IN THE UNITED STATES COURT OF INTERNATIONAL TRADE

THE STATE OF OREGON, THE STATE OF ARIZONA, THE STATE OF COLORADO, THE STATE OF CONNECTICUT, THE STATE OF DELAWARE, THE STATE OF ILLINOIS, THE STATE OF MAINE, THE STATE OF MINNESOTA, THE STATE OF NEVADA, THE STATE OF NEW MEXICO, THE STATE OF NEW YORK, and THE STATE OF VERMONT,

Plaintiffs,

v.

DONALD J. TRUMP, in his capacity as President of the United States; DEPARTMENT OF HOMELAND SECURITY; KRISTI NOEM, in her official capacity as Secretary of the Department of Homeland Security; UNITED STATES CUSTOMS AND BORDER PROTECTION; PETER R. FLORES, in his official capacity as Acting Commissioner for U.S. Customs and Border Protection; and THE UNITED STATES,

Defendants.

Case No. 1:25-cv-00077-GSK-TMR-JAR

DECLARATION OF PROFESSOR JAMES R. HINES JR.

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I. Qualifications and methods.

A. Qualifications.

1. I teach at the University of Michigan, where I am the Richard A. Musgrave Collegiate Professor of Economics in the Department of Economics and the L. Hart Wright Collegiate Professor of Law in the law school. My scholarly work concerns various aspects of government finance. I have a B.A. and M.A. from Yale University and a Ph.D. from Harvard University, all in economics.

2. Prior to joining the Michigan faculty, I was a full-time faculty member first at Princeton University and then at Harvard University; additionally, I have held visiting appointments at Columbia University, the London School of Economics, the University of California-Berkeley, the University of Melbourne, and Harvard Law School. I have testified before Congress on nine occasions, and in 2017 received the National Tax Association's Daniel M. Holland Medal for lifetime achievement in the study of public finance.

3. I am a past President of the American Law & Economics Association and am the current President of the International Institute of Public Finance. I am a Research Associate of the National Bureau of Economic Research, Research Director of the International Tax Policy Forum, a Fellow of the CESifo group in Germany, an International Research Fellow of the Centre for Business Taxation at Oxford University, and a Fellow of the Society for Empirical Legal Studies. I am a former Co-Editor of the American Economic Association's Journal of Economic Perspectives and previously served as an Economist in the Bureau of Economic Analysis of the U.S. Department of Commerce. Exhibit A provides more details about my experience and publications.

4. I am being paid $250 per hour for my work on this matter, which represents a significant discount from my usual rate for expert witness or other consulting work.

B. Methods.

5. This report was prepared based on reviews of the available evidence in the economics literature, and analysis of data available from various government documents and websites.

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II. The Economic background.

6. The U.S. economy was performing very well prior to the recent tariff actions of the U.S. government. In calendar year 2024, U.S. gross domestic product (GDP) was $29.2 trillion, and $85,784 per capita, making the United States by far the world's largest economy, and Americans among the richest people in the world. World Bank data indicate that, in 2023, and among all the world's countries other than a few small oil producers and tax havens, only Switzerland had a per capita income adjusted for purchasing power parity exceeding that of the United States;[1] the adjusted (in 2021 dollars) U.S. per capita income of $74,578 significantly exceeded the European average of $53,832, and also significantly exceeded the average incomes of Canada ($56,714), Australia ($60,447), the United Kingdom ($52,582), and Japan ($45,915).

[1] The World Bank data are available at https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD. In addition to the oil exporting countries Brunei, Norway, and Qatar, five small tax havens – Bermuda, the Cayman Islands, Ireland, Monaco, and Singapore – had reported per capita GDPs that exceeded the United States; but reporting difficulties can make it difficult to compare these GDPs to those of larger countries that are not tax havens.

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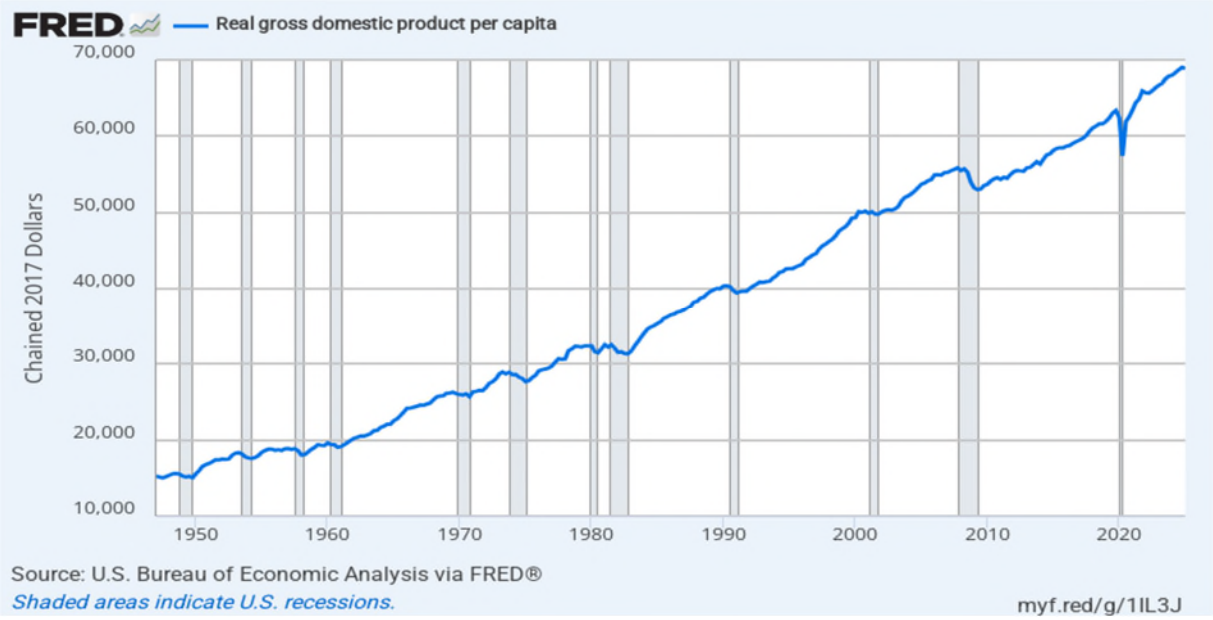
7. U.S. economic affluence is the product of many decades of consistent economic growth. Figure 1 depicts U.S. per capita income, in real (year 2017) dollars, for the years since World War Two.[2] The shaded areas in the graph represent economic recession years – and predictably, economic growth falls during these occasional recessions, most recently during the Covid crisis. The U.S. pattern, however, is that, in the years following these recessions, average U.S. income resumes a consistent upward path. And that was indeed the experience of the U.S. economy following its recovery from the Covid crisis.

Figure 1: U.S. Per Capita annual GDP, in Real (2017) Dollars.



[2] The data depicted in this graph come from the U.S. Department of Commerce, Bureau of Economic Analysis, via the FRED website provided by the Federal Reserve Bank of St. Louis, and are available at https://fred.stlouisfed.org/.

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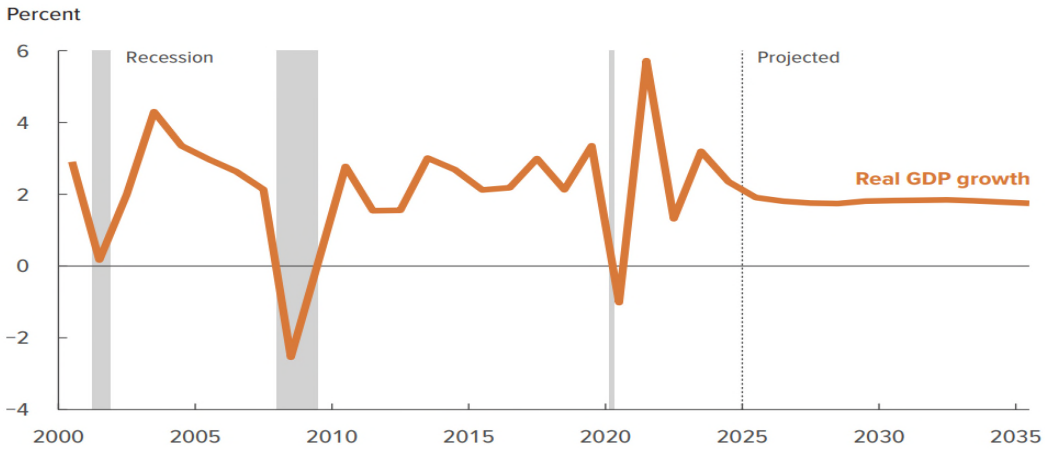
8. Furthermore, the U.S. economy did not face significant evident headwinds prior to 1 February 2025. In its January 2025 projections of the budget and economic outlook for 2025-2035,[3] the Congressional Budget Office forecasted consistent annual real (inflation-adjusted) GDP growth of roughly two percent, which matches the U.S. experience over the last 25 years. Figure 2 presents the Congressional Budget Office data on annual inflation-adjusted GDP growth over the last 25 years, and its projections for 2025-2035.

Figure 2: U.S. Per Capita Inflation-Adjusted Annual GDP Growth Rates — Historical and CBO Projections.



9. High U.S. incomes translate into very high consumption levels for Americans; in 2024, per capital U.S. consumption expenditures were $58,272. The World Bank international comparisons project indicates that the United States had the highest actual individual consumption per capita of any country in 2021, the last year for which internationally comparable consumption data were available.[4]

[3] Congressional Budget Office, The Budget and Economic Outlook: 2025 to 2035 (Washington, DC: Congressional Budget Office, January 2025).

[4] These data are available at https://www.worldbank.org/en/programs/icp.

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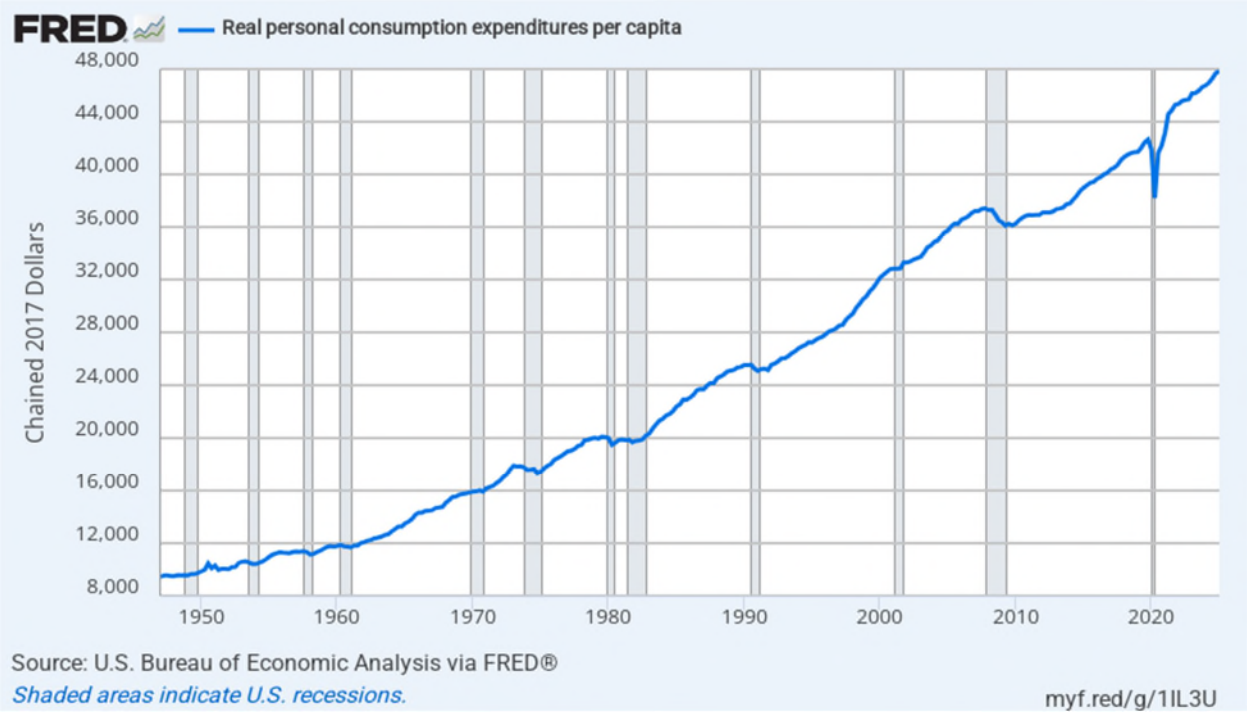
10. Over time, real U.S. consumption levels have exhibited the same consistent growth as has real U.S. GDP. Figure 3 depicts U.S. per capita consumption, in real (year 2017) dollars, for the years since World War Two. The pattern in Figure 3 matches that of Figure 1, steadily rising despite occasional dips due to recessions.

Figure 3: U.S. Per Capita Annual Consumption, in Real (2017) Dollars.



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11. The U.S. labor market was similarly well situated. The January 2025 U.S. unemployment rate of 4.0 percent was quite low by the standards of the last 75 years of U.S. economic history. Figure 4 depicts monthly seasonally-adjusted U.S. unemployment rates, as calculated by the Bureau of Labor Standards and reported by the Federal Reserve Bank of St. Louis. Only on brief occasions over the last 50 years has the U.S. unemployment rate been 4.0 percent or below. While the Congressional Budget Office in January 2025 did not anticipate that the U.S. unemployment rate would remain this low, its 10-year projection was that the U.S. unemployment rate would rise only slightly, settling at a historically-favorable 4.3 percent rate, as depicted in Figure 5.[5]

Figure 4: U.S. Monthly Unemployment Rate, Seasonally Adjusted.

[5] The data underlying Figure 4 are available at https://fred.stlouisfed.org/series/UNRATE. Figure 5 is drawn from Congressional Budget Office, The Budget and Economic Outlook: 2025 to 2035 (Washington, DC: Congressional Budget Office, January 2025).

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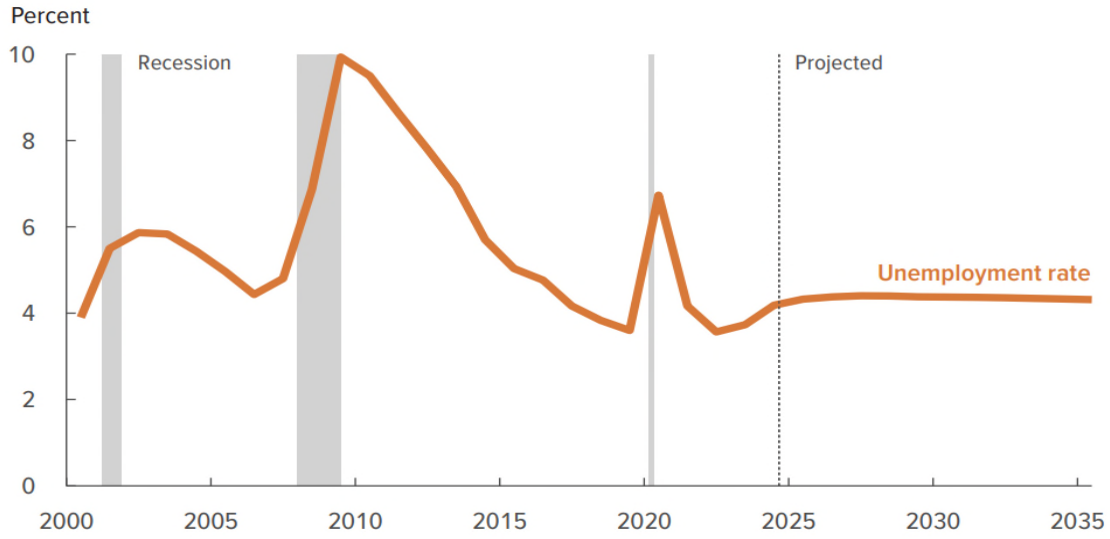
Figure 5: CBO Projections of U.S. Unemployment.



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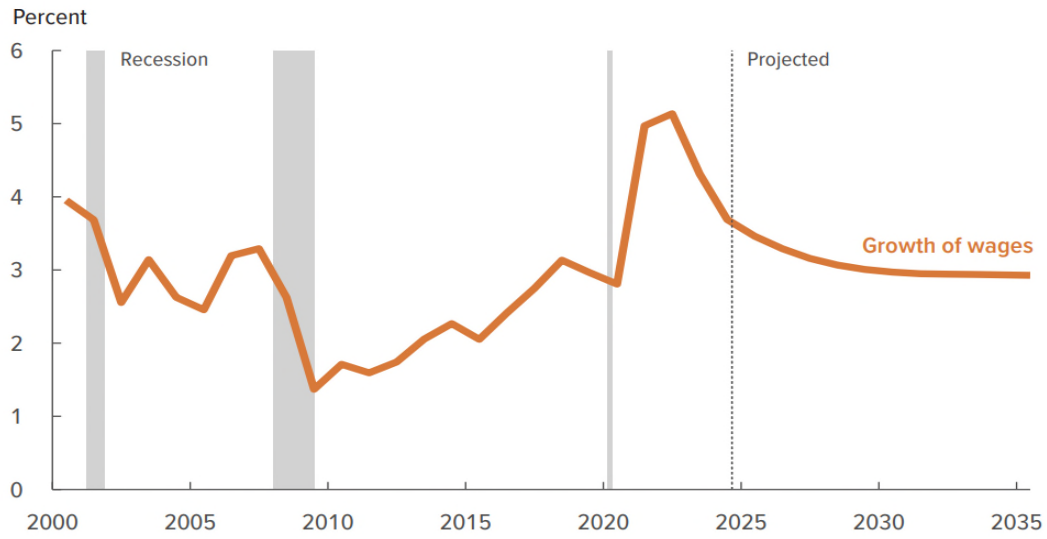
12. U.S. labor market health is also reflected in steady wage growth. Since the year 2000, nominal U.S. wages have grown by roughly three percent each year, producing real purchasing power gains given a prevailing inflation rate of somewhat below two percent. And as of January 2025, the Congressional Budget Office projected U.S. wages to continue growing at a three percent annual rate over the next ten years, while inflation was projected to persist at two percent. Figure 6 presents these wage projections.[6]

Figure 6: U.S. Annual Wage Growth — Historical and CBO Projections.



[6] Wage and inflation projections are available in Congressional Budget Office, The Budget and Economic Outlook: 2025 to 2035 (Washington, DC: Congressional Budget Office, January 2025).

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13. It is also useful to consider the evolution over time of wages earned by workers at the median of the wage distribution. Figure 7 presents Bureau of Labor Standards calculations of median weekly earnings, in 1982 - 1984 dollars adjusted for changes in the consumer price index. Median earnings capture not only the labor market opportunities available to workers, but also the extent to which workers with different levels of human capital and labor market experience participate in the labor market. Figure 7 indicates that median wages kept pace with inflation between 2000 and 2014, but that real wages significantly increased over the following ten years.

Figure 7: Median Usual Weekly Real Earnings.

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14. It is clear from this and other evidence that the U.S. economy was performing at a high level as of January 2025, and indeed had performed at a high level over many years, despite occasional setbacks such as the Covid crisis. To be sure, there were concerns that U.S. economic performance might be difficult to sustain with an aging workforce, costly entitlement programs, and persistent government budget deficits. But one of the encouraging aspects of the high level of average U.S. incomes, average wages, average consumption, and high rate of employment is that these features of the U.S. economy were projected to persist strongly into the future, despite potential headwinds from other considerations. There was no U.S. economic crisis in January 2025.

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III. U.S. Current account deficits and U.S. manufacturing.

15. The United States has run persistent current account deficits since the mid-1970s, which means that imports of goods and services consistently exceed exports. In 2024, the United States exported goods and services worth $3.1802 trillion, representing 10.9 percent of GDP. In the same year, the United States imported goods and services worth $4.0833 trillion, representing 14.0 percent of GDP.[7] The resulting current account deficit of 3.1 percent of GDP is typical of recent years; and imports exceeding exports has been a consistent feature of the U.S. economy since the mid-1970s. Note that it is standard in such calculations to consider trade in goods and services combined, rather than separating these two categories, in part because traded goods often embody significant service components, and in part because goods and services both have economic value for which importers pay. The economics literature offers no reasons to focus exclusively on trade in goods or trade in services, instead indicating that what matters for policy and for our evaluation of economic performance is the sum of goods and services. This is the same reason why goods and services are combined in calculating individual incomes, economic output, and GDP.[8]

[7] U.S. Bureau of Economic Analysis, U.S. International Trade in Goods and Services, December and Annual 2024, 5 February 2025, https://www.bea.gov/news/2025/us-international-trade-goods-and-services-december-and-annual-2024.

[8] In calculating its national income, the former Soviet Union used a method that routinely disregarded much of the output of its service sector, thereby focusing official attention on tangible goods and manufacturing.

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16. Figure 8 presents net U.S. exports of goods and services as a fraction of GDP for the last 100 years, as calculated by the Bureau of Economic Analysis and reported by the Federal Reserve Bank of St. Louis.[9] It is evident from the figure that imports of goods and services have exceeded exports by amounts that are volatile over time, but that has stabilized at roughly three percent of GDP annually for the last 15 years.

Figure 8: U.S. Net Imports of Goods and Services as Shares of GDP.

17. Despite running persistent trade deficits, the U.S. economy has thrived over the 50 years since the mid-1970s. If trade deficits were damaging to economic performance, there should be ample evidence by now – but instead, the evidence if anything points in the opposite direction, one of a healthy U.S. economy with a current account deficit.

[9] See https://fred.stlouisfed.org/series/A019RE1Q156NBEA.

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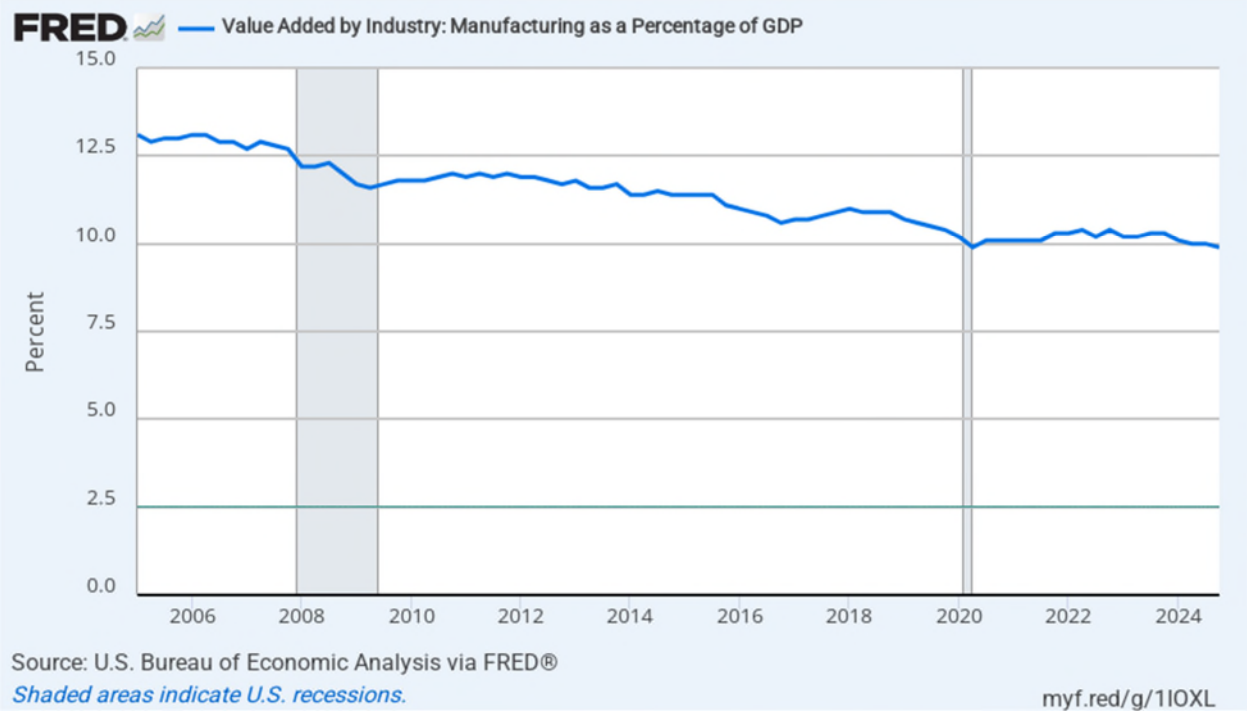
18. The Trump administration's 2 April 2025 tariff announcement called attention to low U.S. manufacturing output as a component of a national emergency that warrants the introduction of new tariffs. It is true that over time U.S. manufacturing has declined as a fraction of the U.S. economy – a pattern that is typical of wealthy countries, and a reflection of structural transformations associated with technology changes and rising economic affluence.[10] U.S. manufacturing value added – manufacturing output minus the value of inputs purchased from suppliers – was 9.9 percent of U.S. GDP as of the end of 2024, representing a decline from 13.1 percent 20 years earlier. Figure 9 presents this series as calculated by the Bureau of Economic Analysis and reported by the Federal Reserve Bank of St. Louis.[11]

Figure 9: U.S. Manufacturing Value Added as a Share of GDP.



[10] For a comprehensive review of the evidence of long-run structural determinants of the declining manufacturing share of the economy, see Robert Z. Lawrence, Behind the curve: Can manufacturing still provide inclusive growth? (Washington DC: Peterson Institute for International Economics, 2024). Similarly, Timothy J. Kehoe, Kim J. Ruhl, and Joseph B. Steinberg, Global imbalances and structural change in the United States, Journal of Political Economy, April 2018, 126 (2), 761-796, presents evidence that no more than 15 percent of the

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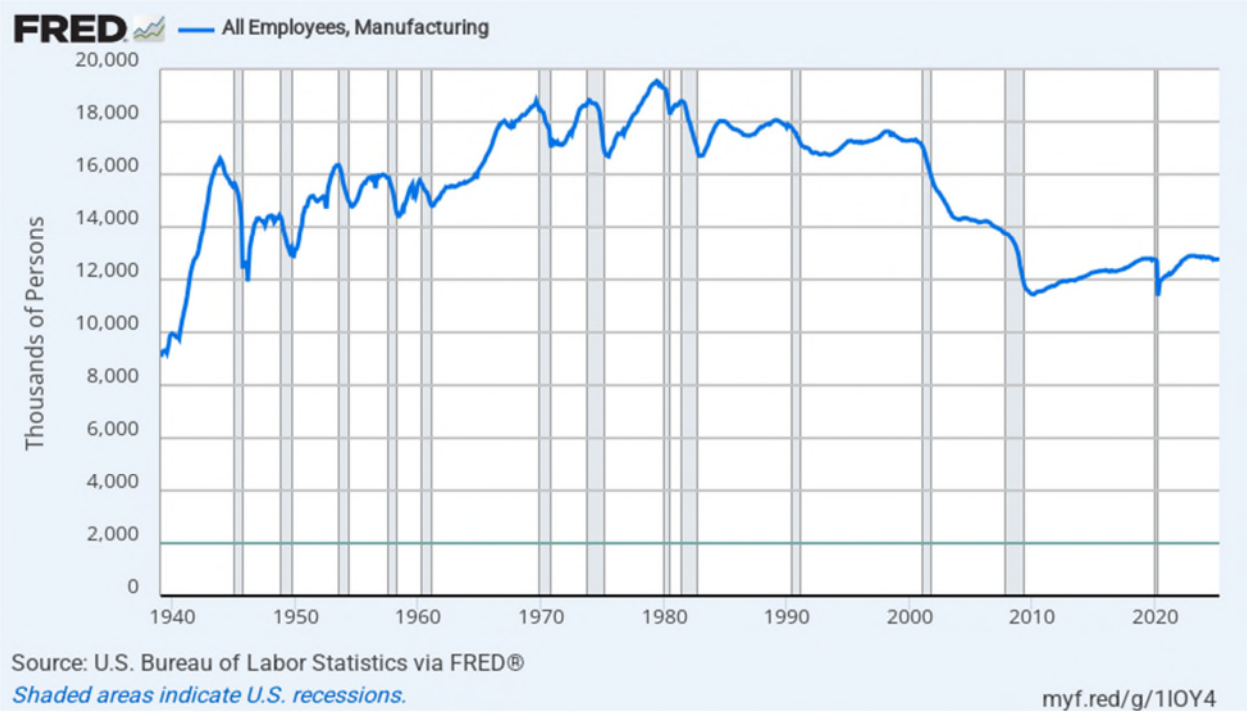
19. Despite recent declines, manufacturing remains an important part of the U.S. economy, with 12.8 million employees as of January 2025. Figure 10 presents the history of total U.S. employment in manufacturing, as calculated by the Bureau of Labor Statistics and reported by the Federal Reserve Bank of St. Louis.

Figure 10: U.S. Manufacturing Employment.



20. Figure 10 indicates that U.S. manufacturing employment peaked in the 1980s, declined over the subsequent two decades, and then dropped considerably between 2000 and 2010. Total manufacturing employment has risen somewhat over the last 15 years.

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decline in U.S. goods-sector employment between 1992 and 2012 is attributable to U.S. trade deficits.

[11] See https://fred.stlouisfed.org/series/VAPGDPMA.

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21. There is no crisis or emergency in U.S. manufacturing. Instead, activity levels of U.S. manufacturing firms ebb and flow as they are subject to the forces of supply and demand, within the United States and internationally; the same is true of all other U.S. industries. And as with other industries, supply and demand in manufacturing can be affected by U.S. and foreign government policies. Despite or perhaps because of these government policies, it is clearly feasible, and indeed profitable, for U.S. manufacturers to persist and thrive in business, as evidenced by their contribution of 9.9 percent of the U.S. economy and employment of 12.8 million people.

22. If the U.S. government believes that the U.S. economy would benefit from having additional domestic manufacturing activity, it can offer favorable tax treatment or other subsidies that would encourage greater investment in manufacturing. Tariffs on imported manufacturing goods are extremely inefficient alternatives to such subsidies. While such tariffs have the potential to help some domestic firms whose output competes with imported goods, the assistance that tariffs offer is indirect and very costly relative to the benefits they might deliver to U.S. manufacturers. The economic principle of targeting is that efficiently-designed remedies are directed at the problems they seek to solve. Imposing costly tariffs to assist domestic manufacturing makes little sense given that governments have access to normal tax and spending policies that are much more cost-effective in subsidizing the activities of specific industries.

IV. Scope of recent tariff action.

23. The Trump administration has announced a series of tariff actions that collectively impose 10 percent across the board tariffs on imported goods, with specific countries and products targeted with higher rates. There are also limited exceptions to these tariffs. Automobiles, steel and aluminum are subject to higher tariff rates based on separate tariff authorities but are not subject to IEEPA-based tariffs. Imports from Canada, Mexico, and China are subject to higher IEEPA-based tariffs, and the administration has announced that imports from a large number of countries will be subject to tariffs at rates significantly exceeding 10 percent in an effort to reduce or eliminate the associated U.S. bilateral trade deficits.

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24. The 10 percent tariffs are entirely unjustified by U.S. economic conditions, as are the higher rates on specified products, and the higher rates on imports from Canada, Mexico, China, and other countries. There is no coherent economic theory or model that implies that a 10 percent tariff rate is warranted by economic conditions in the United States; nor that a 10 percent tariff would enhance U.S. wages or U.S. consumption. Instead, the 10 percent tariff figure appears to be entirely arbitrary.

25. Bilateral trade deficits are differences between amounts imported from, and exported to, specific foreign countries. The United States has bilateral trade deficits with many countries, which is why, collectively, U.S. net exports of goods and services look as they do in Figure 8. Whatever economic significance there may be to the U.S. current account deficits depicted in Figure 8, there is clearly no economic significance to U.S. bilateral trade deficits with individual countries. In a barter economy, trade between transacting parties is always balanced; in a market economy it is not. Individuals in their daily lives "import" more from grocery stores than they "export" to them; but there is nothing wrong or undesirable about this trade imbalance, since it is a normal feature of a market economy, and does not prevent individuals (and grocery stores) from balancing their budgets and accounts. Indeed, attempts to economize on grocery store purchases by growing one's own food, in an effort to shrink a consumer's "trade deficit" with grocery stores, would be highly inefficient and counterproductive to the goal of maximizing economic welfare.

26. Bilateral international trade deficits are produced by normal trading imbalances. For example, the United States might export airplanes and agricultural products to Italy, and simultaneously import an equal value of clothes from Italy, producing balanced bilateral trade. Or the United States could export airplanes and agricultural products to Italy, Italy could export fabricated metal products to France, and France could export clothes to the United States. In the second example, the United States has a bilateral trade deficit with France (and a trade surplus with Italy), but the U.S. economic outcomes (exports and imports, treating French fashions to be equivalent in dollar terms to their Italian counterparts) are unchanged from the first example.

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27. The Trump administration's efforts to impose tariffs on imports from individual countries based on U.S. bilateral trade deficits with those countries do not correspond to any coherent theory of trade. There is no theory that says that a country's trade should be balanced with each individual trading partner, any more than a customer's "trade" should be "balanced" with a grocery store. It is of course possible to design tariffs that will ensure that a country does not have bilateral trade deficits; a tariff rate sufficiently high to eliminate all imports will clearly suffice, as would somewhat lower rates. But tariffs set this way bear no connection to any coherent economic objectives.

28. The Office of the U.S. Trade Representative provides a document ("Reciprocal Tariff Calculations") explaining the basis on which rates were chosen for the country-specific reciprocal tariffs announced on 2 April 2025.[12] The lone equation appearing in this document, together with the assumed parameter values, implies that values of country-specific new tariffs will equal to the ratio of net U.S. imports from a country to gross U.S. imports from the same country. The reciprocal tariffs announced on 2 April 2025 do not, however, correspond to the rates produced by this formula, since instead of being based on net imports and gross imports from individual countries, they are based on net and gross imports of goods only, ignoring services. Furthermore, the announced reciprocal tariffs are exactly half the rates implied by the formula, with the important exception that the minimum tariff rate is ten percent.

29. Tariff rates chosen this way bear scant if any connection to the stated objective of balancing bilateral trade.

[12] This document is available at https://ustr.gov/issue-areas/presidential-tariff-actions.

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30. First, bilateral trade includes services as well as goods, but the calculations ignore net and gross service imports. Second, the assumed 0.25 pass-through of tariffs to import prices (the parameter φ in the document) is too low by a factor of four, since the available evidence, including the study cited in the document as the basis of the assumed 0.25 pass-through rate, indicates that pass-through is roughly one for one. Third, there is no objective-based reason to divide the calculated tariff rate by two, or to impose a minimum ten percent rate. And fourth and most importantly, it is simply wrong to assume, as the calculations do, that "offsetting exchange rate and general equilibrium effects are small enough to be ignored."

31. Partial equilibrium is a property of individual markets; general equilibrium is a property of all markets together. It is well understood that, to the extent that one market affects another, general equilibrium considerations mean that partial equilibrium reasoning delivers misleading answers. In the present context, the relevant general equilibrium consideration is that trade with one country affects trade with another. Consequently, when the United States imposes a tariff on trade with country A, the tariff will change the U.S. bilateral trade balance with country B and all other U.S. trading partners, in part by affecting relative currency values, and in part through the usual process of economic substitution. The "Reciprocal Trade Calculations" document, in assuming away any general equilibrium effects, ignores these important realities. As a result, even if the reciprocal tariffs were imposed exactly as described in the document, they would not support bilateral trade balance, nor would they advance any other objective.

V. Economic impact of tariff action.

32. The foundation of any modern economic system is trade between market participants. Trade permits people to work at jobs in which they perform limited numbers of tasks, and nonetheless lead lives in which they consume thousands of different goods and services. People need not produce everything they consume, because they can trade their services, and anything they might produce, in exchange for purchasing power they can then use to obtain everything else they want and can afford. Anyone living in the modern world is so accustomed to this system of trade that it can be easy to lose sight of just how pervasive it is.

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33. This market process of producing one thing and consuming another operates internationally as well as within a country's borders. International trade has many of the same characteristics as the ordinary economic transactions that take place continually within countries. Of course there are differences; for example, since transporting things over long distances can be expensive, international transactions are somewhat less common than ordinary domestic transactions. And since governments control borders, they have the ability to impose tariffs on imported goods.

34. Tariffs impede the functioning of market economies by inserting additional costs into the operation of supply and demand in international markets. As a result of these additional costs, market actors forgo transactions that would otherwise be cost-reducing and therefore mutually beneficial. For example, the introduction of tariffs on goods that firms in an industry use in their production processes will raise production costs, encouraging firms in the industry to do a combination of reducing their production and seeking methods of producing that rely less on imports. Either of these reactions is costly to firms in the affected industry, for the simple reason that these options were available even prior to the introduction of tariffs – so the fact that the firm had not previously curtailed production or sought alternative production configurations indicates that it was costly to do so.

35. It is inefficient to induce producers to modify their production plans, since in the absence of such inducement the market gives firms incentives to choose cost-minimizing production configurations. The economic cost of distorting economic behavior is known as deadweight loss; and the magnitude of deadweight loss generally rises with the square of the tax or tariff rate that induces the behavior change.[13] This square rule means that the cost of the economic distortion caused by a ten percent tariff is generally four times the cost of a five percent tariff on the same good; and a fifteen percent tariff would produce economic distortions that cost roughly nine times as much as those produced by a five percent tariff. Notably, the distortions introduced by tariffs apply both to sellers and buyers of traded goods, since given their mutual dependence, both are affected.

[13] For a mathematical derivation of the square rule, and references to the extensive associated literature, see Alan J. Auerbach and James R. Hines Jr., Taxation and economic efficiency, in

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36. Tariffs are inefficient because a country could avoid the associated deadweight losses simply by not imposing the tariffs. Countries that nevertheless persist in imposing significant tariffs do so at their economic peril. In distorting their own trade patterns, these countries make their economies less productive, and their residents correspondingly less prosperous. It is true that specific domestic firms that compete with importers can find their market positions improved by higher tariff-inclusive prices charged by their competitors, so firm owners and possibly also their employees can benefit from the market protection afforded by high tariffs. But it is a mistake to extrapolate this benefit to economic activity as a whole. Tariffs that protect and therefore benefit individual firms or industries come at an even larger cost to all firms and industries, so the net effect on incomes and employment is negative. These offsetting effects of specific tariffs on the rest of the economy can materialize even in local markets with unusually high concentrations of firms that stand to benefit from tariffs. Evidence of the impact of the U.S. tariffs introduced in 2018 shows no discernable employment gains in local commuting zones where firms were particularly exposed to competition from imports that were subject to the tariffs.[14] Despite the benefits tariffs afforded local firms that compete with imports, the tariffs' accompanying costs of distorting economic activity effectively neutralized any benefits to the local labor market.

Alan J. Auerbach and Martin Feldstein, eds. Handbook of Public Economics, volume 3 (Amsterdam: North-Holland, 2002), 1347-1421.

[14] David Autor, Anne Beck, David Dorn, and Gordon H. Hanson, Help for the heartland? The employment and electoral effects of the Trump tariffs in the United States, National Bureau of Economic Research Working Paper No. 32082, January 2024.

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37. In a market economy, workers are paid according to their economic productivities. Those who live and work in a country with a more productive economy are themselves more productive, and therefore receive greater market compensation. In distorting a country's production patterns, tariffs reduce the productivity of firms and workers, and therefore reduce the wages and salaries received by workers, and the personal consumption that labor earnings support. In distorting the economy, and thereby reducing income levels, tariffs also make it more difficult to finance government activities since tax revenue is heavily dependent on incomes. Cross-country comparisons consistently show that government expenditures rise at least proportionately with national incomes, a pattern that holds even for welfare expenditures.[15]

38. Tariffs also damage economies by increasing the uncertainties and risks faced by firms, investors, workers, and consumers. To the extent that tariffs were unanticipated at the time that important investment decisions were made, the introduction of new tariffs is a major source of uncertainty. Once imposed, tariffs might be increased or reduced; and unilaterally imposed tariffs invite retaliation, though it can be difficult or impossible to anticipate what form any retaliation may take. Consequently, market actors are left guessing what incentives they and their competitors will face, now and in the future. Firms, investors, and other economic actors benefit from being able to plan their activities; and needless sources of uncertainty make everything they do more costly. As a result, firms, investors, and financial markets commonly react adversely to significant uncertainties.[16] Consequently, the economic costs of tariffs consist not only of their distortionary effects on economic incentives, but also the costs of the economic uncertainties that tariffs introduce.

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[15] See James R. Hines Jr., Will social welfare expenditures survive tax competition? Oxford Review of Economic Policy, Fall 2006, *22* (3), 330-348.

[16] For evidence of the impact of economic uncertainty on economic output, employment, and stock market returns, see Nicholas Bloom, The impact of uncertainty shocks, Econometrica, May 2009, 77 (3), 623-685, and Scott R. Baker, Nicholas Bloom, and Stephen J. Terry, Using disasters to estimate the impact of uncertainty, Review of Economic Studies, March 2024, 91 (2), 720-747.

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39. As economies have grown, and technological changes have reduced shipping and other transport costs, international trade has risen as a fraction of total economic activity. Higher trade levels bring with them greater potential for tariff distortions to damage economic performance. Research indicates that, even in the 1930s, with much lower levels of international trade relative to (then depressed) economic output, the distortions produced by tariffs significantly reduced U.S. investment and GDP.[17] More recently, cross-country evidence for 151 countries between 1963 and 2014 suggests that higher tariff levels are associated with higher unemployment and declines in domestic output and productivity.[18]

40. Tariffs announced by the Trump administration will distort the U.S. economy and reduce productivity accordingly. There is considerable scope for economic damage, given that, in 2024, U.S. imports of goods and services were $4.0833 trillion, representing 14.0% of GDP. A recent study by Mary Amiti, Stephen Redding, and David Weinstein estimates that the deadweight losses produced by the U.S. tariffs introduced in 2018 were roughly half the magnitude of the revenue collected.[19] The 2018 tariffs that they analyze were much smaller in magnitude than the IEEPA-based tariffs, estimated to raise just $3.2 billion per month in revenue by the end of 2018. Since deadweight loss rises with the square of the tariff rate, and the 2025 tariffs are so much larger, the lost economic value associated with the 2025 tariffs should be much more than half of the projected tariff revenue, representing a significant drag on the U.S. economy.

[17] See Mario J. Crucini and James Kahn, Tariffs and aggregate economic activity: Lessons from the Great Depression, Journal of Monetary Economics, December 1996, 38 (3), 427-467.

[18] See Davide Furceri, Swarnali A. Hannan, Jonathan D. Ostry, and Andrew K. Rose, Macroeconomic consequences of tariffs, NBER Working Paper No. 25402, December 2018.

[19] Mary Amiti, Stephen J. Redding, and David E. Weinstein, The impact of the 2018 tariffs on prices and welfare, Journal of Economic Perspectives, Fall 2019, 33 (4), 187-210,

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VI. Impact of tariffs on prices of imported goods.

41. Tariffs are taxes on imports. Consequently, in the absence of other price changes, tariffs increase per-unit costs of providing imported goods. In a competitive market, goods are priced at cost, including any relevant economic opportunity costs, and certainly including the costs of taxes and tariffs. It follows that, in a competitive market setting, tariffs will increase the net-of-tariff prices of imported goods on a one-for-one basis, unless the tariffs induce changes in prices or other components of production costs. Since the world economy is large, with many buyers of traded goods, and many (competitive) sellers, there is ample reason to expect the competitive paradigm to offer an informative guide to the likely impact of tariffs.

42. It is useful to consider possible exceptions to the rule of complete tariff pass-through to prices in competitive markets. Since tariffs change trade and production levels and patterns, these changes can themselves affect factor prices and costs. In a competitive export industry with rising marginal costs, tariff-induced output reductions will also reduce average costs, and these cost reductions can somewhat mitigate the effect of tariffs on final prices paid by importing firms and consumers. Furthermore, it may be the case that some important exporters or importers have little market competition and therefore market power, which generally will mean that higher production costs are passed through to consumers on less than a one-for-one basis. As a result, it is possible that a country might introduce or increase its tariffs without its own firms and consumers bearing the full costs of the tariffs. The more economically competitive the scenario for firms and countries, particularly once enough time has elapsed for economic actors to react to any tariff changes, the less likely it is that tariff pass-through to final prices will be incomplete; but the impact of tariffs on import prices remains an empirical question.

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43. Evidence from recent tariff experiences strongly supports the conclusion that higher tariffs increase the costs of imported goods to the end customer on close to a one-to-one basis. Several studies consider effect of 2018 U.S. tariff increases on prices of U.S. imports, using variation in tariff intensity across goods and sectors to identify price effects. These studies consistently find that import prices rose one-for-one with the tariffs.[20] This evidence is consistent with the implications of the competitive-market model, which holds that importers, including the United States, are unable to obtain price discounts from foreign suppliers simply by imposing tariffs on them. Instead, importing countries that introduce or raise tariffs impose costs on themselves in the form of the economic distortions introduced by their own tariffs.

[20] See Mary Amiti, Stephen J. Redding, and David E. Weinstein, The impact of the 2018 tariffs on prices and welfare, Journal of Economic Perspectives, Fall 2019, 33 (4), 187-210; Mary Amiti, Stephen J. Redding, and David E. Weinstein, Who's paying for the US tariffs? A longer term perspective, American Economic Review, Papers and Proceedings, May 2020, 110, 541-546; Alberto Cavallo, Gita Gopinath, Brent Neiman, and Jenny Tang, Tariff pass-through at the border and at the store: Evidence from US trade policy, American Economic Review: Insights, 2021, 3 (1), 19-34; Pablo D. Fajgelbaum, Pinelopi K. Goldberg, Patrick J. Kennedy, and Amit K. Khandelwal, The return to protectionism, Quarterly Journal of Economics, February 2020, 135 (1), 1-55. Similarly, Mumtaz Ahmad and Imtiaz Ahmad, Tariff pass-through and implications for domestic markets: Evidence from U.S. steel imports, Journal of International Trade & Economic Development, 2024, 33 (3), 482-496, finds that imported steel prices rose one-for-one with the 2018 U.S. tariffs. The study by Alberto Cavallo, Gita Gopinath, Brent Neiman, and Jenny Tang is occasionally misinterpreted to imply that tariff costs are not fully passed through to importers – which is not what the study finds. Instead, a portion of the study considers evidence of prices charged to final consumers by two companies that sell imported goods, attempting to identify their pricing practices in response to higher supplier prices, and finding less than complete pass-through in the short run.

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VII. Exposures of state governments.

44. Direct expenditures by state and local governments represent significant portions of total U.S. consumption and income every year. For example, in 2022, the last year for which comprehensive data are available from the Census of Governments, direct expenditures by U.S. state and local governments summed to $4.296 trillion, representing 16.4 percent of U.S. GDP. Of these, the state governments of the 12 states that are parties to this action collectively had direct expenditures of $460 billion, representing 10.7 percent of the country's total subnational government spending.[21] Notably, of this $4.296 trillion of total expenditures, $1.135 trillion, or 26 percent, represented wage and salary expense. The remaining $3.161 trillion of direct expenditure represented a combination of payments to business entities for goods and services, and transfer payments to individuals.

45. State government expenditures can be divided into two categories of potential exposure to tariff-related price increases. The first category is higher purchase prices faced by state governments. In order to understand the likely scope of tariff effects, it is helpful to review government purchasing patterns. The Census of Governments provides information on direct expenditures by category; figures for 2022, including totals for the 12 states that are parties to this action, appear in Table 1.[22]

Table 1: 2022 State and Local Government Direct Expenditures ($ billions)

Expenditure Classification	S/L Total	12 States	State%	S/L%
Total direct expenditure	4,296.3	459.6	10.7	23.3
Direct general expenditure	4,027.0	444.0	11.0	23.3
Capital outlay	371.3	22.0	5.9	21.8
Other direct general expenditure	3,655.7	422.0	11.5	23.4

[21] These states are Arizona, Colorado, Connecticut, Delaware, Illinois, Maine, Minnesota, Nevada, New Mexico, New York, Oregon, and Vermont.

[22] Information in Table 1 is drawn from https://www.census.gov/data/datasets/2022/econ/local/public-use-datasets.html.

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Education services:				
Education	1,264.4	76.9	6.1	22.4
Capital outlay	118.0	4.5	3.8	21.5
Higher education	340.4	53.2	15.6	19.3
Capital outlay	32.6	4.3	13.3	15.9
Elementary & secondary	832.7	6.3	0.8	23.9
Capital outlay	84.8	0.1	0.0	23.6
Other education	91.3	17.3	19.0	20.6
Libraries	14.1	0.1	0.6	26.9
Social services and income maintenance:				
Public welfare	971.0	216.4	22.3	25.4
Hospitals	261.2	19.6	7.5	17.5
Capital outlay	11.2	1.1	10.1	19.6
Health	154.3	16.4	10.6	17.5
Employment security administration	5.9	1.2	19.7	21.8
Veterans' services	1.5	0.1	9.1	9.9
Transportation:				
Highways	210.6	21.7	10.3	20.3
Capital outlay	115.5	13.2	11.4	18.9
Air transportation (airports)	31.3	0.2	0.6	29.1
Parking facilities	2.1	0	0.2	17.8
Sea and inland port facilities	6.9	0	0.4	10.7
Public safety:				
Police protection	139.9	4.0	2.9	22.8
Fire protection	64.0	0	0	22.3
Correction	91.3	11.3	12.4	21.1
Capital outlay	2.5	0.3	12.6	19.9
Protective inspection and regulation	19.1	1.6	8.4	15.3
Environment and housing:				
Natural resources	40.8	4.2	10.3	17.4
Capital outlay	7.3	0.3	3.6	16.5
Parks and recreation	50.8	1.6	3.2	25.5
Capital outlay	11.4	0.4	3.1	26.9
Housing & community development	74.0	3.2	4.3	24.7
Sewerage	70.2	0.1	0.2	18.1
Capital outlay	23.5	0	0.1	23.2
Solid waste management	29.8	0.2	0.8	20.9

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Capital outlay	2.0	0	0.4	33.5
Governmental administration:				
Financial administration	70.7	10.4	14.7	21.4
Judicial and legal	56.8	7.6	13.5	23.8
General public buildings	18.0	0.6	3.6	23.1
Other governmental administration	47.3	2.2	4.7	19.7
Interest on general debt	104.3	10.9	10.4	31.0
General expenditure, n.e.c.:				
Miscellaneous commercial activities	4.6	0	0.6	7.5
Other and unallocable	221.9	33.2	15.0	34.2
Utility expenditure	258.4	14.8	5.7	24.0
Capital outlay	57.6	1.7	2.9	23.3
Water supply	83.0	0.1	0.1	18.9
Electric power	84.0	7.3	8.9	19.9
Gas supply	7.2	0	0	9.1
Transit	84.1	7.4	8.8	34.2
Liquor store expenditure	11.0	0.8	7.6	8.9

46. The first column in Table 1 is direct expenditures by all U.S. state and local governments, while the second column is direct expenditures by the state governments of the 12 states that are parties to this action. The third column is the fraction of total U.S. state and local government spending represented by the 12 state governments that are parties to this action; and the fourth column is the fraction of total U.S. state and local government spending represented by the 12 states that are parties to this action, inclusive of both their state and local components.

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47. The data in Table 1 indicate that the largest categories of state government expenditure are education; public welfare; hospitals and health; highways; corrections; financial and legal administration; electric utilities; and transit expenditures. While states vary in their distributions of these expenditures, the third column of Table 1 shows that the 12 states that are parties to this action have spending patterns that are broadly typical of U.S. state and local governments as a group. Thus for example, these 12 state governments represented 10.7 percent of all state and local government direct expenditures in 2022, including 6.1 percent of education spending, 10.3 percent of highway spending, and 8.9 percent of electric utility spending.

48. Tariffs directly affect the prices paid by state governments for imported goods. They also affect the prices paid for goods that are produced domestically but that rely, either directly or indirectly, on imported components. For example, imported steel may be used by a U.S. domestic vehicle manufacturer to produce a garbage truck purchased by a local government. And imported plastics may be used by a robot company to produce robots that are in turn purchased by the vehicle manufacturer and used to produce garbage trucks ultimately purchased by local governments. Since tariffs raise the costs of imported production inputs, they have effects on all of the prices along the production chain.

49. In order to trace the likely impact of tariffs on prices faced by state governments, it is necessary to identify the extent to which the goods that they purchase rely directly and indirectly on imports. Fortunately, it is possible to do so using the input-output matrix information on the U.S. economy produced by the Bureau of Economic Analysis of the U.S. Department of Commerce. These calculations use detailed information from periodic industrial censuses, updated with annual surveys, to identify the extent to which production of different commodities and industries rely on intermediate purchases from others. It is possible to use this information to infer how much steel production is required in garbage truck manufacture, taking account of the reality that many of the components of a garbage truck, and the equipment used in the manufacture of a garbage truck, themselves contain steel.

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50. Importantly for the present purpose, it is possible to use the input-output matrix information to identify the extent to which goods that are consumed in the United Sates rely directly and indirectly on imports. What is known as the import matrix identifies the values of imports, distinguished by category, that are used directly and indirectly by different sectors of the U.S. economy. To the extent that tariffs increase the net costs of imported goods, the import matrix entries should indicate how much these higher costs are passed on to different sectors of the U.S. economy.

51. Table 2 presents import matrix entries for U.S. state and local government activities in 2023.[23] The table indicates that purchases by state and local governments incorporated $123.0 billion of imported goods. Taking the 12 states that are parties to this action to be typical of others, and applying their 10.7 percent of total direct spending, it follows that their 2023 expenditures incorporated imports worth $13.2 billion. Instead applying the 23.3 percent of total direct combined spending of state plus local governments in these 12 states, it follows that their 2023 expenditures incorporated imports worth $28.7 billion.

[23] The import matrix is available at https://www.bea.gov/industry/input-output-accounts-data. Table 2 uses the input matrix after redefinitions, and combines different categories of state/local operations into a total figure for state and local government. Input matrix data are available only for combined state and local government purchases. Service imports are omitted from Table 2.

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Table 2: 2023 State and Local Government Purchases Import Requirements

Import product category	S/L government requirement ($ billions)
Farms	0.5
Forestry, fishing, and related activities	0.7
Oil and gas extraction	2.2
Mining, except oil and gas	0.9
Utilities	0.04
Wood products	0.9
Nonmetallic mineral products	1.0
Primary metals	0.3
Fabricated metal products	2.4
Machinery	10.5
Computer and electronic products	5.6
Electrical equipment, appliances, and components	3.0
Motor vehicles, bodies and trailers, and parts	41.8
Other transportation equipment	0.06
Furniture and related products	1.3
Miscellaneous manufacturing	2.5
Food and beverage and tobacco products	6.7
Textile mills and textile product mills	1.2
Apparel and leather and allied products	0.7
Paper products	1.6
Printing and related support activities	0.3
Petroleum and coal products	21.1
Chemical products	12.6
Plastics and rubber products	5.2
Total	$ 123.0

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52. This information makes it possible to estimate changes in the costs of goods purchased by state governments due to tariffs announced by the Trump administration citing its authority under the International Emergency Economic Powers Act (IEEPA). The Yale Budget Lab estimates that the Trump administration's IEEPA-based February 1, 2025 orders for tariffs on Canada, Mexico, and China together impose burdens equivalent to an across the board 7.5 percent tariff on all U.S. imports. The Yale Budget Lab also estimates that the Trump administration's IEEPA-based April 2, 2025 order for worldwide tariffs imposes burdens equivalent to an across the board 11.5 percent additional tariff, making the combined burden of the tariffs under these two IEEPA-based orders equivalent to a 19 percent tariff.[24] Of course the actual burden on state governments depends on the extent to which these tariffs are fully enforced, as well as the extent to which state government purchases are concentrated on goods subject to high tariff rates. Table 2 indicates that imports embedded in purchases by state and local governments are particularly concentrated in motor vehicles, which represent one-third of the total. Many (though not all) of these motor vehicle imports are not subject to IEPPA-based tariffs. Using the conservative assumption that the average IEEPA-based tariff rate on imports embedded in state government purchases is just 12 percent, and applying a 100 percent pass-through rate, it follows that the tariffs announced under IEEPA authority raise the costs of direct purchases by the governments of the 12 states that are parties to this action by $1.6 billion per year. Adding local government purchases in these 12 states increases the tariff-induced burden to $3.4 billion per year.

[24] See https://budgetlab.yale.edu/research/fiscal-economic-and-distributional-effects-20-tariffs-china-and-25-tariffs-canada-and-mexico and https://budgetlab.yale.edu/research/where-we-stand-fiscal-economic-and-distributional-effects-all-us-tariffs-enacted-2025-through-april.

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53. The second category of potential state and local government exposure to tariff-related price increases lies in their responsibilities to provide income support to their populations. Table 1 indicates that state and local governments collectively spent $971 billion on public welfare in 2023, of which the state governments of the 12 states that are parties to this action spent $216.4 billion. Tariffs that raise prices faced by consumers erode the value of these welfare payments, requiring additional government expenditures simply to keep beneficiaries whole. Applying the 2024 U.S. ratio of imports to GDP (14.0 percent) to the $216.4 billion welfare expenditure, it follows that, with full pass-through of tariffs to prices, and again very conservatively taking the average tariff rate to be 12 percent, the 12 state governments that are parties to this action would need to increase their welfare spending by $3.6 billion to maintain their real values. Adding local government welfare expenditures increases this total to $4.1 billion. Consequently, incorporating the need to maintain the real purchasing power of welfare expenditures more than doubles the implied burden on state governments because of the IEEPA-related tariffs.

VIII. Evaluation of recent tariff action.

54. The IEEPA tariffs announced by the Trump administration will significantly impair the performance of the U.S. economy. This action is entirely unwarranted by prevailing economic conditions, since far from facing an economic emergency, the U.S. economy in January 2025 was the envy of the world. Indeed, the tariffs that the administration announced have the potential to create a significant economic crisis where one did not previously exist.

55. The IEEPA tariffs will reduce U.S. incomes, including U.S. real wages and consumption. They will impose costs on U.S. consumers, including state governments, without delivering economic benefits in return. The rates at which the tariffs are imposed – 10 percent in some cases, 25 percent in others, and based on U.S. bilateral trade deficits in still others – are unrelated to economic conditions or consequences for the U.S. economy, instead being entirely arbitrary.

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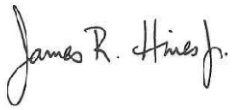
I declare under penalty of perjury under the laws of the United States that, to the best of my knowledge, the foregoing is true and correct.

Executed on May 6, 2025, at Chicago, Illinois.



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Visiting Professor of Economics and Visiting Professor of Law, University of California-Berkeley, 2008-2009.

Visiting Professor of Law, Harvard Law School, 2005.

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Professor of Public Policy, Gerald R. Ford School of Public Policy, University of Michigan, 2001-2005.

Associate Professor of Public Policy, John F. Kennedy School of Government, Harvard University, 1992-1997. Visiting Assistant Professor, 1991-1992.

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Visiting Lecturer, Department of Economics, Harvard University, 1988-1989.

Visiting Assistant Professor, Department of Economics, Columbia University, 1988.

Teaching Fellow, Department of Economics, Harvard University, 1982-1985.

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Research Director, Office of Tax Policy Research, Stephen M. Ross School of Business, University of Michigan, 1997-present.

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Distinguished Fellow, CESifo Group, Germany, 2014-present. Research Fellow, 1999-2014.

International Research Fellow, Centre for Business Taxation, Oxford University, 2007-present.

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International Research Fellow, Institute for Fiscal Studies, London, United Kingdom, 2007-2010.

Visiting Research Associate, STICERD, London School of Economics, London, United Kingdom, 2003-2004.

Visiting Scholar, Institute for International Integration Studies, Trinity College, Dublin, Ireland, 2003.

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Editorial Board, ***American Law and Economics Review***, 2013-present.

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Editorial Advisory Board, ***The Economists' Voice***, 2012-2020. Co-Editor, 2010-2012.

Co-Editor, ***Journal of Public Economics***, 2010-2013.

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Editor, ***FinanzArchiv***, 2000-2003.

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Associate Editor, ***Journal of International Financial Markets, Institutions and Money***, 1997-2013.

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Associate Editor, ***Journal of Regional Science***, 2003-2010.

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Associate Editor, ***Quarterly Journal of Economics***, 1997-2001.

Associate Editor, ***International Tax and Public Finance***, 1993-1998.

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President, International Institute of Public Finance, 2024-present. President-Elect, 2023-2024; Board of Management, 2020-2023.

President, American Law & Economics Association, 2023-2024. Vice President, 2022-2023; Secretary-Treasurer, 2021-2022.

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Scientific Advisory Board, MannheimTaxation ScienceCampus, Germany, 2014-present.

Scientific Advisory Board, Ifo Institute and CESifo Council, Germany, 2016-2024.

Board of Directors, National Tax Association, 2010-2013. Program Chair, National Tax Association annual conference, 2000.

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Academic Advisory Panel, Massachusetts Special Commission on Business Tax Policy, 1992-1993.

Panel of Technical Experts, Social Security Advisory Council, U.S. Social Security Commission, 1990.

Economist, Bureau of Economic Analysis, United States Department of Commerce, 1980-1981.

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Daniel M. Holland Medal, National Tax Association, 2017.

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Researcher of the Year Award, University of Michigan Ross School of Business, 2005.

Contribution to the Research Environment Award, University of Michigan Ross School of Business, 2000.

TEACHING PRIZES

Michigan Economics Society Outstanding Professor Award, University of Michigan, 2010.

Dean's Teaching Honor Roll, Ford School, University of Michigan, 2001, 2002, 2003 and 2005.

Dean's Teaching Award, Kennedy School, Harvard University, 1996 and 1997.

Manuel Carballo Award for Excellence in Teaching, Kennedy School, Harvard University, 1994.

Teaching Prize, Woodrow Wilson School Graduate Student Association, Princeton University, 1990.

Honorable Mention, Allyn Young Teaching Prize, Harvard University, 1983.

Harvard-Danforth Certificate for Excellence in Teaching, Harvard University, 1982.

KEYNOTE ADDRESSES

Max Planck Institute for Tax Law and Public Finance Conference, Berlin, Germany, 2024.

RSIT Conference, University of Tübingen, Germany, 2024.

Inaugural Global Wealth Management Lecture, George Mason University, 2023.

Presidential Address, American Law & Economics Association, Boston MA, 2023.

RIDGE May Forum, Workshop on Public Economics, Montevideo, Uruguay, 2018.

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MannheimTaxation Annual Conference, Mannheim, Germany, 2017.

Urban Economic Policy Annual Conference, Drexel University, Philadelphia PA, 2016.

Royal Society Lecture, Institute for Fiscal Studies, London, United Kingdom, 2014.

Bank of France Conference on Competitiveness and Corporate Taxation, Paris, France, 2014.

Richard Musgrave Lecture, CESifo Group, Munich, Germany, 2014.

Canadian Public Economics Group Annual Conference, Edmonton, Canada, 2013.

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BOOKS

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