussed above. In 2024, Wisconsin’s imports and exports were \$38.9 billion and \$27.5 billion, respectively. The corresponding values in 2017 were \$27.7 billion (imports) and \$22.3 billion (exports). The larger values in 2024, especially for imports, suggest that tariff hikes will have a larger effect on Wisconsin now than in President Trump’s first term.

Figure 5 plots the top 10 origins of Wisconsin’s imports (top panel) and top 10 destinations of Wisconsin’s exports (bottom panel) in 2024. Canada, China and Mexico are the top

[†]The data are available at <https://usatrade.census.gov/>.

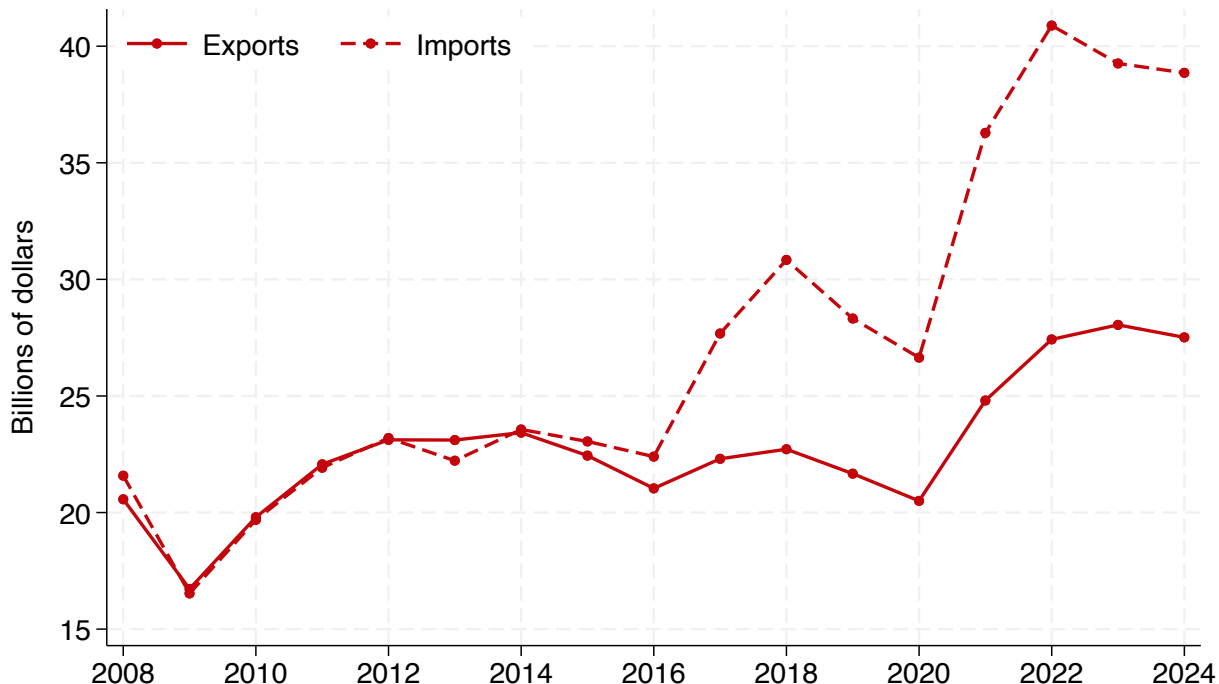


Figure 4: Wisconsin's Exports and Imports: 2008–2024

three in both cases. The three countries are also the main focuses of President Trump's recent tariff actions. This suggests that any tariff hikes against and retaliations from these countries could have a significant effect on the Wisconsin economy.

Figure 6 plots the contributions of Canada, China and Mexico to Wisconsin's imports (top panel) and exports (bottom panel) in each year between 2008 and 2024. Each of the three countries accounted for about 15% of Wisconsin's imports in 2023–24. This was significantly different before 2018, when over 25% of Wisconsin's imports came from China. This change reflects the significant effect of the tariff hikes against China started in President Trump's first term. On the other hand, Canada is by far the largest destination of Wisconsin's exports. This suggests that retaliations from Canada could have a particularly large effect on the Wisconsin economy. Together, the three countries accounted for about half of Wisconsin's imports and exports in each year since 2008.

Figure 7 plots Wisconsin's top 10 imported (top panel) and exported (bottom panel) products in 2024, where products are defined according to 2-digit Harmonized System (HS) codes developed by the World Customs Organization (WCO) and adopted by most countries, including the U.S. The top two products for both imports and exports are

- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof

- Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles

Figures 8, 9 and 10 plot the top 10 products that Wisconsin imported in 2024 from Canada, China and Mexico, respectively. Similarly, figures 11, 12 and 13 plots the top 10 products that Wisconsin exported in 2024 to Canada, China and Mexico, respectively. In each of the 6 figures, the top panel ranks products according to their imported or exported values, while the bottom panel ranks each product according to the trade partner's contribution to Wisconsin's imported or exported value of that product. In particular,

- The top panel of figure 8 shows that Wisconsin imported over \$600 million of products and parts related to nuclear reactors, boilers, machinery and mechanical appliances from Canada in 2024, the largest among all products based on 2-digit HS codes. Tariff hikes against these products from Canada could have a larger impact on the Wisconsin economy than other products from Canada.
- The bottom panel of figure 8 shows that almost all of the following products imported by Wisconsin came from Canada: (1) live animals, (2) furskins and artificial fur, (3) fertilizers, (4) mineral fuels, mineral oils, bituminous substances and mineral waxes, and (5) cereals. Wisconsin importers could have a harder time adjusting to tariff hikes against these products from Canada.
- Figures 9 and 10 report products that are more vulnerable to import tariffs against China and Mexico, respectively.
- The top panel of figure 11 shows that Wisconsin exported \$1.8 billion of products and parts related to nuclear reactors, boilers, machinery and mechanical appliances to Canada in 2024, the largest among all products based on 2-digit HS codes. Retaliatory tariffs by Canada against these U.S. products could have a larger impact on the Wisconsin economy than other products.
- The bottom panel of figure 11 shows that 94% of beverages, spirits and vinegar exported from Wisconsin in 2024 went to Canada. The second largest value is 92% for salt, sulfur, earths and stone, plastering materials, lime and cement. Wisconsin exporters could have a harder time adjusting to retaliatory tariffs by Canada against these U.S. products.
- Figures 12 and 13 report products that are more vulnerable to retaliatory tariffs by China and Mexico, respectively.

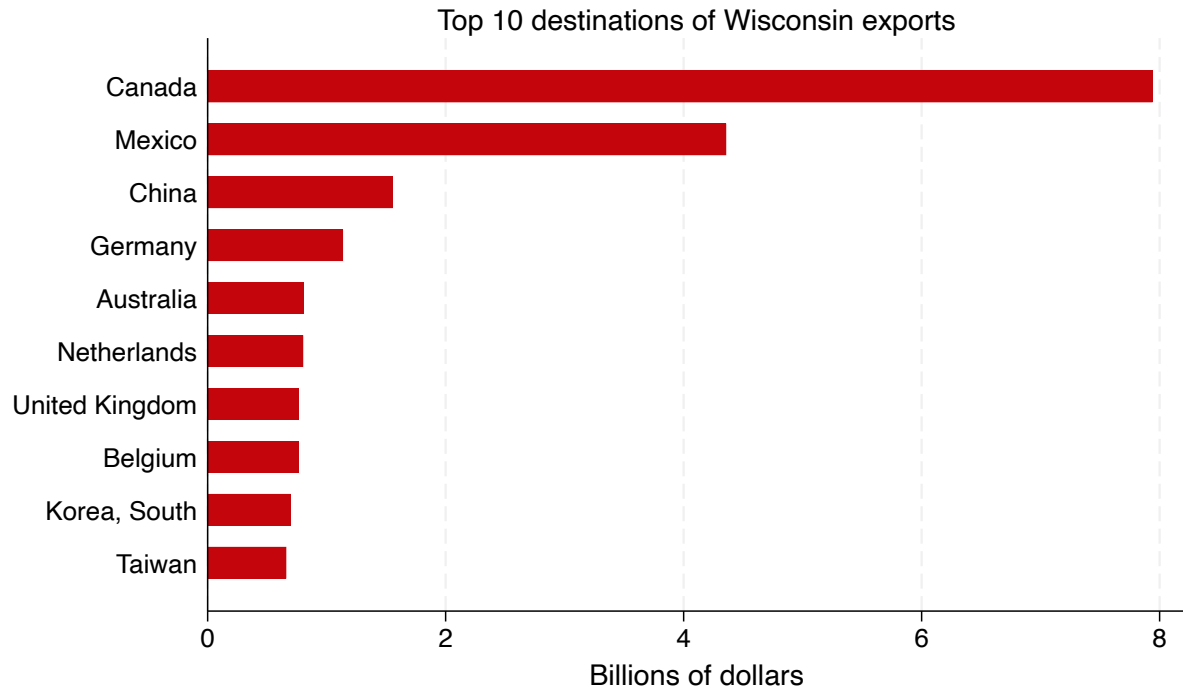
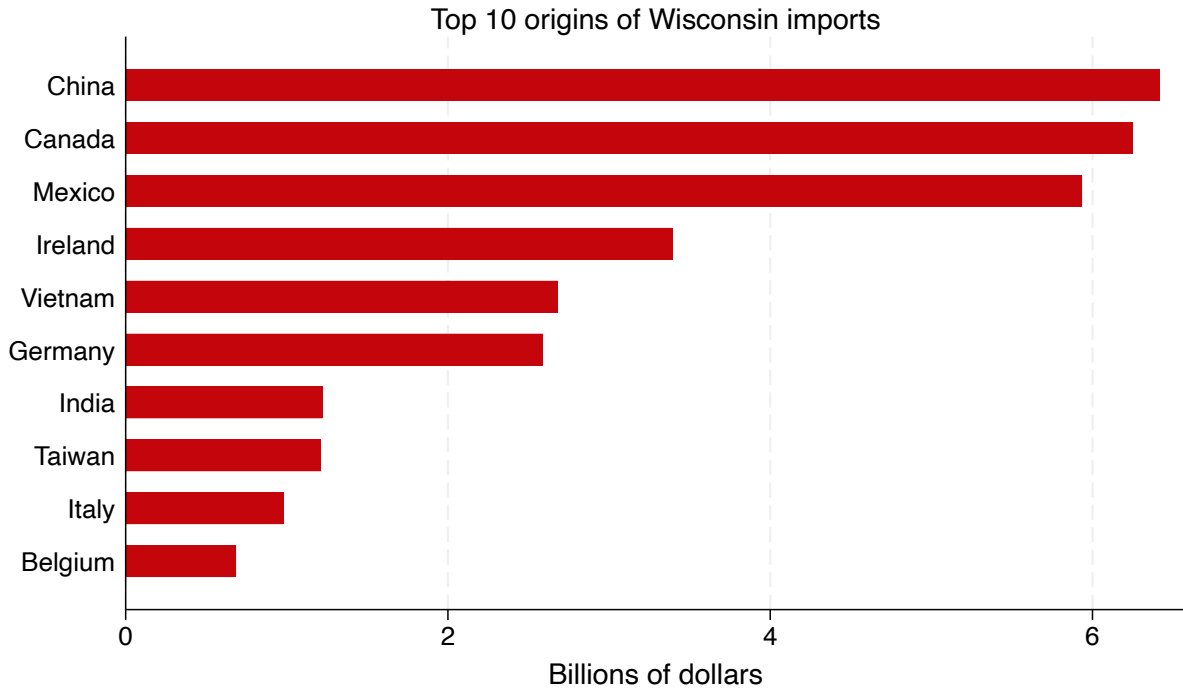


Figure 5: Wisconsin's Top Trade Partners: 2024

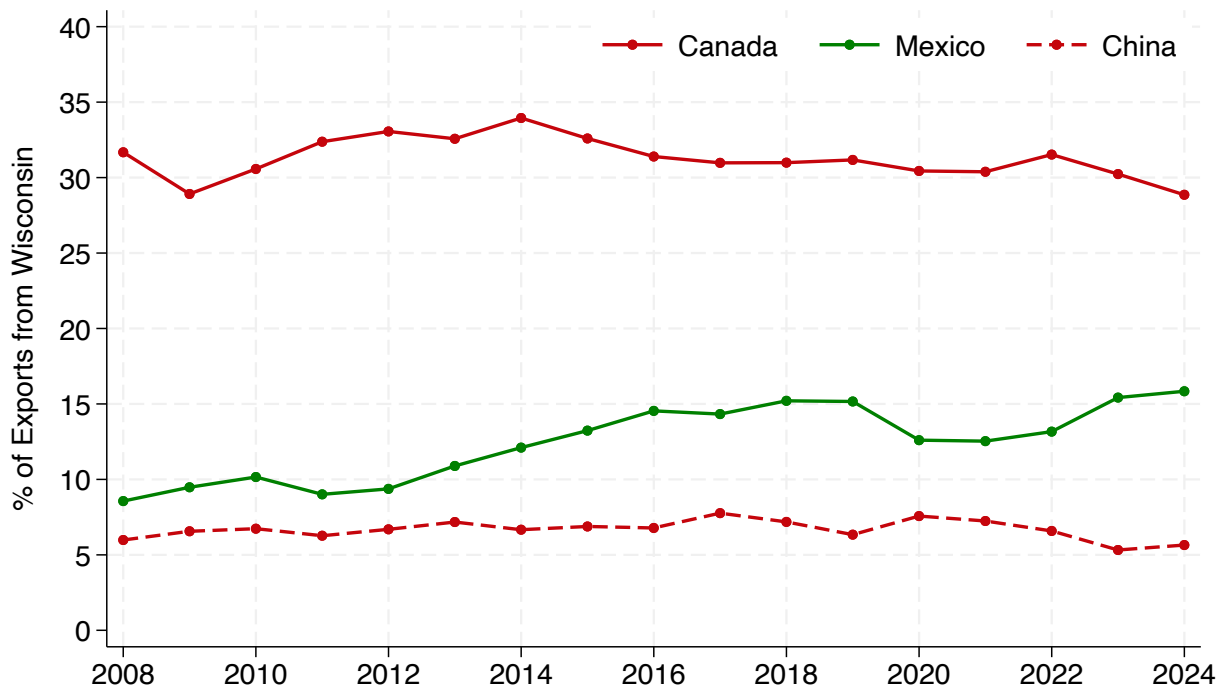
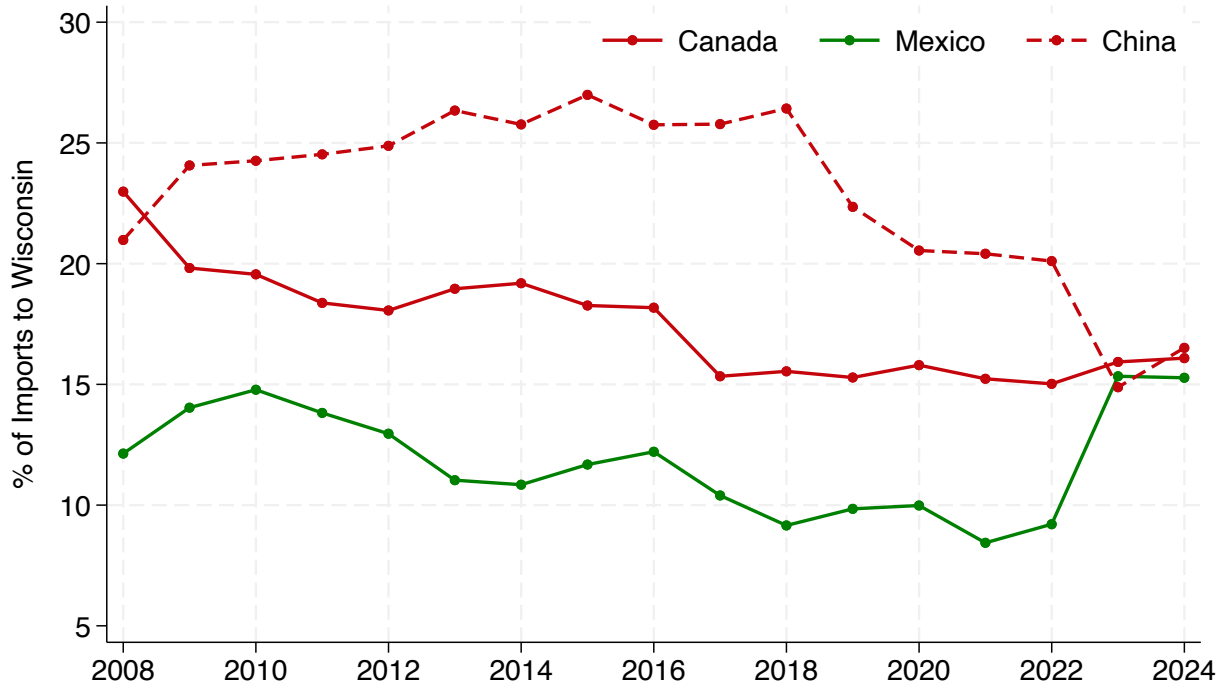


Figure 6: Wisconsin's Trade with Canada, China and Mexico: 2008–2024

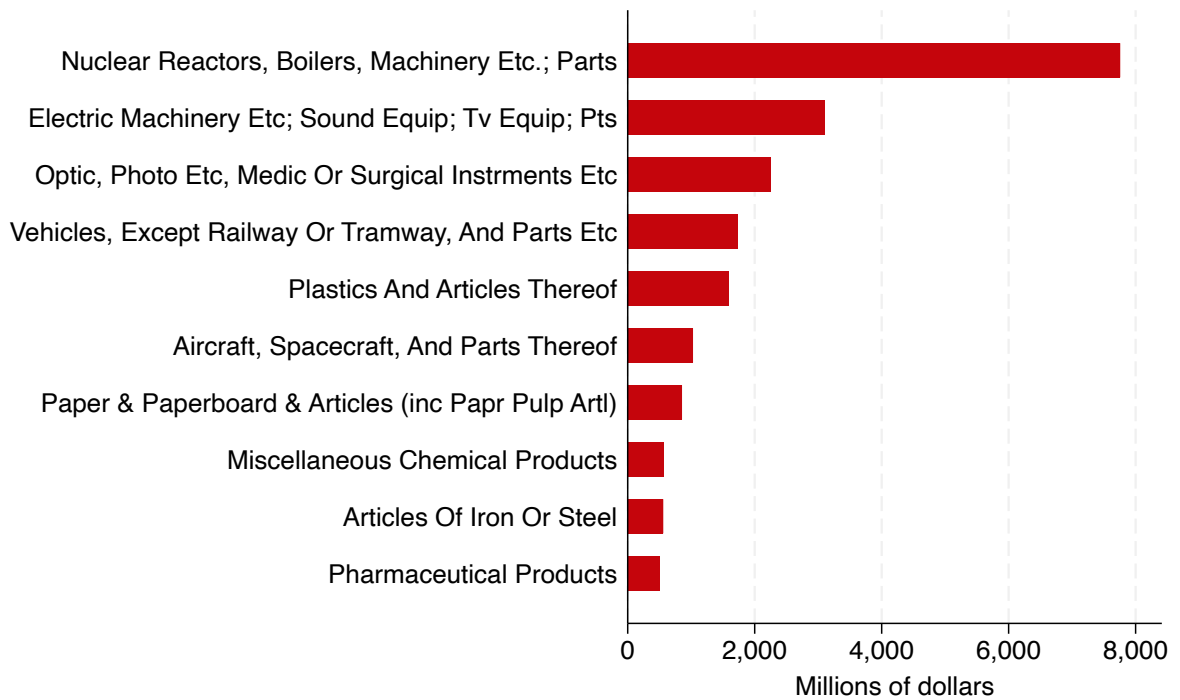
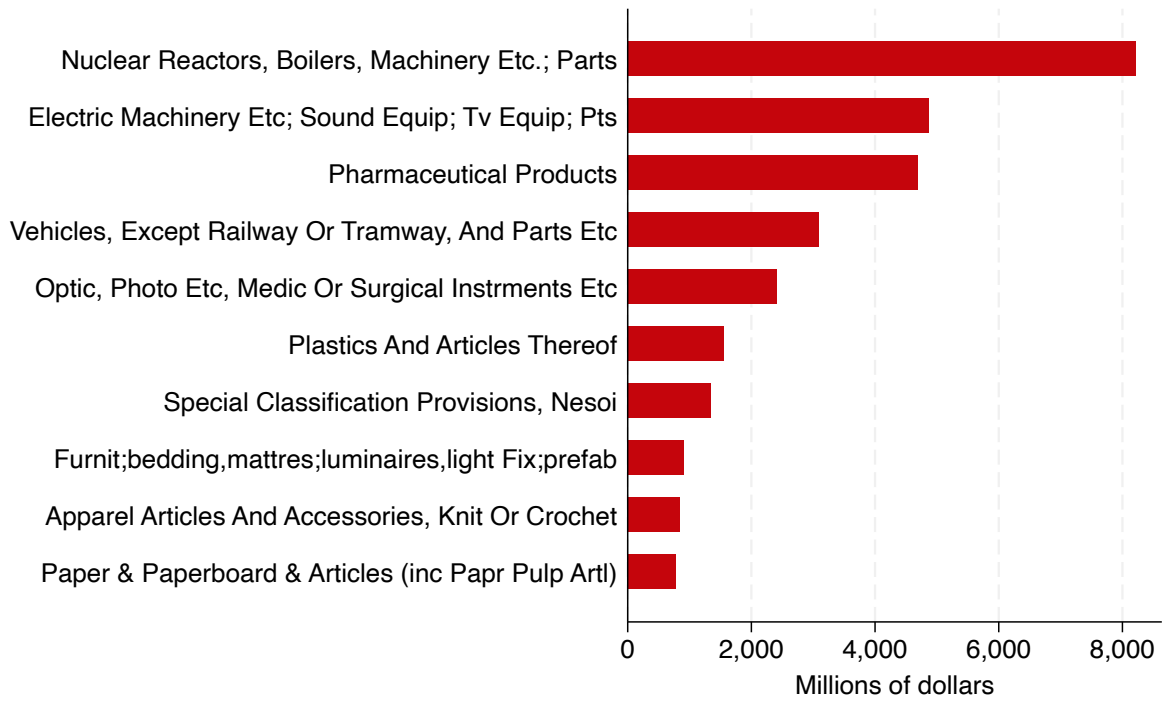


Figure 7: Wisconsin's Top 10 Imported (top) and Exported (bottom) Products: 2024

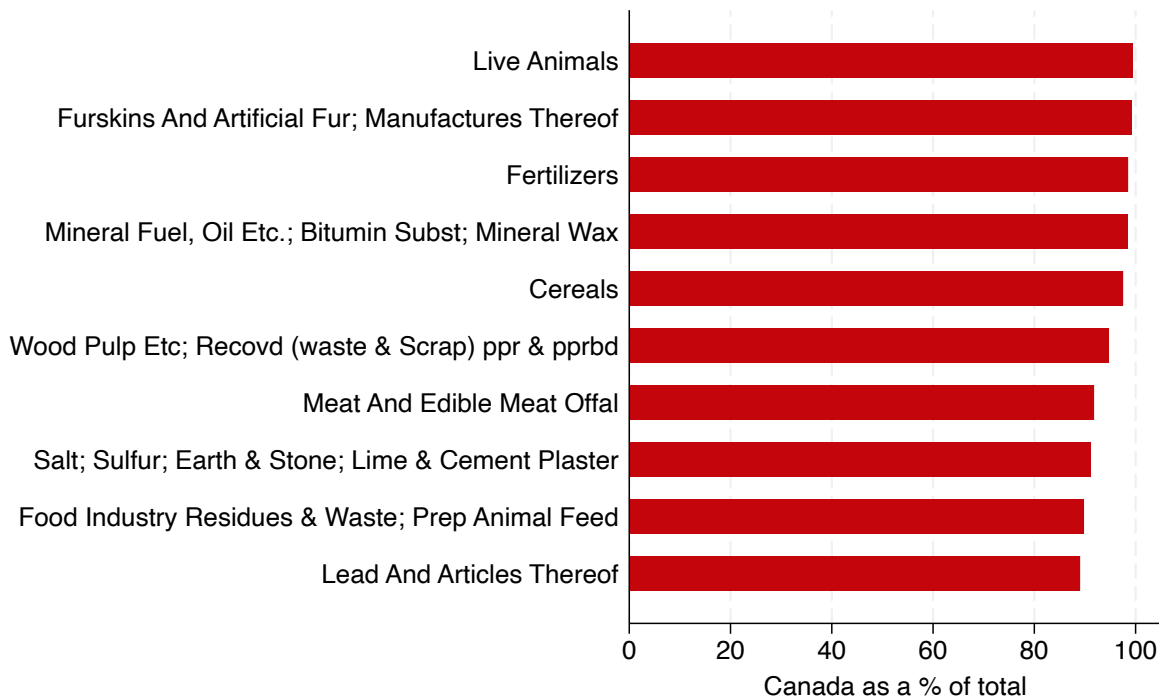
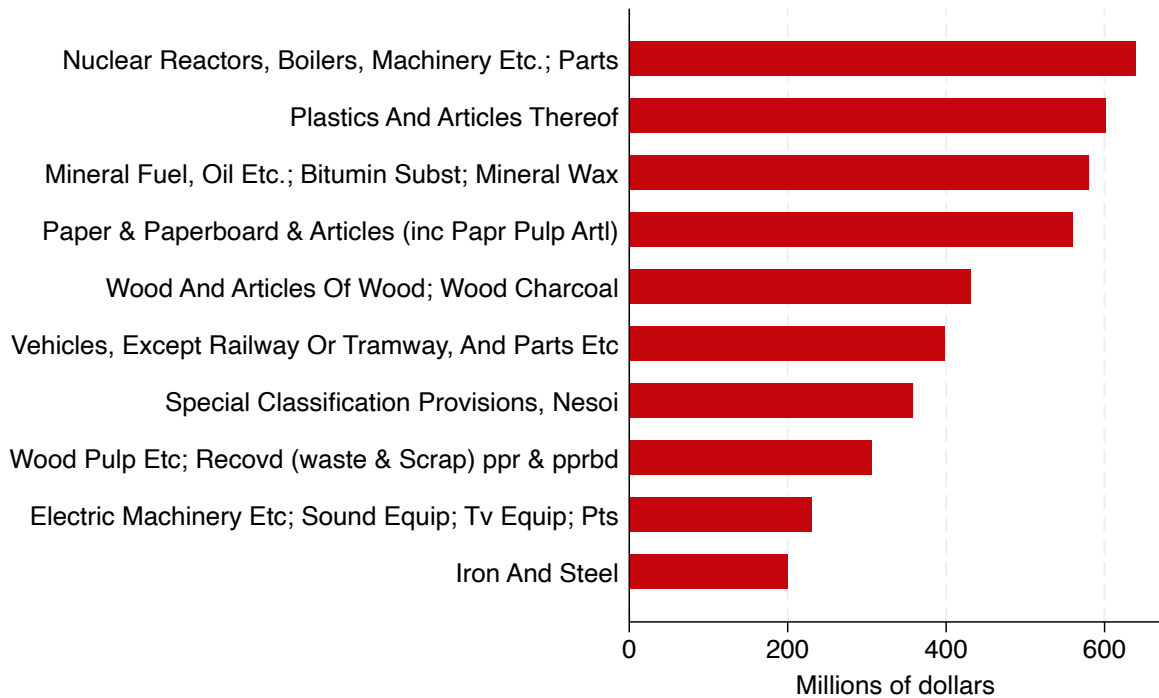


Figure 8: Top 10 Products Imported to Wisconsin from Canada: 2024

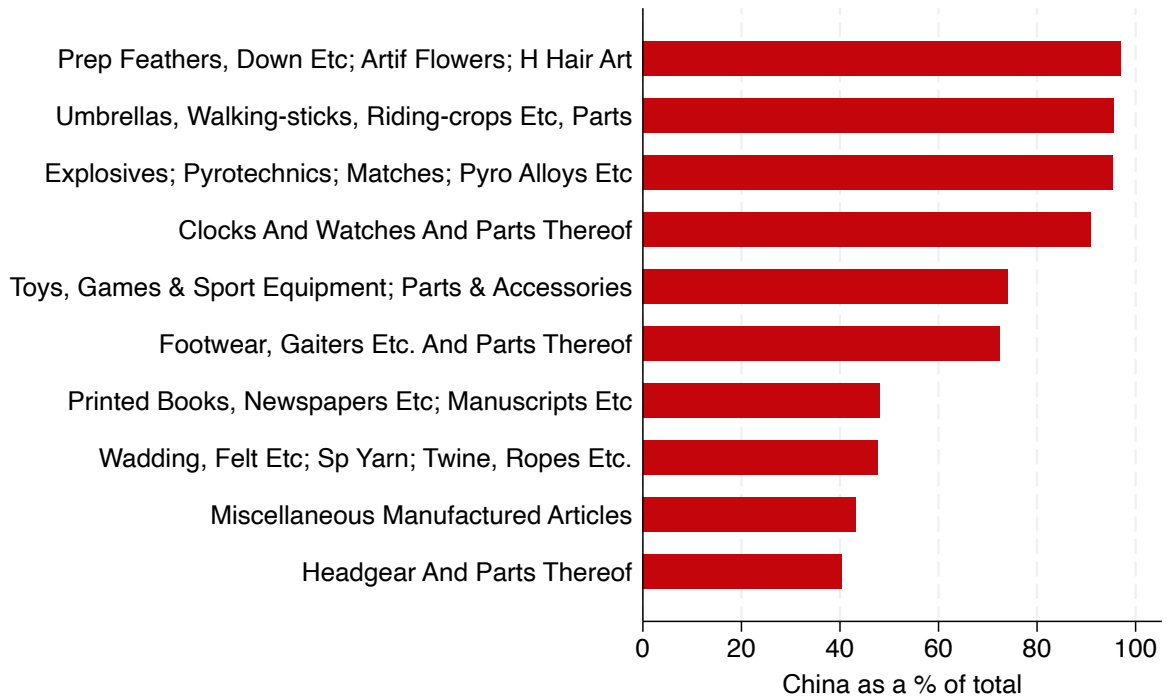
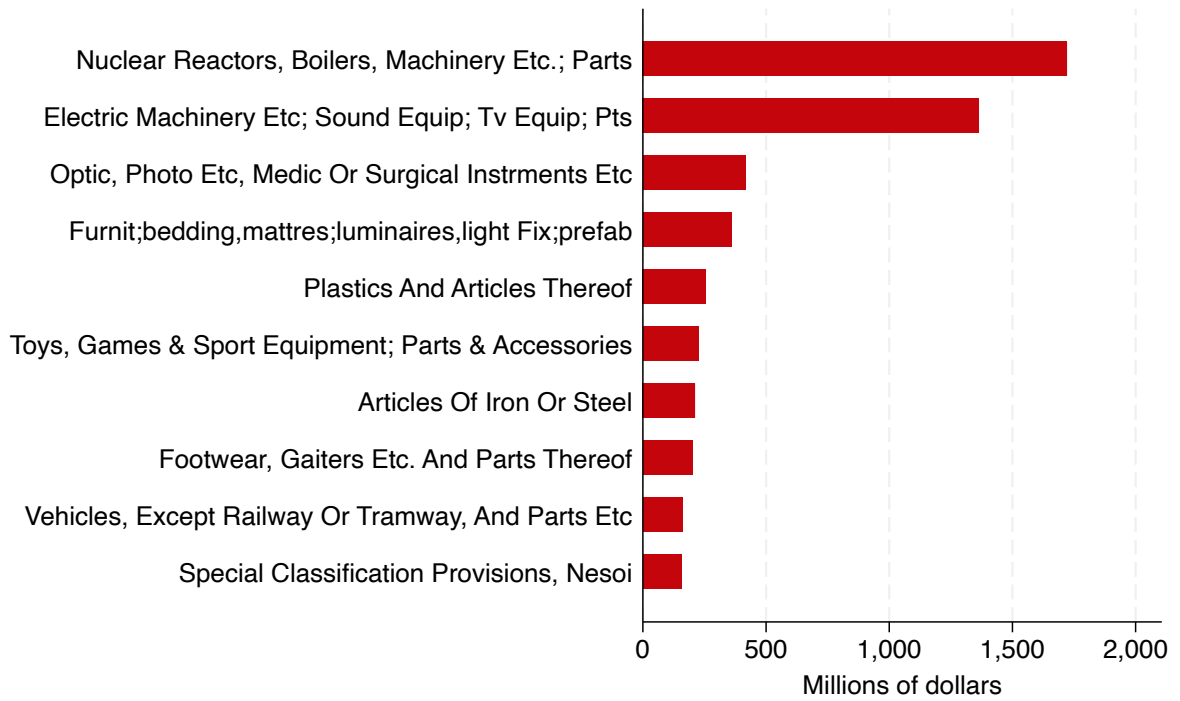


Figure 9: Top 10 Products Imported to Wisconsin from China: 2024

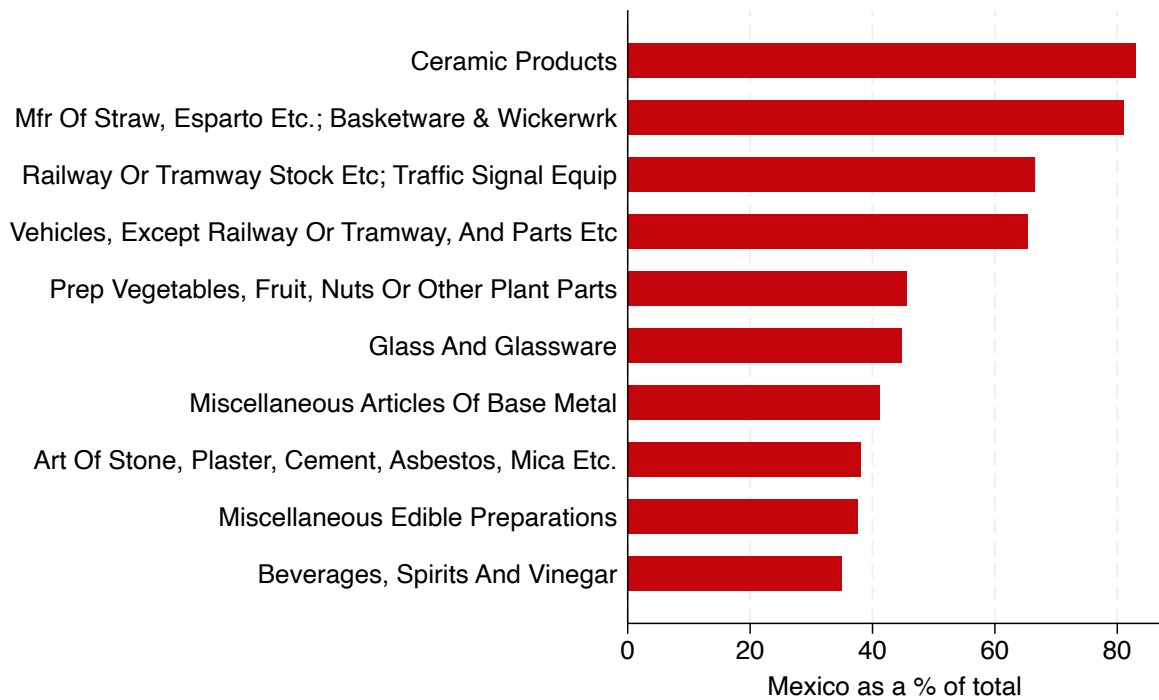
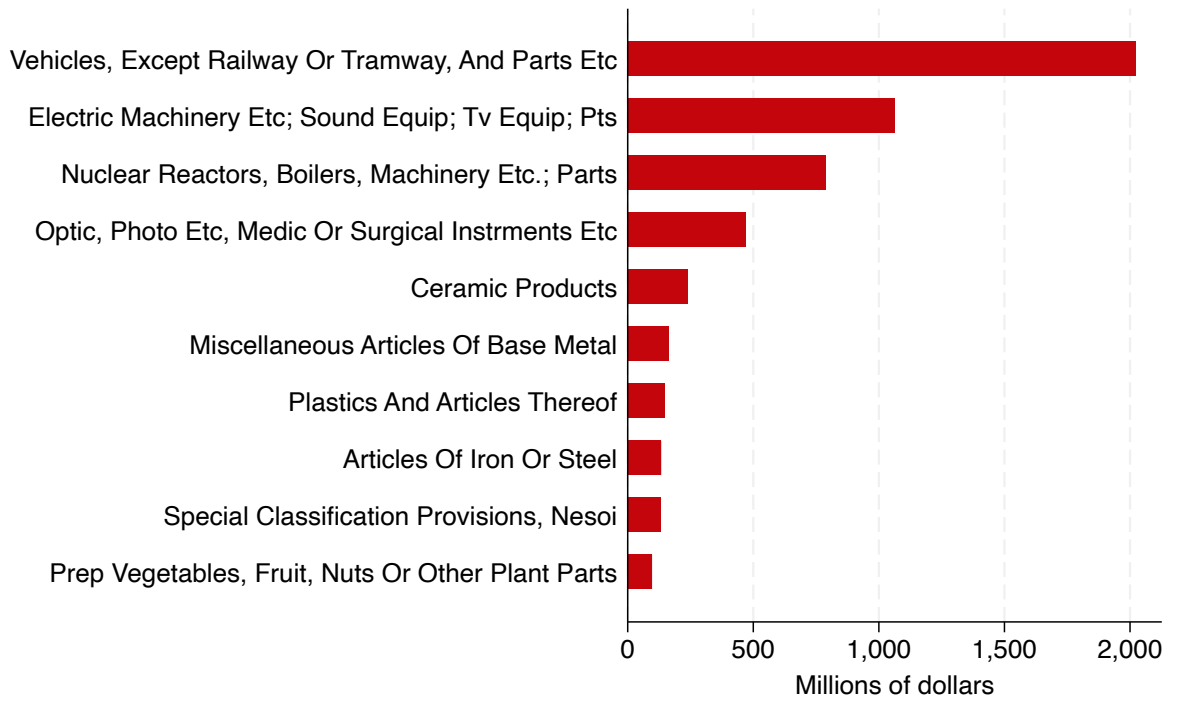


Figure 10: Top 10 Products Imported to Wisconsin from Mexico: 2024

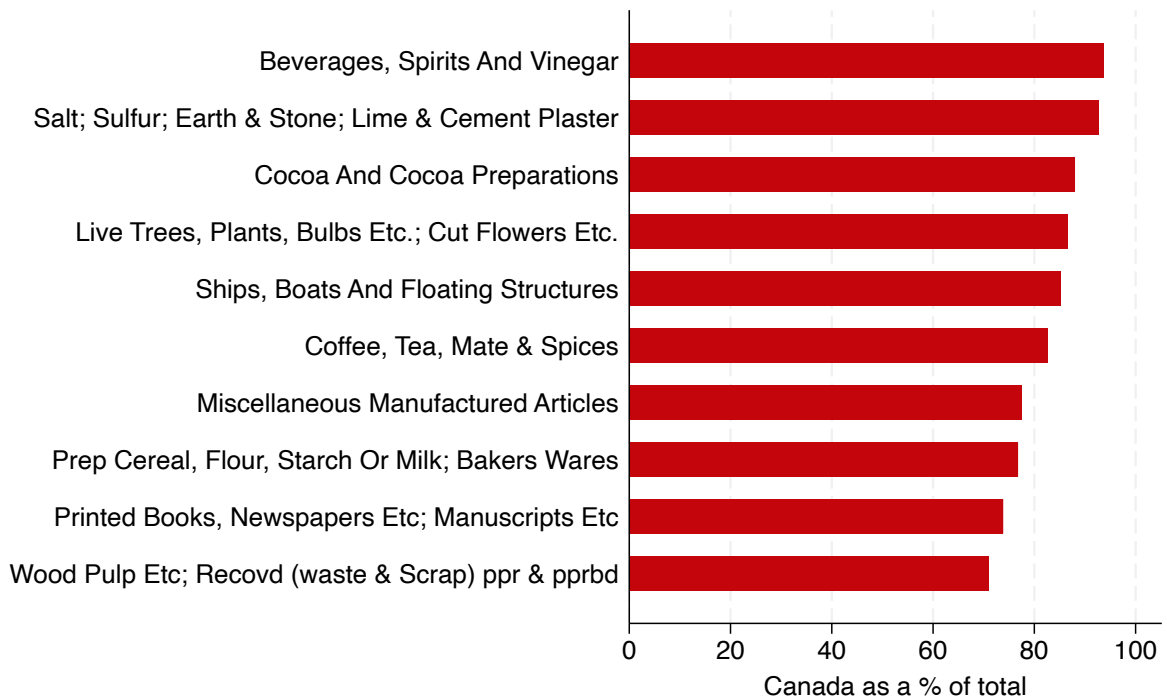
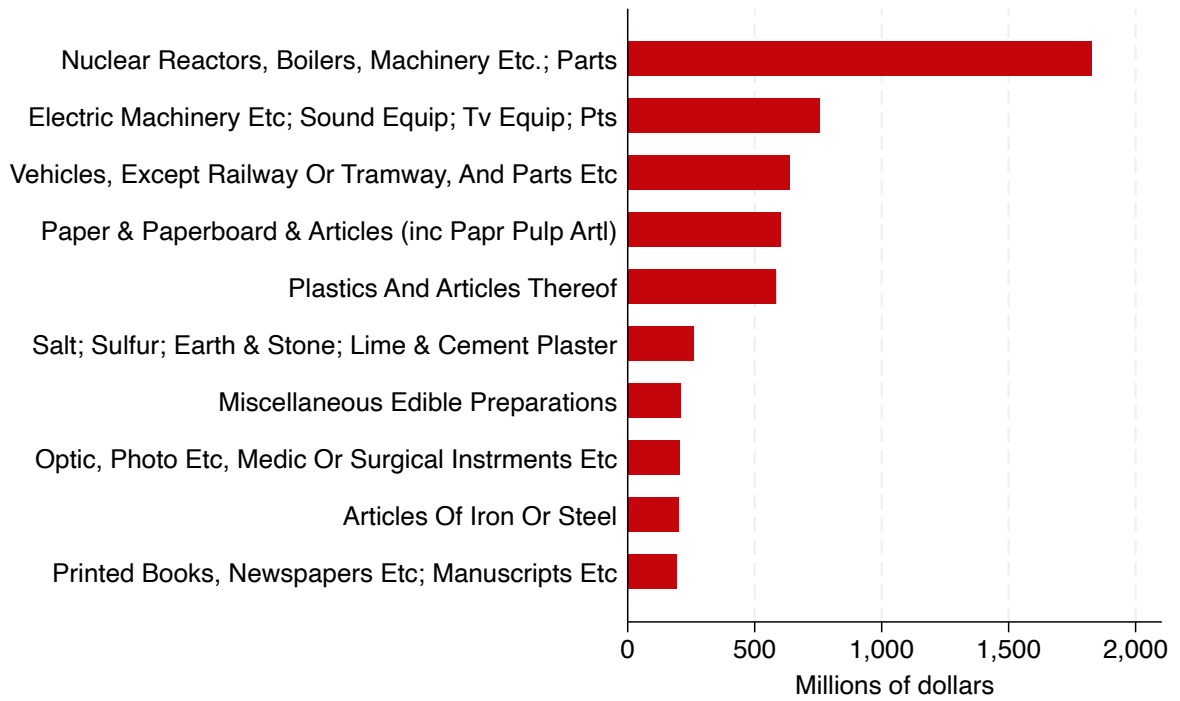


Figure 11: Top 10 Products Exported from Wisconsin to Canada: 2024

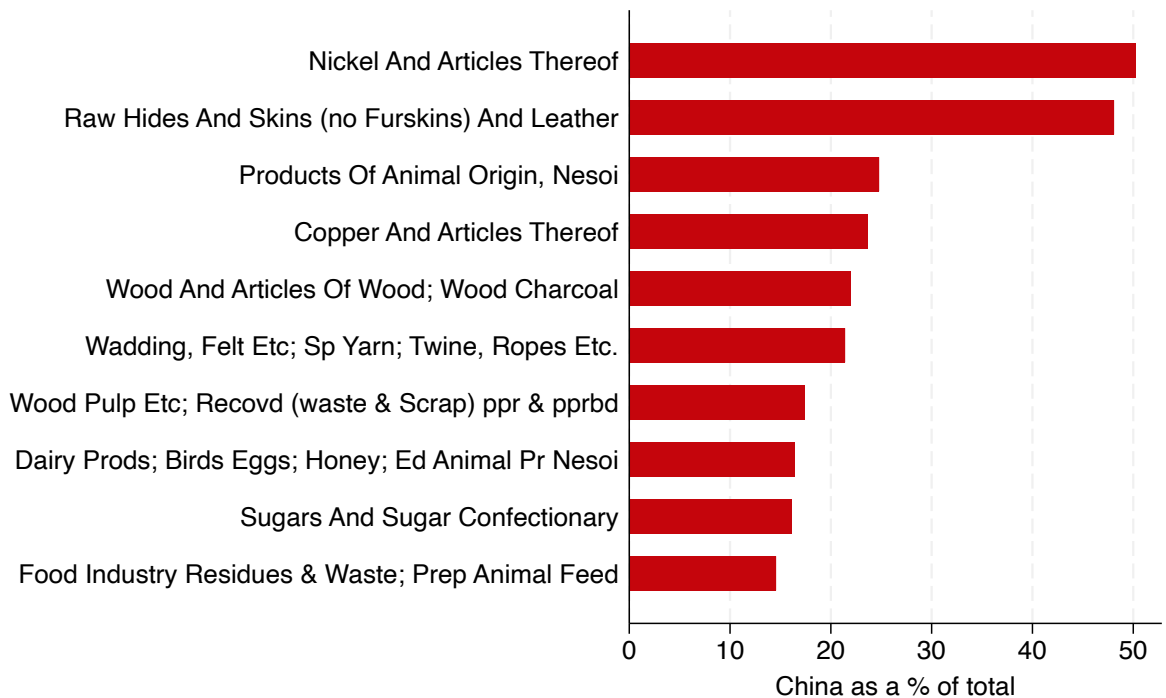
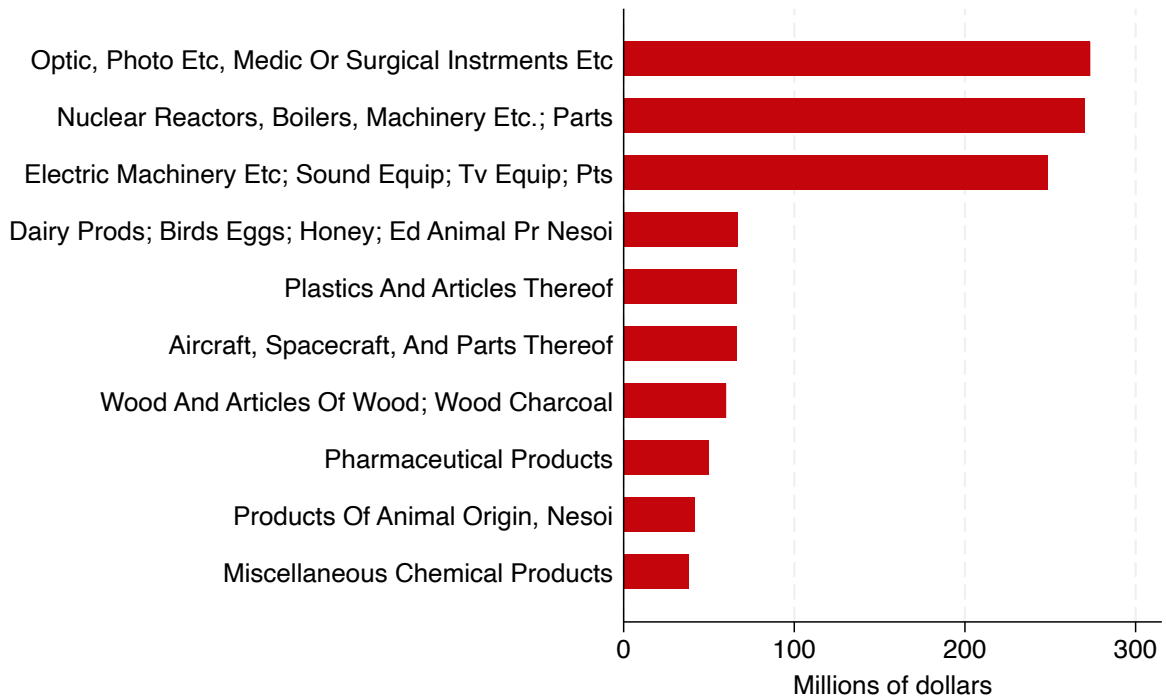


Figure 12: Top 10 Products Exported from Wisconsin to China: 2024

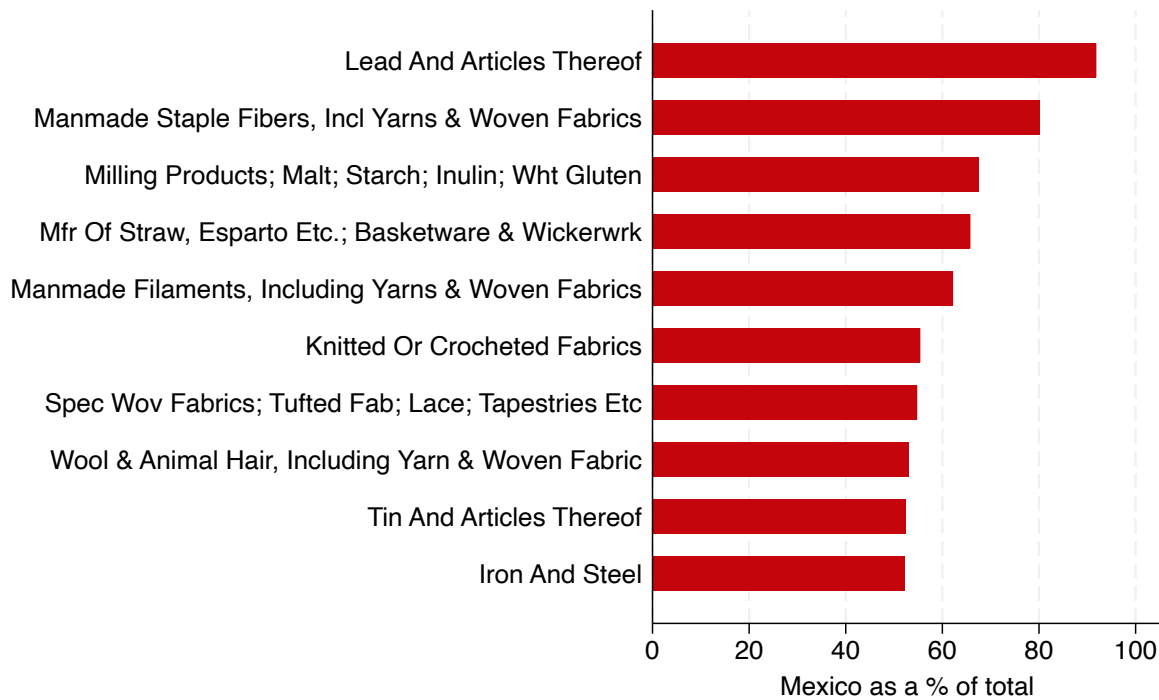
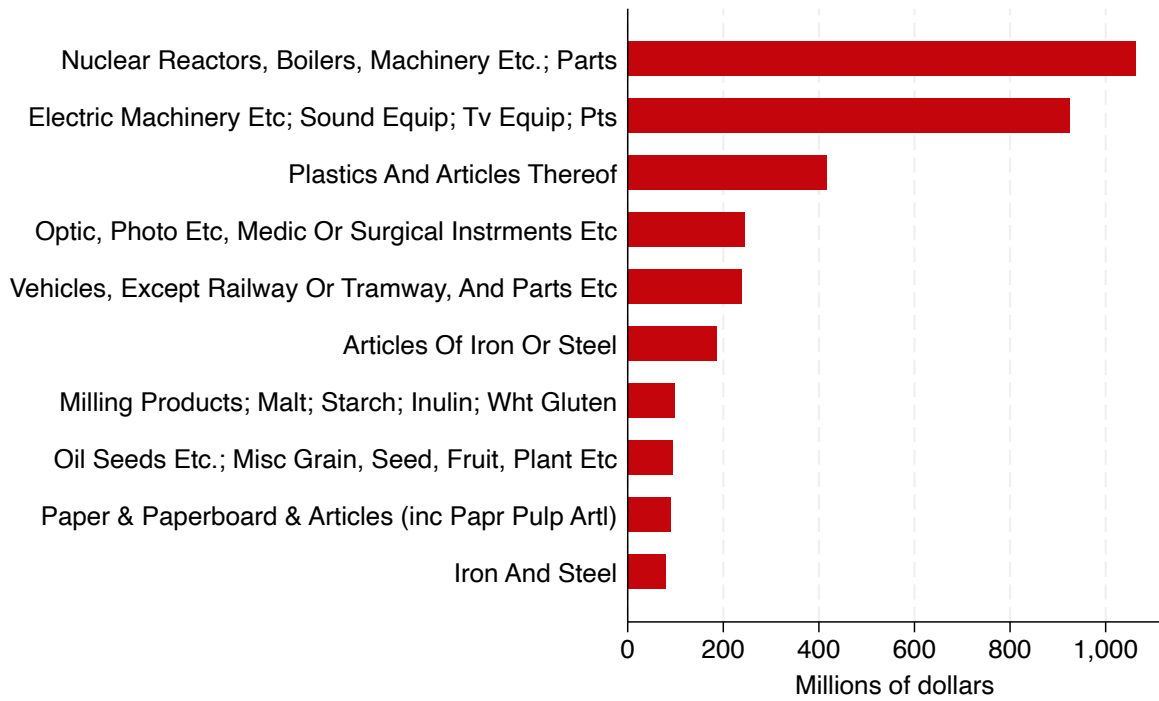


Figure 13: Top 10 Products Exported from Wisconsin to Mexico: 2024

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