

*Why is Trump so upset about Fed research into his trade policies?*

## The Embarrassing Truth About Tariffs

### REVIEW & OUTLOOK

The White House this week opened a new front in its war on the Federal Reserve: a fight about Fed research on the consequences of President Trump's tariffs. If the tariffs are such an unambiguous economic and political winner, why is the Administration so defensive about them?

The flap concerns the analysis we told you about last week by four economists at the Federal Reserve Bank of New York. They found that American households and businesses are bearing nearly 90% of the cost of the Trump tariffs, contrary to Mr. Trump's claim that foreigners will pay.

Clearly the White House is worried that voters might conclude this research aligns with their own experience. Kevin Hassett, director of the National Economic Council, took to CNBC Wednesday to pan the New York Fed research as "the worst paper I've ever seen in the history of the Federal Reserve System" and suggested the people who wrote and published it should be "disciplined." Disciplined how? Put in stocks? For a tariff paper?

The Fed analysis aligns with other research into the distribution of tariff costs from Harvard economists and Germany's Kiel Institute—and with common sense. There isn't widespread evidence that foreign producers are cutting their prices to offset the tariffs, the main mechanism by which foreigners would "pay" for the border taxes.

Nor is the dollar strengthening, which is the other possible mechanism for making foreigners pay (we'll spare you the equations). Instead the tariffs are causing an increase in post-tariff prices of those goods that are still imported, alongside a modest decrease in the volume of imports. Americans pay higher prices, or "pay" in the form of less choice.

In his more honest moments, Mr. Trump admits this is the effect, if not the intention, of his tariffs. <sup>Note</sup> That's what he meant when he said last year that Americans may have to buy fewer dolls for their children as a result of his trade policies. The handful of economists who support his tariffs believe the border taxes rebalance the global economy specifically by deterring American consumption.

The Fed research and similar papers try to put some numbers on these phenomena. The serious kernel of Mr. Hassett's complaint, to the extent there is one, is that the New York Fed economists overlooked a wide range of other ways the tariffs could affect the U.S. economy, such as stimulating reshoring of production and an increase in domestic wages.

But such an analysis also probably wouldn't flatter the Trump tariffs. So far the manufacturing boom Mr. Trump promised hasn't appeared, as manufacturing jobs are down over the last year. The New York Fed and other research on cost distribution shows one reason why: To the extent American companies eat some of the costs of tariffs, that's less cash available for investment and hiring. <sup>Note</sup>

The Trump economy has been as healthy as it is despite the tariffs, not because of them. The market response to his April 2025 "liberation" tariffs was so negative that the President quickly withdrew them and negotiated lower tariffs as part of "trade deals" that may turn out to be partly illusory. He has also laced the tariffs with multiple exemptions. A dollop of tax reform, a big dose of deregulation and an AI investment boom are allowing the economy to cope with the tariff distortions and uncertainty.

The attack on the Fed over this research is a symptom of the political problem the White House is encountering from tariffs. Thirteen months into Mr. Trump's term and with elections looming, opinion polls show voters remain worried about the economy. This implies they don't see a payoff from the tariffs (other than what they're paying at the store).

Mr. Trump's ire at current Fed Chairman Jerome Powell increased the more Mr. Powell warned that tariffs might raise prices. The Administration may be trying to warn Kevin Warsh, Mr. Trump's nominee to replace Mr. Powell, away from a similar approach.

Here's a better idea: If your tariff policy is so unpopular that you have to bully the central bank into not talking about it, maybe it's time for a new policy.

---

Copyright (c)2026 Dow Jones & Company, Inc. All Rights Reserved. 2/20/2026

Powered by TECNAVIA

---

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit [djreprints.com](http://djreprints.com).

---

Friday, 02/20/2026 Page .A014

Copyright (c)2026 Dow Jones & Company, Inc. All Rights Reserved. 2/20/2026

For personal, non-commercial use only.