Discussion of "Transitory and Permanent Import Tariff Shocks in the United States: an Empirical Investigation" by Schmitt-Grohé and Uribe

Adrien Auclert, Stanford

San Francisco Fed, November 2025

Tariffs and the role of economists

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  - or not?! turns out we didn't have either very good models or good evidence!
  - this paper contributes to filling the gap on the empirical side

Effects of transitory vs permanent tariffs

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- Paper uses a key point of theory as motivation for an empirical model
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- Next ask: are tariffs actually inflationary and recessionary, per Fed consensus?
- Using a Cholesky SVAR-style empirical model, find that **no**
  - Temporary tariffs lead to a large **decline** in inflation and an output **boom**!
  - But consumption falls, suggesting a decline in aggregate demand
  - Interpretation: Fed doesn't respond enough to recessionary effect (why boom?)

My discussion

1. What do we know from the empirical literature on the effects of tariffs?
2. What does the empirical model do?
3. Are the effects and their interpretation plausible in light of our models?

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- Limited use for macro
- Diff-in-diff design,
  tells us nothing
  about the aggregate effects!
  (missing intercept)

II.D. Event Study

We visualize the effects of the tariff war on trade using an event-study framework. To assess impacts, we compare the trends of targeted varieties (those directly affected by a tariff increase) to varieties not targeted in the following specification:

$$\ln y_{igt} = \alpha_{ig} + \alpha_{gt} + \alpha_{it} + \sum_{j=-6}^{6} \beta_{0j} I\left(event_{igt} = j\right) + \sum_{j=-6}^{6} \beta_{1j} I\left(event_{igt} = j\right) \times target_{ig} + \epsilon_{igt}. \quad (1)$$

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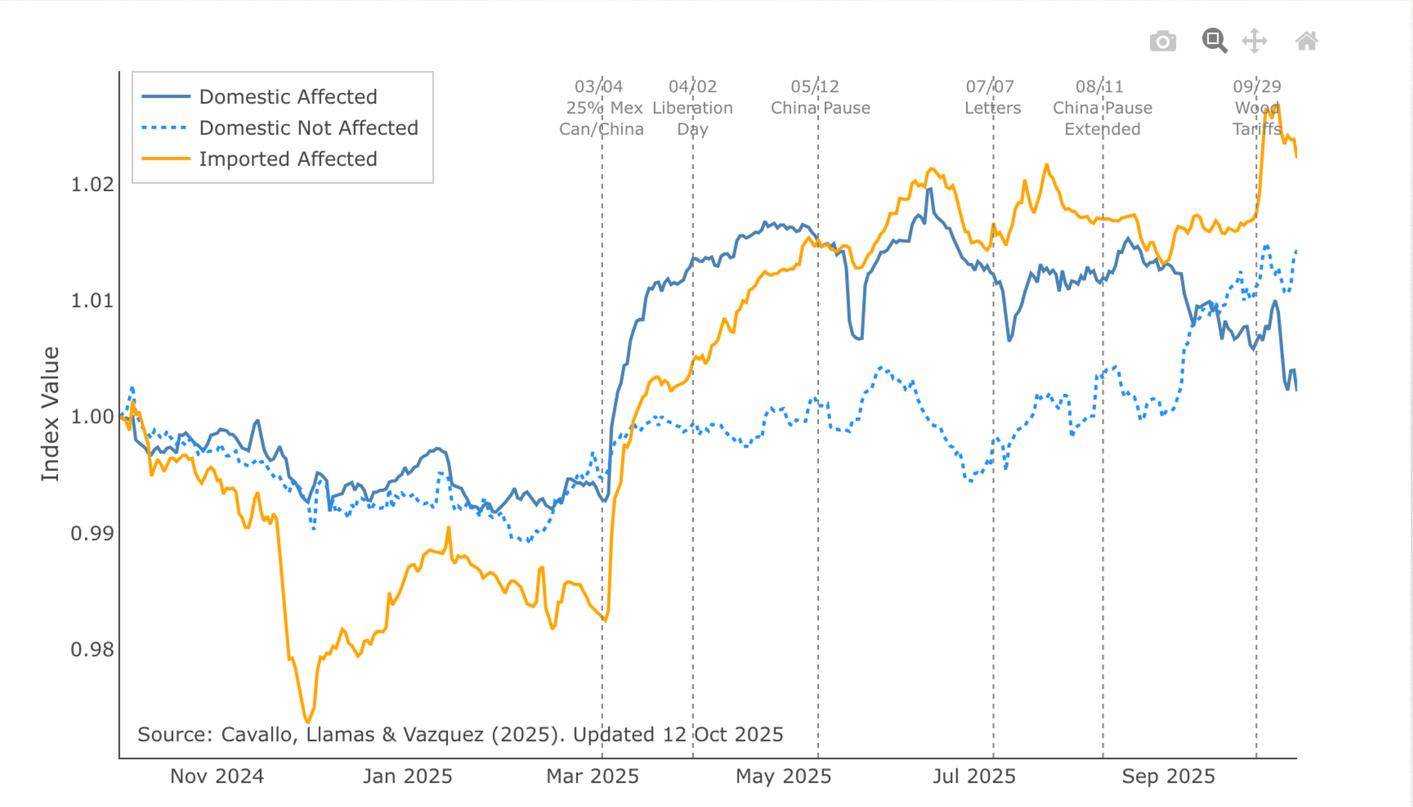
[Cavallo, Llamas, Vasquez]



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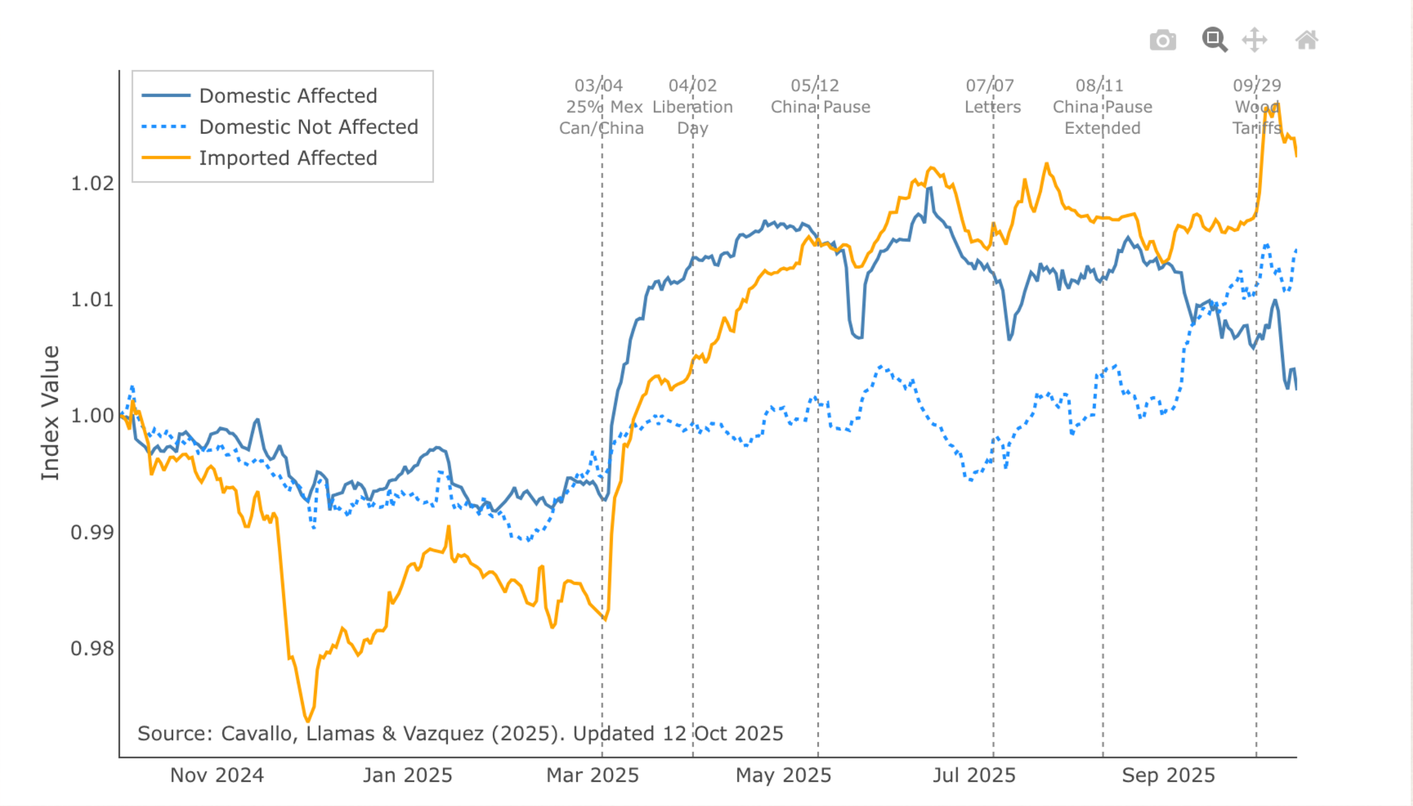

- Of course counterfactual is unknown
- But suggests passthrough not just to imports, but competing domestic goods also

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  - Structural-VAR type identification (~ this paper)
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- Both papers rely on assumption that tariffs do not respond to the macroeconomy

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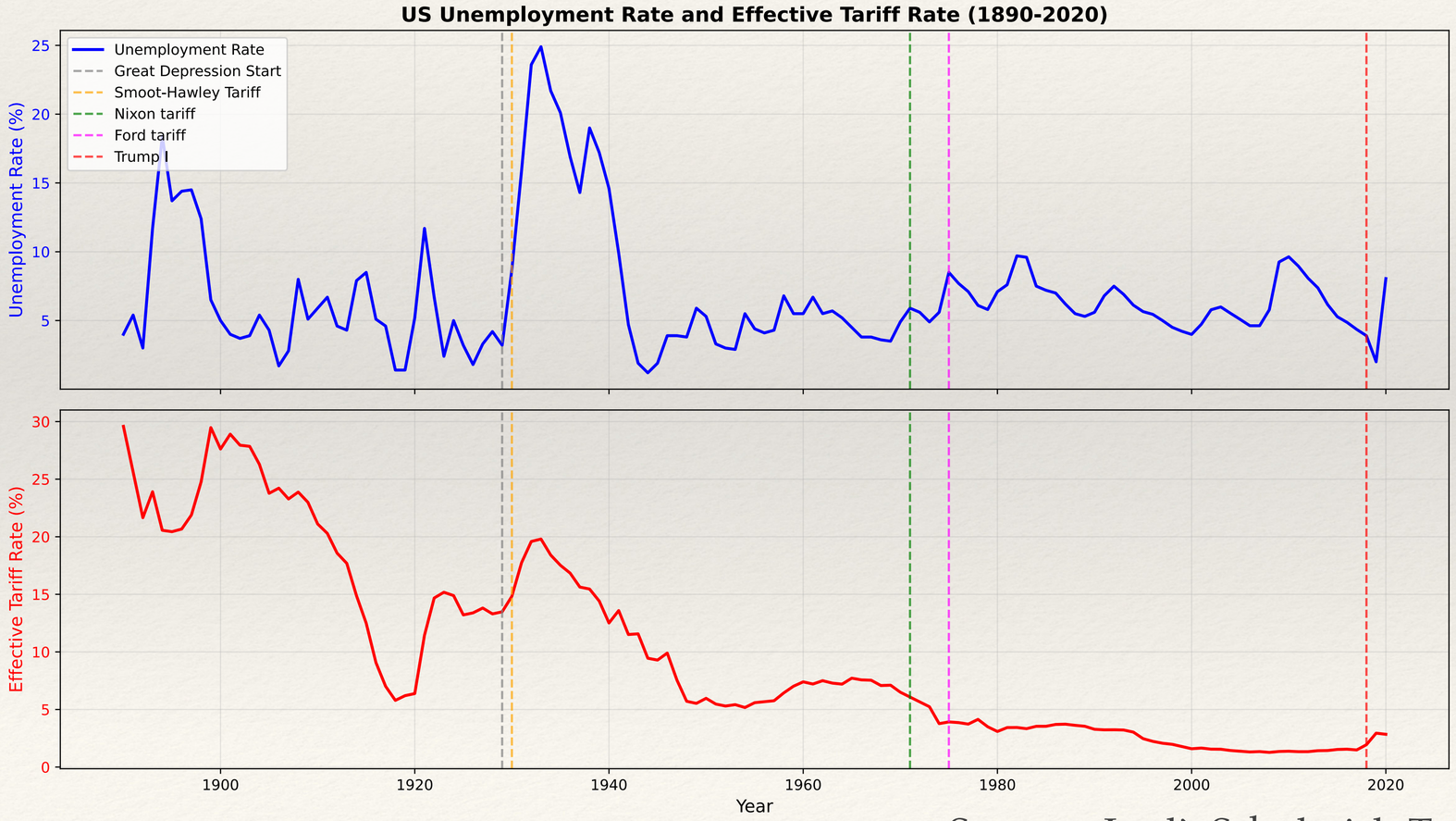
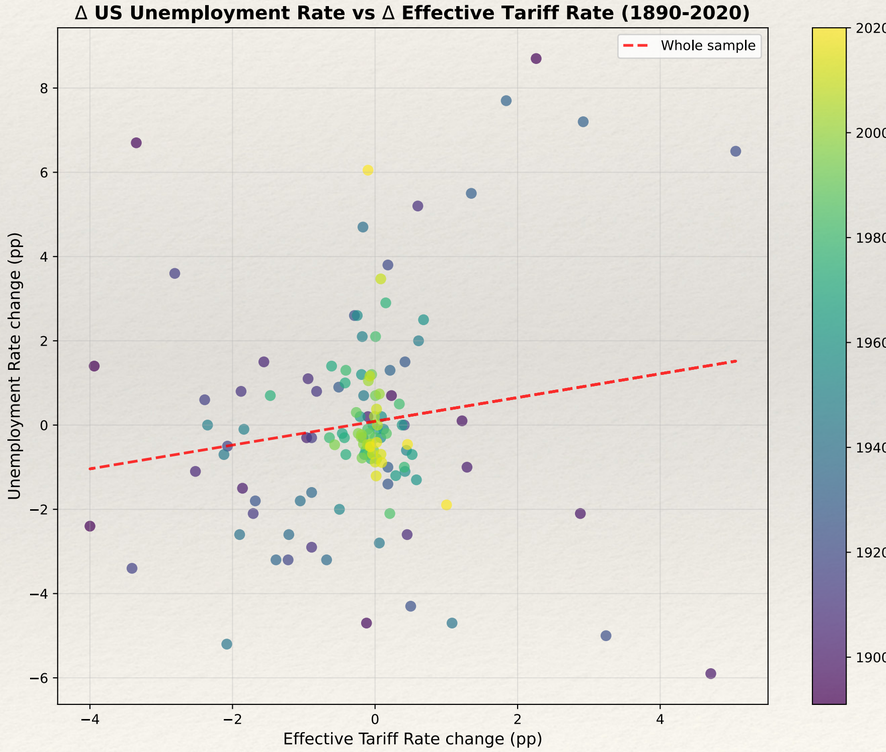
- [the model] is identified by assuming that C is lower triangular […] the tariff shock is the only shock that affects the import tariff rate contemporaneously
  - ie, output shock cannot affect tariff in the current period
- This is the opposite of the classic Cholesky assumption for monetary policy
  - ie, monetary shock cannot affect output in the current period

Do tariffs not respond to activity?

- This may seem surprising if you think of Smooth-Hawley tariff





Sources: Jordà-Schularick-Taylor Macrohistory Database, Yale Budget Lab

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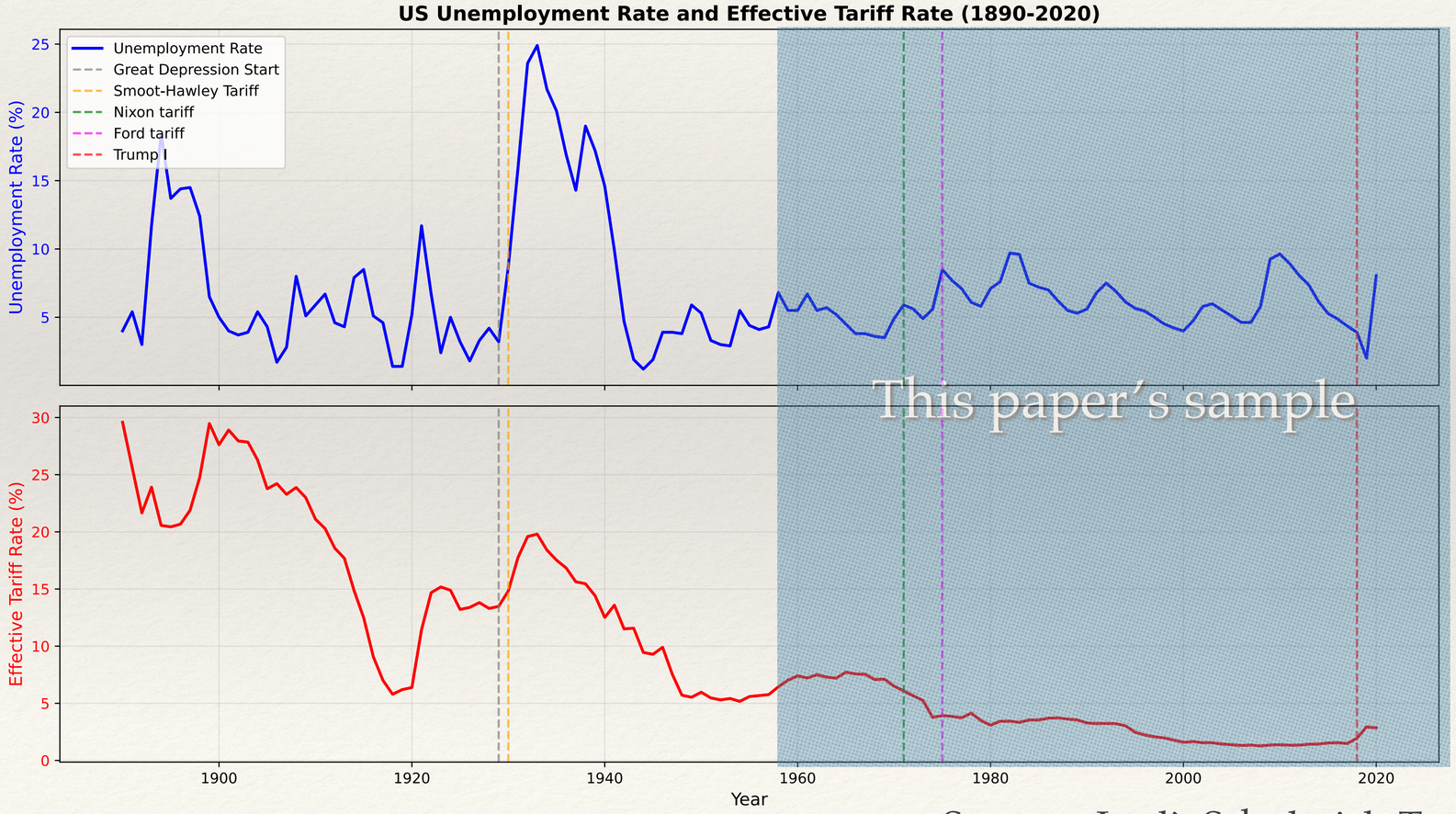

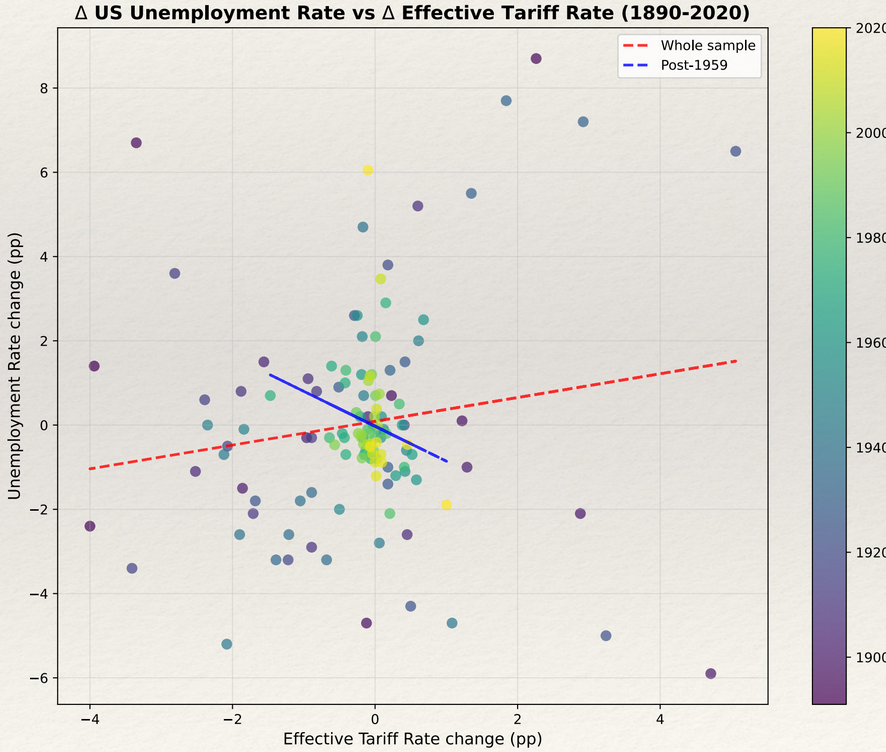

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Further support

- The recent Barnichon-Singh paper also explicitly argues this this assumption:

> In this paper we exploit 150 years of tariff policy in the US and abroad to estimate the short-run effects of tariff shocks on macro aggregates. A careful review of the major changes in US tariff policy since 1870 shows no systematic relation between the state of the cycle and the direction of the tariff changes, as partisan differences on the effects and desirability of tariffs led to opposite policy responses to similar economic conditions. Exploiting this quasi-random nature of tariff variations, we find that a tariff hike raises unemployment (lowers economic activity) and lowers inflation. Using only tariff changes driven by long-run considerations—a traditional narrative identification—gives similar results. We also obtain similar results if we restrict the sample to the modern post World War II period or if we use independent variation from other countries (France and the UK). These findings point towards tariff shocks acting through an aggregate demand channel.

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- …and reaches a similar conclusion (though no output boom!)

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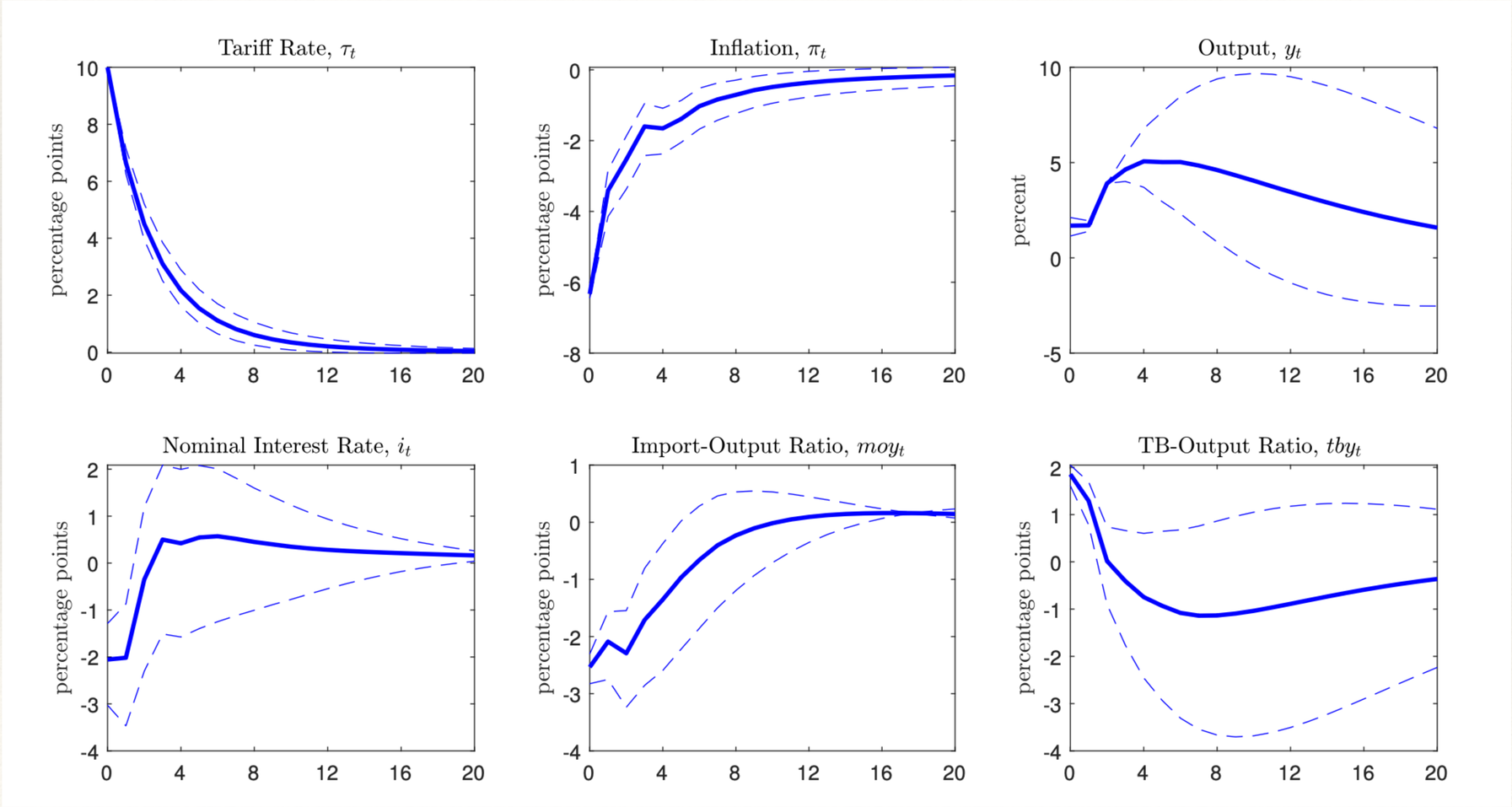
Impulse response to transitory tariff shock

- Main result: transitory 10pp tariff lowers inflation by 6pp, raises output by 5%



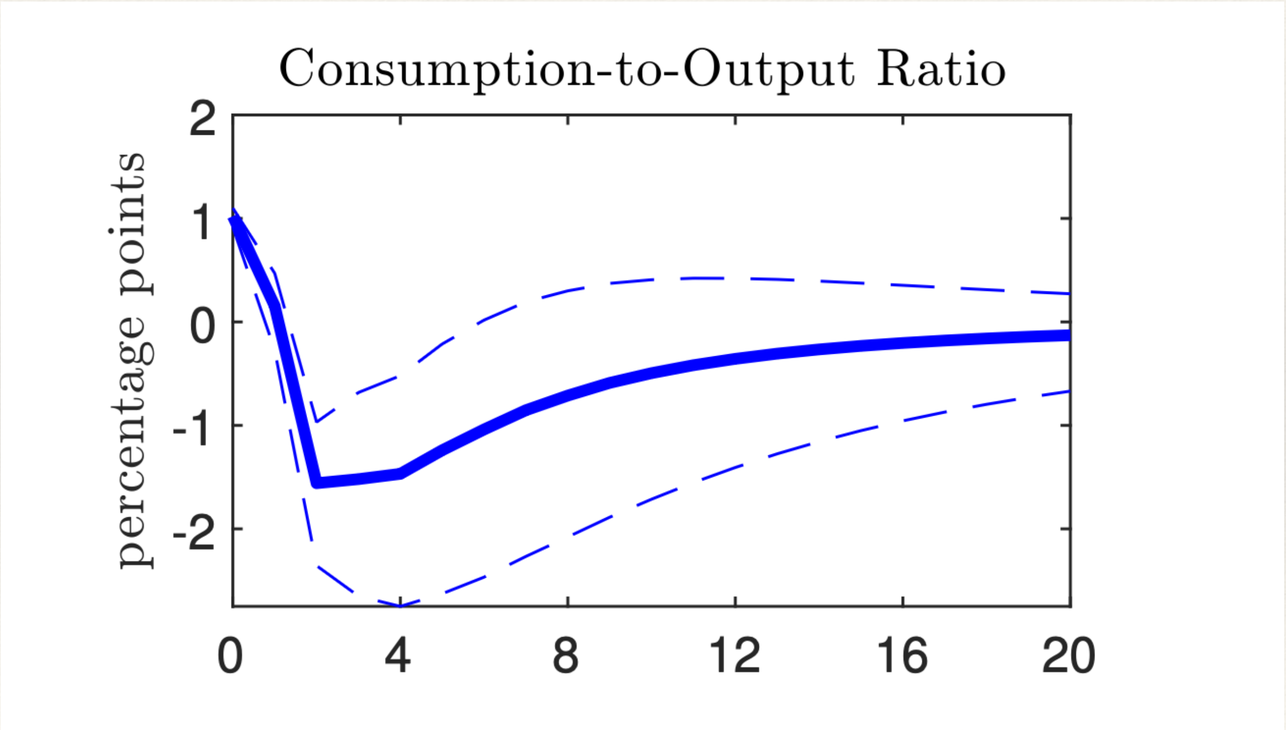
"tariffs are neither inflationary nor contractionary"…

magnitudes would justify more saying

"tariffs are very deflationary and quite expansionary"

Falling aggregate demand interpretation

- Output boom but consumption bust, suggestive of aggregate demand channel
  tariffs ↑ → aggregate demand ↓ → domestic inflation ↓ via Phillips curve



- Thankfully I know of one model of exactly this effect…

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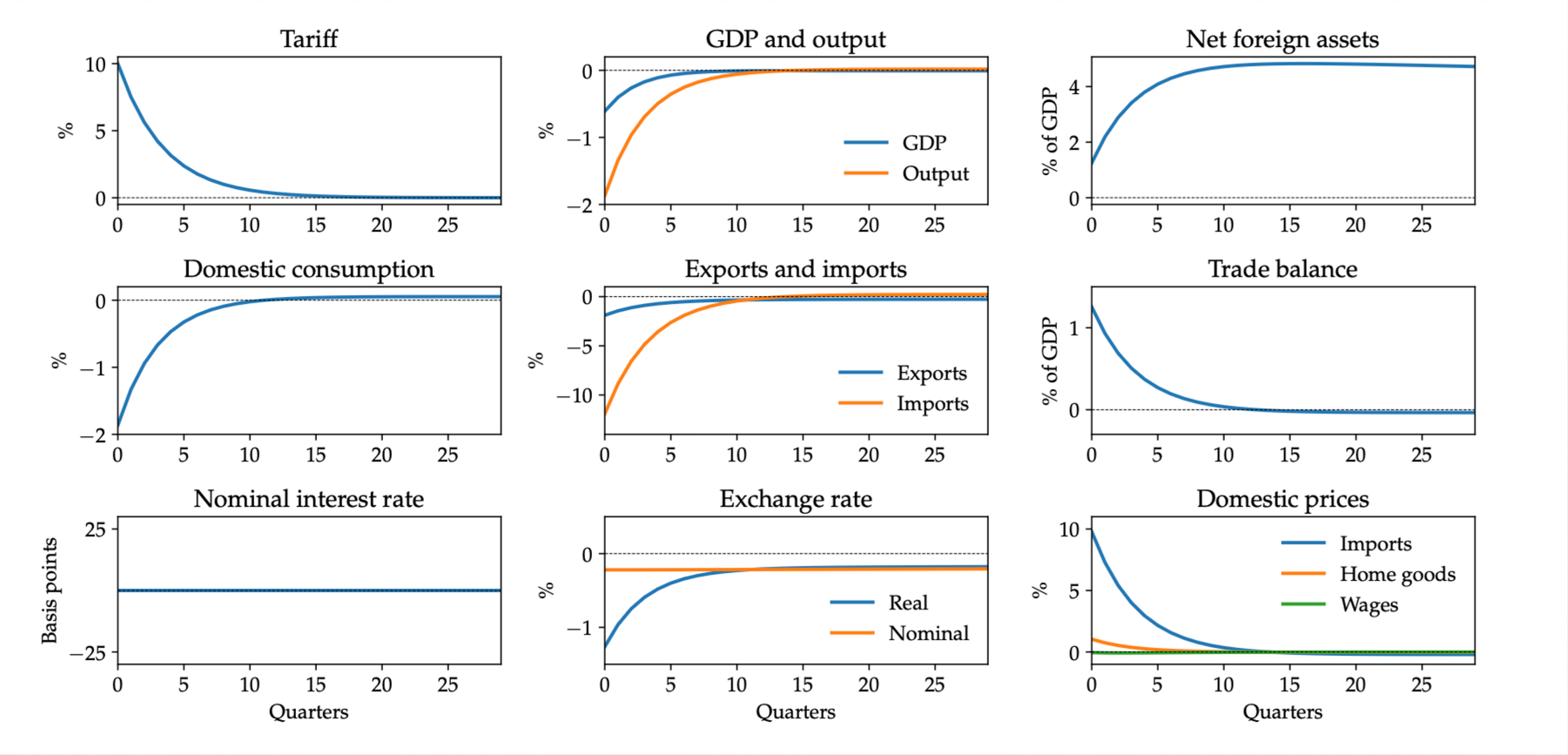
- Can this model explain the other magnitudes observed?

Magnitudes implied by ARS model



- Depends of course on param values and mon. pol assumption, but hard to explain:
- 1) why inflation falls by that much (super flex wages?), 2) why GDP rises at all !

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- Could explain identification more carefully
  (especially for the “endogenous import tariff case” in section 4)
- Should compare empirical magnitudes to predictions from models of the negative aggregate demand effects of tariff shocks to assess plausibility