



463 Economists: Biggest Trade Threat Is If Tariffs Are Left in Place

October 24, 2025

In the case of *Trump v. V.O.S. Selections*, the Trump Administration's submission to the Supreme Court of the United States argues that terminating its sweeping national emergency tariffs would have catastrophic consequences for our economy.

This is backwards. The greater threat to the economy of the United States is not that the Trump Administration's tariffs will be struck down, but that they will be allowed to remain in place.

As economists, we know that broad-based tariffs impose net costs on the economy. They divert resources from their most efficient use, while making it more difficult and expensive for U.S. businesses to access inputs and capital goods, like steel and machinery for manufacturers and fertilizer and agricultural equipment for farmers.

Additionally, by increasing production costs for domestically made products and reducing the amount our trading partners can earn by selling to the United States, tariffs reduce export opportunities for U.S. producers.

The Trump Administration's April Executive Order, *Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits*, asserts that trade deficits constitute an unusual and extraordinary threat to the economy of the United States. However, this allegation is not backed by sound economic theory or empirical evidence.

Trade deficits primarily reflect underlying macroeconomic factors such as the U.S. savings rate and the desire of our trading partners to invest in the United States. The United States has experienced trade deficits for 49 consecutive years, yet, during this period, real GDP, national wealth, and median incomes have all grown substantially. Moreover, U.S. industrial capacity reached a historic high in August. Even if you believe trade deficits are harmful, no serious claim can be made that they are either catastrophic or constitute a national emergency.

In technical terms, the U.S. current account deficit is offset by a surplus in the capital account. There is no inherent threat to our economy if our trading partners invest in U.S. companies or buy Treasury bonds instead of purchasing American-made exports. In fact, it is not uncommon for the U.S. trade deficit to increase when the economy is growing and to decrease when it is not. The significant reduction in the trade deficit during the Great Recession is the most prominent recent example.

As the Supreme Court considers the Trump Administration's argument that the trade deficit represents an extraordinary threat, we respectfully encourage it to consider the centuries of economic theory and evidence and the overwhelming consensus among economists that suggest otherwise.

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