Avigail: Professor Chinn, welcome to No Jargon.

Menzie: Well, thanks for having me on Avigail.

Avigail: I want to just set the stage for our listeners. We're recording this episode on January 28th. That means that we are one week into the second year of President Trump's second term. So a lot has happened over the past year. It's actually kind of bewildering that it has only been a year. And I wanted to ask you, from your perspective as an economist, what are the most important economic stories you think that people should understand from one year of this administration?

Menzie: Well, you're absolutely right. It's been a bewildering year, in many dimensions, but also in economic terms. I've really had to sort of rip up some of my lecture notes for the classes I teach as a consequence. In terms of the impact upon the economy, I think the way in which we undertake our relations, trade relations with the rest of the world, has been the biggest story.

We have gone from having a tariff rate that is a tax rate on imported goods that was about one and a half percent. To, you know, in those mid, 2010 or so, to, let's say 3% under Trump in the first trade war. And now it's at about 12.5%. And that's a number that you have to go back to the 1930s, in the Hawley-Smoot tariffs, in order to see.

Now that's done several things. It's really made importing stuff into America a lot more expensive. It's forced companies to quickly readjust how they're doing business and how much they're interlinked with the rest of the world. It's also forced our major trading partners to say, we're not sure we can trust any commitments for the United States in trade or otherwise going into the future. So, should we be dependent upon the US anymore in the way we have been in the year of globalization? And finally, and perhaps most importantly, for the macroeconomics, it's introduced tremendous policy uncertainty so that governments and companies and consumers have a really hard time deciding what to do and when you have a hard time trying to figure out what is the best route forward, a lot of times people just opt to put off decisions.

Avigail: You've written a lot about uncertainty, which is kind of what you were just alluding to, as an economic force. Everything you've just said indicates how this administration has created a lot of uncertainty, especially around international trade. How does this ongoing trade uncertainty affect businesses and households even before price changes become visible? So that's, you know, at the consumer level where we're tending to see it. But, how are we getting from sort of like the threat and implementation of tariffs to the cash register?

Menzie: I mean if we talk about the cash register effect, which is, you know, what a lot of discussion focused on, especially when Trump first announced his love for tariffs and then Liberation Day in April. It is true that these tariffs increase costs for imported goods a lot. If people want a number for what that has done, it's probably meant that prices in 2025 were about point seven of a percentage point higher than they would've otherwise been in the absence of the tariffs. And you might say, well, 0.7% is not that high, but it's not spread evenly.

And so a lot of things that you might want a lot of are imported, like clothes, well, they're gonna show much bigger increases in prices. I mean, for me, what would be important would be coffee. And so coffee prices certainly have jumped up a lot more than just 0.7%.

So there is certainly that effective cash register effect, but the uncertainty about the direction of policy is more important for two reasons. We're more interlinked with the rest of the world than we were in the, let's say the 1930s. We have tremendous supply chains that extend all over the world so that, you know, if you make an iPhone, it's not just composed of components, you know, from the US or Japan. It's like pieces are done everywhere around the world: Singapore or China, maybe Malaysia, as well as the United States. And so you have all these little things crisscrossing the world based upon carefully calibrated supply chains.

What do these tariffs do? Well, the threat of the tariffs, the imposition of the tariffs, whether the tariffs are collected efficiently and effectively, by the customs bureau, now the CBP. Finally, will the tariffs remain in place? If they are actually implemented after they've been declared, all those things really stop things in their tracks. I mean, for the first year, you can imagine a lot of firms are just saying, okay, hold still until we can figure out what's going on.

What does Trump really want? I'm not sure that people have really figured out what Trump really wants, even after this year of declarations, rescissions, you know, chickening out quote unquote, we just don't know. And if you just look at the last week, what we have seen there was, well, two weeks, Greenland, and the threats on tariffs on Europe over Greenland, and then that threat being taken away temporarily.

We also, you know, in the background where there was this threat against Korea, and now we have another threat against Canada if they actually go through with a deal with the Chinese. You can imagine if you're a business leader and you're trying to hedge your bets yet make a profit, you view this as all just chaos.

Avigail: Yeah, absolutely. Can you expand a little bit more on how uncertainty in the supply chain is then affecting consumers? You know, you already sort of spoke about the 0.7%. average increase in costs, though, as you mentioned, spread very unevenly, and I'm very much with you about the coffee.

Menzie: Yes.

Avigail: As consumers, how are we, and maybe it's that we're not experiencing it yet, but as time goes on, how is that year of lockup kind of going to trickle down to us?

Menzie: Why was the price increase somewhat delayed? You know, because essentially the president declared this major change, a shocking change in our trade relationships with the rest of the world at the beginning of April. You know, if you remember Liberation Day, as he called it, that caused a meltdown in world financial markets, which then is about the only thing that forced Trump to back down at least temporarily. If he had implemented the tariffs that he promised on Liberation Day, these are reciprocal tariffs, and they had all been placed into effect right away, we would've jumped up to something like a 19% tax on everything that came into the U.S.

As it turned out, he chickened out, or, you know, you can use a, a nicer phrase, but he temporarily delayed and, and sort of sporadically implemented various tariffs. What that meant is that the actual impact of the price increases of the taxes being levied on imported goods didn't take place until maybe May. And then moving on to higher levels in the succeeding months. So, most of the tax increases came in the latter half of the year. But the firms had the advanced warnings; they knew the tariffs were coming, so they did what? They imported everything they could before the tariffs took effect.

It's like if you knew a tax was coming on cigarettes and you needed to have a bunch of cigarettes, well, you would buy all your cigarettes before the tax went into effect, as much as you could. Well, that's what happened. So the firm stockpiled tremendous amounts of goods so that they didn't have to raise the prices to match their costs right off the bat.

How long will that last? We're not clear. I think we're running it towards the end of those stockpiles that we got. And so eventually the firms are gonna pass on even more price increases to the consumers. So we have uncertainty about what goods are gonna have price increases. We have uncertainty about when those prices will rise. We have uncertainty about the final extent of those price increases.

In principle, if we slap on the tariffs and the tariffs stay in place, eventually this will all work out through the system. And we'll finally know, you know, what price, how much higher the price of a bag of coffee is gonna be. But what we've seen is that the president continues to threaten at least higher tariffs. Presumably, some of them will actually be implemented.

So we, the consumer, have no reassurance on that count about where the prices are gonna be going into the future. So the uncertainty is everywhere in decision making. You don't know how much you have to pay for coffee or groceries because lots of vegetables, fresh fruits and vegetables are imported. You don't have any certainty there, at least about those things going forward.

And what does that do? That would tend to deter spending. I mean, if I were uncertain about the direction in the future, as a consumer, I would say, okay, time to tighten my belt a little bit. And, you know, not go out to a restaurant as often, not to go as to as many movies. Maybe don't buy that extra car that you might need or delay the purchase of a car that you absolutely do need. All those sorts of things. Actually, the more durable the goods, like a refrigerator or a washing machine or a car, the bigger the impact of the uncertainty about the future is gonna have. So that's all presumably slowing down the economy, below what it otherwise would be.

Avigail: What about for those of us who are invested in the stock market, how is this uncertainty affecting individuals' stock portfolios or their investments?

Menzie: Certainly on the surface, it seems like it's had little effect. You know, because the Standard and Poor's 500, S&P 500, has hit new records just recently, despite all, you know, a year of tariffs and uncertainty with regard to other policies the government's implementing. But I think that's a little misleading, because, if you look outside of, let's say the Magnificent Seven, high-tech stocks like Google, Meta, Tesla, and so forth, you'll see the S&P 500 has barely moved for those guys, in terms of their price to earnings ratio, that is what's the price of their stock relative to what you think their earnings will be.

Really the gains are concentrated in these sorts of technology information communications related firms, where it seems like this tariff uncertainty has had minimal effect. These guys, these companies are going full hog in terms of investment. Because they're gambling on winning the race for AI. Whereas for the sort of run-of-the-mill company that's importing stuff, exporting stuff, you know, and dealing with the consumer, those are just, you know, they're not doing badly, but they're not doing as well.

So you probably say that had there not been the tariffs, that sector of the economy would be doing better. At the moment it's not a big deal, I guess, in terms of portfolios 'cause you can't avoid the Magnificent Seven, information technology stocks, in any portfolio, that does make us kind of reliant upon them. And should there be a crash in that sector? Well, you would hope to have a vibrant non-IT sector going forward, but I think we've hobbled that with the tariffs.

Avigail: With this wide mix of policy choices and this uncertainty and affordability pressure on household budgets, what economic signals should people be trying to pay attention to? Are there indicators beyond inflation or GDP numbers that kind of give people a clearer picture of how their household income, their investments are really doing?

Menzie: What we have is in some sense a K-shaped economy. This is a popular term. It's, actually, I don't know if it's a buzzword or meme or a jargon. So I'm gonna be violating the rules, but the K refers to the fact that the rich are getting richer and the poor are getting poorer.

Typically, I haven't given this much credence in terms of thinking about how the macro economy is evolving. But I think in this case, the previous year, I think it's important. And I say it's important because, by the indicator of gross domestic product or GDP, which people talk about a lot as the broadest indicator of economic activity, things are looking pretty good.

You know, we're growing above 3%, prospects for growth above 2.5% for the fourth quarter, and maybe two point a half percent into the next year. No, those look like pretty good prospects, compared to the fact that, you know, we used to think that the growth rate of the U.S. economy over long periods was something like two and a little bit more percent.

So on that metric, you know, things are looking good. But if you look at employment, employment over the last six months has been pretty flat. And you know, from my experience, it's pretty strange to see that dichotomies show up so strongly in the data. It has shown up in the data before, but it's remarkable at this phase of the business cycle for it to be showing up so that one indicator is growing rapidly, you know, some indicator of output and income, and yet employment, which is like a measure of the labor market. So not really, you know, the super rich, the executives and so forth. But, you know, most of us were employed in a company, that's pretty flat and it may be even shrinking. Put those two things together and it says that for the average person, I think I would want to look at some measure of labor, the labor market, employment.

Let's say the median wage, as opposed to the average wage. So median is, well look at all the wages across groups of individuals and pick the middle, as opposed to take all the wages earned by everybody and divide by all the people. You can see that the second one is the average and that will be pushed up by the fact that a bunch of people who are, let's say, you know, at the higher end of the wage scale, you know, engineers or scientists and so forth.

I think to track the state of the economy and how it impacts ordinary people, you have to make a distinction between the aggregate and the average and the median, particularly for the labor market. So that's one distinction I take a look at. And so employment is in some sense more important than what I might typically look at, which is GDP.

The other thing is to say, well, the president made some big promises about how tariffs were going to make things better for workers in manufacturing who would bring back jobs to the United States. And that has a surface appeal. You know, we put on tariff on steel and so that means that Japanese steel, Korean steel that comes into the US is gonna now be disadvantaged 'cause it's got a tax on it. And so, you'll be induced to switch to, let's say, American Steel and the more American steel you make, the more workers you have in the steel industry. And that's actually happened.

But we, you and I, don't consume blocks of steel. We consume cars. And so you ask yourself, all the things that were made with those blocks of steel, cars, well buildings, 'cause you might use a lot of steel. You might actually have steel beams instead of wood beams. Well, those have all gone up in price. When those things cost more as an input to firms, firms will either do two things. They'll either raise their prices, or they'll cut production, or they'll do some combination of both in order to maximize profits. And so, just like in the 2018 example, what you see is that when you raise tariffs a much lower amount, but we raised tariffs then, you see the steel industry specifically improve in employment, but all the industries that use steel, they take a hit and they have employment and output lower than you otherwise would've.

You know, if you look at the numbers recently, then manufacturing employment is continuing to drop. Trump promised with tariffs that that would be the magic bullet, but employment keeps on dropping no matter pretty much which way you count it, whatever indicator you look at. What's true is actually manufacturing output has increased a little bit. But that's often been the case that output is growing faster than employment.

I mean, for me, being in the labor force, what do I care more about? I think I care more about whether I'm employed or not.

Avigail: So this is so interesting to me because like in all, you know, in three areas we've talked about, so the cash register investments and now, in the economy more broadly, you've really pointed to ways that we need to disambiguate or, or disaggregate the data, right?

So if we look at the whole, the picture looks rosy or okay. But once we start to really drill down and remove the areas, like the quote-unquote best-looking areas. So, the goods that haven't experienced any inflation, the stocks that are the sort of, what did you call them? The, like the tech, the big seven or

Menzie: Yeah. Magnificent Seven. Yeah.

Avigail: Yeah, the Magnificent Seven. There we go, and then once we sort of look at the employment data, it really starts to show that for the middle class and below, the economy is, you know, like people's lived experience of the affordability crisis is real.

Menzie: It's true that tariffs have squeezed people because in general what they've done is they've raised, you know, tariffs in general that have been applied are regressive in the sense that lower-income households consume larger proportions of goods and services, but goods that are imported and where the tariffs have been applied. Higher-income households consume a lot more services, which in general, you know, there's no taxes placed upon them, not as many services are imported.

So it's a regressive taxation that's being imposed, by way of tariffs, at the same time that you are reducing the opportunities for being hired or being paid a higher wage because you've made it more difficult for firms to compete.

I haven't even mentioned the fact that, to the extent we have people working in making things that we export, you think about it, we've made everything we import more expensive, not everything, but you know, a lot of things, which then makes it harder for the firms that export to export their goods at a price that's competitive. So, you know, we're hurting employment opportunities in a lot of places except for the specific industries that might have been protected. So we're squeezing them both places.

Avigail: I actually wanted to ask you, so you wrote an op-ed in October about the challenges facing U.S. farmers. Is that one of these industries where trade policy is really factoring into their competitiveness?

Menzie: It could be that, I mean, what's true is that the price of inputs such as fertilizer, which, you know, a lot of the inputs into making fertilizer have gone up. Energy prices, not so much, but then, you know, machinery and equipment, a lot of it is imported. Even if they're not imported, if you raise the price of imported, let's say tractor combines, that means any American-made tractor combine, that firm that makes it can raise their prices behind the shelter of it. So, you know, as I heard once, there's not a big market now for buying new tractor combines. There's a hot market in used tractor combines because you know, the price of the new ones has gone up markedly with the imposition of the tariffs. That's certainly feeding into the costs have gone up, the input costs.

In terms of other things, I would say that there's either retaliation or fear of retaliation or not official retaliation against American goods. So, in particular, soybeans, you know, up until, was it August or September, China had not bought a single soybean from the U.S. for months and months and months when it typically did. It's only with the so-called deal with China that Trump made that we got some purchases of soybeans by China.

But you can see there, even in the absence of officially declared retaliation, soybean farmers were really sweating it out and they probably still are sweating. They were in a tough situation after years in which their prices were very low, and here's uncertainty, that was roughly at the time when soybean farmers had to make a decision about what to plant, right? You don't plant one day and reap everything the next day. It's a decision that you have to make a long time ahead and with the uncertainty that the president had injected into the soybean market, that was very, very hard on those farmers.

So, that's a case where the uncertainty is almost worse than the sort of retaliation that might have come from us putting tariffs on other countries' goods. And you have to understand agriculture is a ripe target because what do we have a comparative advantage in? One of the few commodities that we have a comparative advantage in that we can produce pretty cheaply is agricultural goods. And so it is a, you know, low hanging fruit. If somebody wants to pressure us, that's where they're gonna hit. That's where they hit in 2018, 2019. This is where they're hitting in 2025, 26.

Avigail: I kind of want to end by asking, from a policy perspective, where are the biggest risks and opportunities in the current trade and economic approach? Like, is there a plausible path towards more stability? Is there a way in which we can help out American farmers, for example?

Menzie: I guess the administration has helped out the American farmers by doling out something on the order of, don't quote me on this, $20 billion. It was $25 billion, I think, last time around in the last trade war. We helped them out by bailing them out for one year, and we will have to wait and see what happens next year, if we'll need to bail them out again.

But what is a policy stance that would make things better? I mean, I would say stop saying I'm gonna impose tariffs willy-nilly, seemingly arbitrarily, and then rescinding them so I can keep them ready to strike again, in the future to try to get some leverage. I would say reduce the tariffs, because we're still waiting for the full impact of the tariffs that were levied in the second half of last year. Those are working their way through the system, and the empirical evidence indicates that close to 100% of the tax increase on imported goods eventually gets passed on to consumers. By consumers, I mean, consumers of households like you and me, but also consumers, as in firms.

Take away these tariffs as best you can. I don't know if that will happen or has any chance under the current administration. But at the very least, they could freeze and stop declaring more tariffs at the drop of a hat. You know, if a new administration were to come into place that is more sensible in terms of the macroeconomic and trade policies and wanted to reduce tariffs, I think that would be a tremendous thing.

But on the other hand, a lot of the damage has been done irreparably, I think. And what I mean is the damage has been done to the trust and to the mechanisms of the international trading organization that sort of organizes how we deal with each other. You know, in the old days, pre-Trump 2.0 at least, you would get to raise tariffs if you could find some reason, plausibly under chapters of the World Trade Organization Agreements. You know, national security or there's a temporary injury to my industry. There were reasons in which you could invoke protection, but President Trump, by invoking these emergency powers which he claimed he had under what's called IEPA, the International Economic Emergencies Powers Act, you know, he sort of laid waste. He just said, I'm going to declare willy-nilly tariffs whenever I want to under this authority. That had not been undertaken in the past and surely destroyed a lot of the trust that other countries had with the U.S. in adhering to its international agreements.

And what do you see now? You see other blocks of countries like the European Union saying, okay, if the U.S. is untrustworthy as both a trading partner can't avoid them, but maybe we don't wanna make any more trade agreements with them, we're gonna focus in on, well, yesterday signing an agreement with India.

So you see the world adjusting to create trading blocks that are not dependent upon the United States. Can we overcome that, sort of blow to the legitimacy of the international trading framework? I'm not sure, and that's why I say in some sense it's irreparable, but we can try to return as much as we can, away from this crazy framework we have right now.

One immediate thing that would, I think, limit the President's insanity with respect to policy declarations is if the Supreme Court would just rule. I mean, I had hoped that it would rule like two weeks ago, and I think the idea is that it would, at the very least, it would throw a wrench in his ability to declare unilaterally and immediately these tariffs. Because the other roots that people talk about saying, oh, he'll pursue these policies regardless, is that they take time. Yeah, in principle, you gotta do a study or there's gotta be a 30-day cooling-off period. Or you know, they usually take some time, even if you're gonna impose a tariff on them, upholstered furniture for national security reasons, you can't do it overnight. Whereas these other things, he could declare, you know, the things under IEPA he could declare virtually overnight and implement within a month.

Avigail: Yeah, I mean, I feel like the positive framing of this, and it feels like a glib thing to say, but sadly, I don't think it is. It's just this is a person who functions on impulse. And, we're experiencing the regressive taxation, as a result. So isn't that fun?

Menzie: Yes.

Avigail: Well, Professor Chinn, thank you so much for joining us on No Jargon.

Menzie: Thanks for the opportunity to share all my views on this issue. I've been thinking about it a lot, and yeah, this has been great to talk about.

Avigail: And thanks for listening. For more on Professor Chinn’s work, check out our show notes at scholars.org/nojargon. No Jargon is the podcast of the Scholars Strategy Network, a nationwide organization that connects journalists, policymakers, and civic leaders with America’s top researchers to improve policy and strengthen democracy. The producers of our show are Wendy Chow and Dominik Doemer. Our audio engineer is Peter Linnane. If you liked the show, please subscribe and rate us on Apple Podcasts or wherever you get your shows. You can give us feedback on X, formerly known as Twitter, @NoJargonPodcast or at our email address nojargon@scholars.org.