Week of April 1, 2025

April Fools?! Right?! I wanted to wait to write my note until after Tuesday's Liberation Day tariff announcements. Then I waited another two days. I don't want to be Captain Hindsight, but the market's surprise feels foolish. The macro models were pricing in a *5% hike* in net tariff rates. The actual number was 11.5%. The Yale Budget Lab has projected[1] the tariffs to drive a 2.3% increase in short-term prices, costing the average American household $3,800. These effects are *only* from the immediate impact of the tariffs themselves, without any geopolitical action or supply chain restructuring. After watching the stock market free fall farther than during the beginning of the pandemic, I've been stuck thinking about *resilience*. The Trump administration is correct insofar as our economy has become hyper-focused on efficiency. This need to maximize every second, mile and dollar has done wonders for corporate profit margins and the price and breadth of choice of consumer goods. Our economy for 50 years has been driven by consumptive convenience: in-demand dollar-denominated financial assets, the just-in-time supply chains, the offshoring of environmental and social accountability. Tariffs will solve none of these problems. Instead, we are careening toward a world of *realpolitik*-formed spheres of influence. As the global system changes in real time, we need to reflect on which of our foundational assumptions are *resilient* and which ones will break.

The philosophical thrust of tariffs is that **US consumption** can be wielded as a bludgeon. This seems true to me; Americans consume *a lot*. In the past few years, the American consumer has displayed an incredible resilience in the face of COVID and inflation and post-inflation recession fears. Can they keep up that incredible ability to blindly spend? How much would consumptive patterns need to change for tariffs to be less effective? I'm keeping an eye on private debt to GDP ratios. According to the New York Fed quarterly report, Q4 2024 US household debt reached a new high of $18 trillion, or around 70% of GDP. The long-term trend has been a decline in this ratio since a peak around 105% right before the Great Financial Crisis. However since COVID, the trend has flattened. Despite high interest rates, Americans have continued borrowing.

I find the arguments minimizing the economic impact of tariffs deeply unsettling for one reason: we have not had serious implementation of protectionist policies in a time with deeply **interconnected global supply chains**. The complexity of production, transportation, and consumption has grown in orders of magnitude in recent decades. Let's leave the tangled web of intermediacy that goes into sophisticated technology like cars or smartphones.

1. *Where We Stand: The Fiscal, Economic, and Distributional Effects of All U.S. Tariffs Enacted in 2025 Through April 2.* (2025, April 2). The Budget Lab at Yale. https://budgetlab.yale.edu/research/where-we-stand-fiscal-economic-and-distributional-effects-all-us-tariffs-enacted-2025-through-april

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