

## **Promoting Global Competitiveness for American Businesses and Workers**

Testimony of  
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Before the  
US House Ways and Means Committee  
Subcommittee on Tax

3 December 2025

Chairman Kelly, Ranking Member Thompson, Members of the Committee: Thank you for inviting me to share my views on US global competitiveness. In my testimony today, I will make four key points that share one bottom line. The most direct way to promote global competitiveness for American businesses and workers is to remove the Trump Administration tariffs.

First, the Trump Administration tariffs are the largest tax increase on American consumers in a generation, lowering standards of living for all Americans while generating both economic disruption and a deterioration of US standing in the world.

Second, the Trump tariffs are severely detrimental to US businesses, since they raise costs for US manufacturers, weaken exports, reduce US firms' market access abroad, and create an uneven playing field between well-connected firms that win tariff exemptions and those that do not.

Third, the Trump tariffs are harmful to US workers, since they generate shocks and disruption that hampers job creation. Manufacturing job growth has been particularly weak in 2025.

Fourth, while there are some positive elements of the 2025 tax legislation (OBBBA), on net it exacerbates the problems of the tariff policies. Tariffs are a regressive tax, and the tax cuts in OBBBA exacerbate income inequality by giving the largest tax cuts to the richest Americans. Further, OBBBA increases deficits and debt, thus increasing interest rates and hampering investment. Finally, the legislation doubles down on a steep tilt in the tax playing field in favor of multinational companies' foreign operations relative to domestic operations.

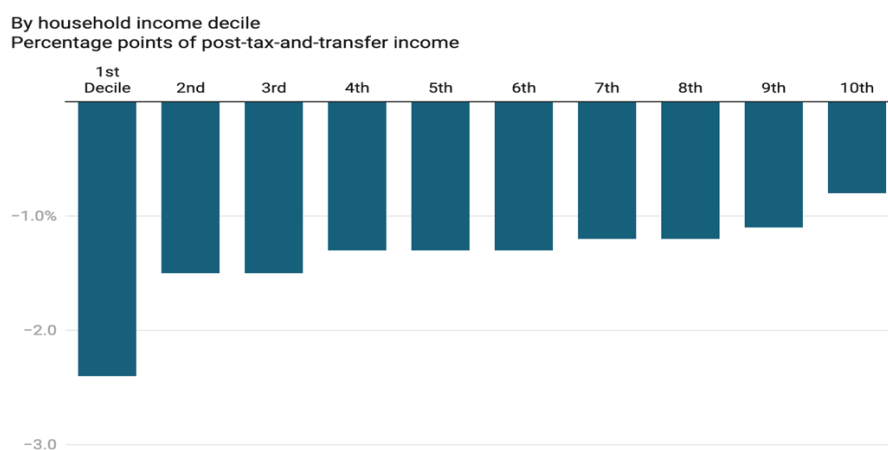
## 1. The Trump Administration's Tariffs are the Largest Tax Increase in a Generation

If tariffs stay at current levels, they will amount to an annual tax increase of about \$1,700 for an average household, and the tariffs will generate a decade-long tax increase of well over \$2 trillion.<sup>1</sup> This is the largest tax increase on US households since 1982 as a share of GDP.<sup>2</sup>

While tariff policy could evolve, and the Supreme Court may invalidate some of the tariffs, so far adjustments to the Trump Administration's tariff policies have been unpredictable and have not changed these bottom-line comparisons. For example, the grocery relief that President Trump provided on November 14<sup>th</sup> (lowering tariffs on goods such as meats, vegetables, fruits, coffee, and nuts) amounts to only \$35 in annual savings per household.<sup>3</sup>

Further, unlike the tax increases that have been implemented throughout the 20<sup>th</sup> century, this tax increase is *regressive*, in that the tax increase is larger (as a share of income) for lower-income taxpayers than for higher-income taxpayers.<sup>4</sup> While many consumers are already feeling the pain of higher prices due to tariffs, that pain will only increase in the time ahead if tariffs are perceived as permanent, as more businesses will be forced to pass along the costs to consumers.<sup>5</sup>

**Figure 1: Short Run Distributional Effects of 2025 Tariffs as of November 17**



Source: [The Budget Lab \(2025\)](#), updated November 17. Reprinted with permission.

<sup>1</sup> [The Budget Lab \(2025\)](#), updated November 17.

<sup>2</sup> This comparison utilizes the November 17 [The Budget Lab \(2025\)](#) static estimates of ten-year tariff revenue over 2026-2035, compared to [CBO](#) January 2025 estimates of GDP over the same period. That ratio of 0.72 percent is then compared to historic tax increases as a share of GDP provided by the [Committee for a Responsible Federal Budget](#).

<sup>3</sup> See [Hufbauer and Ye \(2025\)](#).

<sup>4</sup> See [The Budget Lab \(2025\)](#). For more on the regressivity of these tariff increases, see [Clausing and Lovely \(2024\)](#) and [Clausing and Obstfeld \(2025\)](#).

<sup>5</sup> At present, some firms are absorbing the costs of the tariffs, in part due to the substantial uncertainty associated with the longevity of the policy. That said, there is still dramatic evidence of price increases on traded goods. See [Cavallo, Llamas, and Vazquez \(2025\)](#) and associated updates in the Harvard Business School's Pricing Lab [tariff tracker](#).

Normally, tax increases are enacted by Congress, which is clearly given authority over all taxes (including tariffs) in the US Constitution (Article 1, Section 8). While Congress has delegated some narrow authority over tariffs to the President with limited exceptions, the majority of current tariff revenue comes from tariffs that rely on the International Emergency Economic Powers Act (IEEPA). For reasons extensively covered in recent Supreme Court briefs, nearly all observers agree that the President's use of tariffs exceeds IEEPA authority. While the Senate has passed some legislation disapproving of the IEEPA tariffs, they have not curtailed this abuse of power. A Supreme Court decision on the validity of these tariffs is coming in the months ahead, perhaps by the end of the year; the breadth of that ruling remains to be seen. However, regardless of the Supreme Court's decision, Congress should assert control over its power of the purse, including tariff authority.

## ***2. The Trump Administration's Tariffs Harm US Business Competitiveness***

More than half of all US imports are inputs into final products, yet there has been no systematic attempt to exclude intermediate inputs from the new tariffs; instead, tariffs are often particularly high on intermediate goods like iron, steel, and copper. Tariffs on inputs raise costs for US firms, while their competitors abroad often have tariff-free access to intermediate goods. Consequently, US manufacturers lose competitiveness in the global marketplace.

One little appreciated fact is that US exporters and US importers are often the same firms.<sup>6</sup> When tariffs are levied on imports, exports are harmed through at least three channels. In addition to the higher cost of imported intermediate goods, export industries must shrink to accommodate the need for more domestic production to be diverted toward goods that would otherwise be imported. Further, tariffs may lead to exchange rate appreciation, which would also harm the competitiveness of US products on world markets.<sup>7</sup>

US products may also lose market share due to foreign government retaliation or changes in foreign consumer sentiment due to the trade war. The current plight of US soybean farmers provides one vivid example, as does the loss of US market share in Canadian consumption.<sup>8</sup> US exports to Canada over the period April-August 2025 were \$11 billion lower than the same period in 2024, a decline of 7 percent.

Even beyond the root undesirability of such broad tariffs, the implementation of the Trump tariffs has been highly variable and uncertain, contributing to business uncertainty. It is exceedingly

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<sup>6</sup> See [Handley, Kamal, and Monarch \(2025\)](#) and [Jensen \(2016\)](#), and [Bernard et al.\(2018\)](#).

<sup>7</sup> However, the US dollar has depreciated in recent months. One explanation for this depreciation is reduced foreign confidence in US financial assets. See [Clausing and Obstfeld \(2025\)](#).

<sup>8</sup> Chinese retaliation has reduced the market for US soybean exports. Although a recent deal led to the resumption of Chinese imports of US soybeans, they are still not on track to match 2024 levels. According to one [recent analysis](#), even if China follows through on recent commitments, US soybean exports to China will be about a third lower than their 2024 levels.

difficult to make sourcing and production decisions in such a highly variable and shifting business environment.

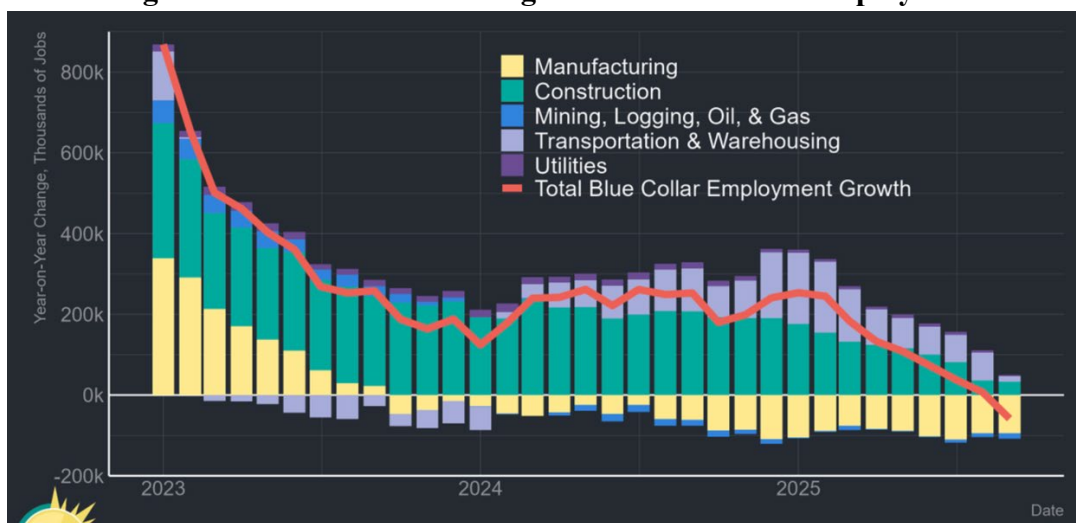
Tariffs also encourage rent-seeking, whereby firms lobby to get special exemptions that give them a leg up relative to their competitors. As one stark example, Apple's CEO presented President Trump with a gold gift as a marker of gratitude for Apple's special tariff exemption.<sup>9</sup> When large and well-connected firms receive tariff exemptions on their inputs, smaller or less well-connected competitors may lose market share as a consequence. This fuels a cycle of excessive lobbying, rent-seeking, and anti-competitive behavior that is likely to hurt small businesses relative to large corporations.

### 3. *The Trump Administration's Tariffs Hurt US Workers*

While the damaging consequences of the Trump Administration tariffs were widely anticipated by economists, the speed with which they have harmed US job creation is still notable. Figure 2 shows the dramatic decline in US blue collar employment in 2025, alongside negative manufacturing job creation.

Indeed, for the first time since the pandemic, the United States is losing blue collar jobs; year-on-year job losses are at about 59,000; growth in both transportation and construction are weak, and net manufacturing job losses are persistently large.

**Figure 2: Year-on-Year Change in US Blue Collar Employment**



Source: [Joey Politano](#), using Bureau of Labor Statistics data. Reprinted with permission.

In short, US workers are suffering twice, due to the combined effects of declining job opportunities amidst the largest tax increase in a generation. While OBBBA cut taxes relative to

<sup>9</sup> One of many news stories on this exchange is [Moon and Tarrant \(2025\)](#).

2024 for a few groups (e.g., workers with large amounts of tip or overtime income), most lower- and middle-income working Americans will see little tax benefit from OBBBA. As a result, consumer confidence is declining.<sup>10</sup>

#### ***4. Any Positive Effects from OBBBA are Overshadowed by Tariff Headwinds***

Benefits from the OBBBA tax cuts were skewed toward the top of the income distribution. The bottom 20 percent of households are actually harmed by the legislation, since cuts in federal in-kind benefits such as Medicaid dominate any tax cut benefits.<sup>11</sup> Even for many households higher in the distribution, the increased tax burdens from Trump's tariffs are larger than the OBBBA tax cuts; only those in the top-fifth of the distribution receive a net tax cut.<sup>12</sup>

While there are provisions in OBBBA that encourage investment and business activity, such as more generous expensing and R&D rules, the overall budgetary cost of the tax cuts in OBBBA (\$4.5 trillion) greatly exceeds the revenue costs of those provisions.<sup>13</sup> For example, the full expensing provision has a budgetary cost of about \$360 billion, and the R&D expensing provision has a budgetary cost of about \$140 billion, together about one ninth of the cost of OBBBA tax cuts.

Further, the large deficits and debt created by the legislation act as a drag on investment and growth, since they increase long-term interest rates; this factor explains why the dynamic score of the bill generates *higher* deficits than the static score of the bill.<sup>14</sup> Further, the higher interest costs and the possible extension of temporary measures under the bill may generate as much as \$5.5 trillion in new debt over the coming budget window.<sup>15</sup>

While tariff increases may make up some of the lost revenues from OBBBA, tariffs harm the competitiveness of US businesses and workers. Further, the existing tariffs won't generate sufficient additional revenues to offset OBBBA, especially due to ongoing exemptions and narrowing, as well as the possibility of a Supreme Court ruling that could dramatically reduce new tariff revenues.

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<sup>10</sup> See [Conference Board data](#) and [University of Michigan consumer sentiment data](#).

<sup>11</sup> See [Congressional Budget Office \(2025\)](#).

<sup>12</sup> See [The Budget Lab's August analysis](#); these numbers are slightly out of date; subsequent small tariff cuts may have reduced tax increases enough to make the 9<sup>th</sup> decile a net winner from the combined policies.

<sup>13</sup> The [Congressional Budget Office \(2025\)](#) reports tax cuts of \$4.5 trillion and spending cuts of \$1.1 trillion, for a net impact of \$3.4 trillion, excluding effects associated with increased interest costs due to higher deficits and debt.

<sup>14</sup> See [CRFB \(2025\)](#) for a discussion of the Congressional Budget Office dynamic and static scores, as well as the interest costs associated with the higher debt.

<sup>15</sup> A [later CRFB analysis](#) updates these numbers to account for changes in the Senate OBBBA bill.

Tariffs may also generate new budgetary costs. Farmers received tariff-related bailouts under the first Trump Administration; similar bailouts are in the works for 2025.<sup>16</sup> President Trump has also proposed tariff rebates that would be twice the size of the estimated forthcoming tariff revenues, even if limited to households with incomes below \$100,000.<sup>17</sup> President Trump has even floated large income tax cuts, or replacing the income tax with tariff revenues. My prior research shows that such promises could never be fulfilled; even revenue-maximizing tariffs would generate about one-sixth the revenue of the personal income tax.<sup>18</sup>

Finally, the OBBBA was also a backwards approach to US international tax competitiveness. The Tax Cuts and Jobs Act contained an explicit tax preference for foreign income, offering multinational companies tax-free treatment on the first ten percent return on their foreign tangible assets, with foreign income above that threshold taxed at a 50 percent discount relative to the rate that applies to domestic income. In prior testimony, I have addressed how these tax rules incentivize offshoring and profit shifting.<sup>19</sup>

Unfortunately, while the OBBBA makes some incremental improvements in some international tax rules (e.g., eliminating the baseline tax-free treatment on foreign tangible assets), on net the international tax provisions provide a further tax break for foreign income relative to US income. The net international tax cuts in the legislation total about \$165 billion, further reducing constraints on US corporate offshore profit shifting.

Further, the OBBBA weakens international tax cooperation. The removal of the wrongheaded Section 899 tax on foreign investment, itself a useful step, was made contingent on an agreement with other G7 countries that weakens international tax cooperation. This action risks undermining steps that help level the international tax playing field by incentivizing foreign governments to levy minimum taxes on their multinational companies. As I have discussed, building fairer tax systems is an important part of structuring globalization so that it can work for ordinary citizens.<sup>20</sup>

## ***Summary***

While international corporate tax reform is a work in progress, the most effective way to further the competitiveness of US businesses and workers is to remove the Trump Administration's tariffs. Removing the Trump tariffs, an action within the power of the US Congress, would provide large tax cuts for every American, reverse harmful effects on investment and job growth, strengthen US exports, and improve US international relations.<sup>21</sup>

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<sup>16</sup> See [Steel and Della Rocca \(2020\)](#) on farmer bailouts during the first Trump Administration. [News stories](#) are reporting new aid is expected within weeks.

<sup>17</sup> See [The Budget Lab's](#) analysis of tariff dividends.

<sup>18</sup> See [Clausing and Obstfeld \(2025\)](#).

<sup>19</sup> See [Clausing \(2024\)](#).

<sup>20</sup> See [Clausing \(2023\)](#).

<sup>21</sup> For more on the tariffs and US international relations, see [Hendrix \(2025\)](#), [Luck \(2025\)](#), and [Alden et al. \(2025\)](#).