

American Enterprise Institute: Trump's Tariffs Are Inflated

From the outset, trade experts and economists have raised concerns about the formula used by the Trump administration to calculate its new tariffs. President Trump's track record shows a persistent conflict with facts and scientific rigor, as well as a tendency to use exaggeration as a tool to manipulate public opinion—both domestically and internationally.

According to the **American Enterprise Institute (AEI)**, a prominent conservative think tank generally aligned with Republican policies, the tariffs announced by the White House are significantly overstated. AEI's observations not only question the technical validity of the formula, but also highlight the risk of diplomatic fallout as trading partners learn the extent of the distortion.

"The Trump team used the wrong value in their tariff calculations," the report states, implying the possibility of deliberate manipulation.

Below is a summary of AEI's main findings:

- **Absence of Technical Rigorosity**

AEI identifies a critical error: the administration used the elasticity of **retail prices** instead of **import prices**. Applying an elasticity of 0.25 instead of the correct value (~0.945) caused the tariffs to be inflated by a factor of four. This is not a minor oversight but a fundamental methodological failure that significantly distorts the results. AEI economists have characterized the mistake as amateurish and unprofessional.

- **Conceptual Clarity**

The report clearly explains the importance of this distinction: in trade policy, the relevant metric is the price paid by importers—not by final consumers. Using the wrong elasticity alters the estimated economic impact entirely. If corrected, tariff rates would drop significantly. For example, Cambodia's 49% tariff would fall to 13%, and Vietnam's from 46% to 12.2%. Most countries would default to the policy's minimum rate of 10%.

Even **Harvard professor Alberto Cavallo**, whose study was cited by the U.S. Trade Representative as a reference, confirmed that his research supports an elasticity closer to 1—not 0.25—validating AEI's critique.

The White House defended its use of retail price elasticity by claiming it better reflects consumer behavior, but this argument appears to be driven more by political convenience than by accepted trade metrics.

- **Political and Economic Implications**

Artificially inflating tariff levels not only undermines the credibility of U.S. trade policy but has already triggered retaliatory measures from affected countries, exacerbating global tensions and

harming the domestic economy. Major financial institutions such as **JPMorgan** now project a recession beginning in the second half of 2025 as a direct consequence of these trade measures.

- **Transparency and Credibility**

AEI economist **Derek Scissors** went further, suggesting the error may not have been accidental. If confirmed, this would point to deliberate political manipulation, representing a serious breach of professionalism and a threat to U.S. institutional integrity.

- **Conclusion**

AEI's analysis is a strong warning against the use of poorly designed economic tools for political or geopolitical gain. A responsible tariff policy must be grounded in sound technical criteria—not in ideological narratives such as the Trump administration's framing of "fair trade" through protectionism.

Far from correcting imbalances, the administration's approach amplifies them, undermining global confidence and destabilizing markets. The fact that this critique comes from a conservative think tank lends it additional weight and credibility.

AEI's report plays a vital role in exposing the technical weaknesses of the administration's tariff policy. Its findings make clear that the formula lacks economic justification and, if left unchecked, could deepen the very problems it claims to address.

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