Tariffs will pay for tax cuts for the wealthy

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From the start of its tariff war against the rest of the world, the Trump administration, from the president down, had been promoting the Big Lie that its sweeping levies—the highest since the disastrous days of the 1930s—benefit the American population, paid for by foreign countries and corporations.

Trump knows these claims are false and that tariffs are the equivalent of a sales tax on imported goods paid for at the border to the government by the importer and then passed to the final consumer or the company using the goods. If not passed on, either by the importer or the company using the goods, then the tariff is paid for by a lowering of the firm's profits because its cost structure has been raised.

A report issued by the non-partisan Congressional Budget Office (CBO) last Friday has revealed one of the central mechanisms at work in the tariff war. It is a means by which a domestic tax is levied to pay for the massive tax-cut handouts to the corporations and the ultra-wealthy in Trump's so-called "big beautiful budget bill."

The CBO said the tariffs announced so far this year would raise more than $4 trillion in the coming decade and be used to cut government deficits by that amount. It said the tariff would lower the primary deficits by $3.3 trillion and the interest bill by $700 billion.

It has previously estimated that the hit to government revenue from the Trump budget will be $4.1 trillion over the next decade. In other words, in essence the tariffs are an impost on the domestic economy to finance the tax cuts.

The CBO's estimate of the impact of the budget deficit has been dismissed by the Trump regime, but it eagerly seized on the revenue figures. Trump said it showed he was "right" and tariff revenues "are going to reduce the deficit by numbers far greater that ever expected—unheard of."

US Treasury Secretary Scott Bessent has said he expects the revenue from tariffs to rise "substantially" from his previous estimates.

"We are going to bring down the deficit to GDP. We'll start paying down the debt and then at that point that can be used to as an offset to the American people," he told CNBC.

The tariff hikes have yet to show up fully in consumer inflation data because some firms have taken the decision—at least to this point—not to raise the prices in order to retain revenue and market share. But this situation cannot continue indefinitely, and the tariff hikes are already starting to show up in consumer durables.

In a recent note George Saravelos of Deutsche Bank said: "The top-down macro evidence is clear: Americans are mostly paying for the tariffs. There is likely to be more pressure on US consumer prices in the pipeline."

US corporations have already taken a major hit. General Motors has said that the tariff increases have reduced its profits by more than $1 billion. Nike faces cost increases of $1 billion and has said it is planning "surgical" prices to try to counter their effect on its bottom line.

GM has said it will absorb the tariff blow, as have other firms. But the auto giant is not some kind of benevolent fund. It is engaged in a desperate dog-eat-dog with other auto firms for profit and market share. The laws of this struggle in the capitalist system compel it to try to recoup the tariff costs it has absorbed by extracting greater profits from its workforce, via job cuts and intensified exploitation.

While the tariff hikes have yet to show up fully in official data—though the lived experience of working-class families tells a different story—they are starting to make their impact.

Data released earlier this month showed that wholesale prices, tracked by the producer-price index

(PPI) were 3.3 percent higher in July than the previous year. The reading from the Bureau of Labor Statistics (BLS), the head of which was sacked by Trump at the start of the month after a downbeat jobs report, was well above the 2.4 percent increase in June and the expectation of a 2.5 percent rise.

Commenting on the data to the *Financial Times* (FT), Bill Adams chief economist at Comerica Bank said: “Tariffs are causing business to raise the prices they charge each other, which will show up in higher consumer prices over time.”

Chris Zaccarelli, chief investment officer at an asset management firm, told the FT that the rise in the wholesale index “shows inflation is coursing through the economy, even if it hasn’t been felt by consumers yet.”

In an editorial on the PPI jump, the *Wall Street Journal* (WSJ), a mouthpiece for sections of the ruling class opposed to Trump’s tariff policies because they contravene the “free market,” said the figures showed we now know who is paying the tariffs.

Trump administration officials were anxious to convince voters that someone else, somewhere else in the world would pay for them instead of American households. But the inflation data told a different story, WSJ said.

The PPI index got worse the closer you looked, it said. Goods and services both experienced “substantial” inflation with rises of 0.7 percent and 1.1 percent month-on-month respectively. And goods and services related to business investment were becoming pricier. It warned that companies which had absorbed the increased costs, at least for the time being, would not be able to do so forever.

The emergence of the facts concerning the impact of Trump’s tariffs on the American economy and the working class in the form of rising prices, job cuts and worsening conditions will not halt the Big Lie campaign of the Trump regime.

Rather it will be intensified, along with the push to turn once independent organisations, which sought to supply accurate information, into compliant propaganda outlets. That is the meaning of the sacking of the BLS head.

As Peter Tchir, head of macro strategy at an investment bank, commented wryly to the FT after the release of the PPI data: “[I]f I were the person who produced the report, I would probably be dusting off my resume.”