



**The Brookings Institution
The Current podcast**

“Did ‘America First’ tariffs work?”

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Episode Summary:

In the first year of his second term, President Trump has conducted a trade policy that features tariff cuts, tariff raises, and tariff exemptions. While the economic impacts of this tariff approach are uncertain, it's clear that the post-World War II rules-based liberal trade policy is over. On this episode, David Wessel talks with Kari Heerman, director of Brookings's Trade and Economic Statecraft Initiative, about Trump's pursuit of foreign policy objectives through trade actions.

WESSEL: Economists told us that if we have lots of tariffs and lots of uncertainty, that the economy would suffer. But actually the economy during the last 12 months has been reasonably strong. And I wonder what this tells us about whether the economists had it wrong, or is it just the catastrophe hasn't arrived yet?

HEERMAN: I think certainly anyone who predicted that raising tariffs would cause the next Great Depression is revisiting that conclusion right now.

But in the long run, what these tariffs do is constrict the set of opportunities to access value, constrict the set of opportunities to face competition, and that has longer lasting impacts on the economy.

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WESSEL: This is *The Current* on the Brookings Podcast Network. I'm David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy in Economic Studies here at Brookings.

This year has been a wild one on the trade front. President Trump has announced tariffs, he has raised tariffs, he has cut tariffs, he has made exemptions to tariffs, he has, again, raised tariffs. It's a bit of chaos.

Two things are clear. One, the president was telling the truth when he said tariffs are the most beautiful word in the dictionary. And the second is that the post-World War II rules-based order in which trade flowed relatively liberally, increasingly liberally across borders, which had been ailing for a while, is gone for good.

Joining me today is Kari Heerman. She's a trade economist who joined Brookings in August 2025 to be the director of our Trade and Economic Statecraft Initiative. She came to us after a dozen years in the U.S. government, most recently as the acting chief economist at the State Department, which is when I learned they actually had at least one economist at the State Department.

So Kari, welcome. And let me start by asking you this. We hear a lot, I think, that economists told us that if Trump put all these tariffs on, we'd have a recession, that it would be terrible for the economy. But the past year has been reasonably stable. We've had steady growth, unemployment hasn't gone up that much. So, did economists just misunderstand the tariffs or did they get it wrong? Or what's the story?

[2:21]

HEERMAN: I think certainly anyone who predicted that raising tariffs would cause the next Great Depression is revisiting that conclusion right now. But I think it's really important to say two things. One is that the tariffs have been raised over a period between last March and last August. So they have only been in force for a shorter period of time.

Secondly, traded goods are a really small part of the U.S. economy. The U.S. economy is really big. The part of our economy that really focuses on making things is relatively small. So while the scope and the magnitude of the increases in tariffs that happened is very disruptive to industries who rely on imported goods, either to

fill their retail shops or as inputs in some kind of a manufacturing process that's done domestically, it has been very disruptive, and continues to be very disruptive to their business.

So far though, whether it be because other things are happening that are offsetting the fact of those tariffs or because the tariffs just aren't as important as we think, those firms have generally been able to adapt, or adjust, or just hang on for a while while they wait for the dust to settle.

That is something they're capable of doing for a period of time. But in the long run, what these tariffs do is constrict the set of opportunities to access value, constrict the set of opportunities to face competition, and that has longer lasting impacts on the economy.

Is that consistent with what you guys are viewing from the macro point of view at the Hutchins Center?

[3:53]

WESSEL: Yeah, I think that we've learned a couple things. One is the actual tariffs that people are paying are smaller than the headlines that President Trump announced on Liberation Day.

We also know, you were absolutely correct, that imports are a relatively small part of the U.S. economy compared to other countries, so there was less opportunity for them to do huge damage.

I think some of it is we don't know yet; that a lot of this uncertainty meant that people were playing a wait and see game. We do know, though, that tariffs did increase inflation a little bit. Jay Powell, the Fed chair, has said that he thought they'd be pretty close to their 2% target if only we hadn't had the Trump tariffs.

But, I think in general, economists are realizing that their antipathy to tariffs led them maybe to overestimate the near term impact. But I think the point you make is really important that this story is not over yet, and there might have been a lot of hesitation on the part of businesses to react, and we may see it more in '26 and '27.

So let me ask you, Kari. Sometimes when you read the paper, you think, before Trump we had this wonderful world order where everything worked and we were negotiating trade treaties. And after Trump, it's all gone into reverse. But do you see this as such an abrupt break or is it more of a continuation and acceleration of a preexisting trend?

[5:26]

HEERMAN: Yeah, you often have to remind me not to fall into the everything was beautiful and wonderful, and then it was broken by the administration. The model that we had previously that facilitated openness and facilitated the increased globalization, certainly had some negative and some long standing and sharp consequences for certain communities, for certain individuals and households in our economy. And policymakers noticed those effects. As did the voters.

And so I have noticed over the last dozen years that I've been in government, having a a upfront view of this debate, that policymakers have increasingly questioned whether the model of openness to trade and increased liberalization and continuing to go in the direction of further and further liberalization was in the U.S. interest. And in increasingly a view that it was not in our interest because it was benefiting other countries at our expense.

So that certainly has been the case that there has been sort of a, an erosion or a drift away from the sort of openness is the the direction we're going and that's it.

But I do think that this is different. I do think that what has happened in 2025 with the America First trade policy is a real break, a real rejection that we should be pursuing a rules based, market driven global order in the first place.

I don't know if this feels to you like an inevitable outcome of something that has been long coming, or does it feel like a break to you?

[6:59]

WESSEL: It feels like a break. I think as you pointed out, the old system was eroding and there was considerable political criticism of it from Democrats and Republicans well before Donald Trump arrived.

But this is something different. You know, at 25, 50% tariffs, threatening people, discarding any kind of notion that we have some sort of a collective interest in a trading system where everybody plays by the same rules, that's totally different.

I mean, one thing, I wonder what you think about this is, so tariffs were pretty low coming in. And in the past we have used tariffs from time to time, but they were really for economic issues — to protect some industry or occasionally for a national security interest to prevent us from relying too heavily on a foreign good or stuff.

But President Trump seems to use them beyond economics as kind of a weapon to get leverage, whether it's to get people to stop buying Russian oil. He's used it for that. He's threatened to use it on Greenland. He used them really as a a big stick across foreign policy objectives. Isn't that a change?

[8:13]

HEERMAN: Yeah, I think that's definitely a big change. In fact, as you're aware, last week we had an event here at Brookings sort of summarizing the year in trade policy, and what we think it looks like going forward. And that was one of the key changes that was identified by our panelists. In fact, Kelly Ann Shaw, who was an official in the first Trump administration, pointed out that explicitly this president believes that tariffs should be used, they're part of the toolkit that the U.S. has for global power, and they should be used to achieve foreign policy objectives where where they can.

It's not a shift for other countries. China, for example, has been using this kind of economic power as leverage for a long time. This is something we are seeing in the headlines in the restrictions it's been placing on exports of critical minerals.

It's not entirely unique. In fact, arguably the entire Global Agreement on Tariffs and Trade system was set up to sort of isolate the Soviet Union at the time from this market economies and the the value that they produce.

So it's not completely unprecedented to use trade policy as a form of economic statecraft, if you will. But it has been a very long time, and that it feels more aggressive than the posture that the United States has been taking over the last several decades.

[9:35]

WESSEL: So you mentioned China. How much of what's going on is a reaction to the rise of China? Its overcapacity in manufacturing, leading it to dump its goods on other markets, ours and the Europeans and so forth? How much of the, that do you think is a driving force of what's going on now?

[9:52]

HEERMAN: I think it's a huge important and and very real driving force in the need to adjust our trade policy system. I think the United States isn't alone in recognizing this, and I don't think the Trump administration is alone in recognizing this.

This is a key thing that has emerged that the economic model that China is pursuing is increasingly distorting key markets. And some of the markets that it's distorting are those for goods that are essential for innovation, essential for economic growth, and essential importantly for our own national security and defense.

That is a a very real and very big challenge that the current set of trade rules probably doesn't accommodate and does call for some adjustments.

[10:37]

WESSEL: So when you say distorting, what you mean is that China makes a lot of something. It cuts the price. We, as we did with solar panels, for instance, we buy all our stuff from China, and we don't have any capacity to produce it here.

And while you might argue whether solar panels are really of national security, there are things — semiconductor chips, certain military gear, certain pharmaceuticals — that we really do want to have some domestic capacity. And China has been systematically making it difficult to have domestic production of some goods. That's basically what we're talking about, right?

[11:15]

HEERMAN: More or less. I mean, I would say domestic capacity is one aspect of it, but non-adversarial reliance I think is what we're really after.

WESSEL: You mean mean for some, when you say, you mean like, let's rely on people who are our friends rather than potential adversaries like China?

HEERMAN: Correct.

WESSEL: Better Korea and Japan than China.

HEERMAN: Correct.

WESSEL: Better Germany than China.

HEERMAN: Correct.

And I think there are some goods that China might have a hold on, that it would be very easy to create production somewhere else. And there's others where China has made the kind of investments that make it very difficult to have the markets spring up if China should determine to cut them off.

[11:52]

WESSEL: So, where do you think we go from here? It's very easy to be against things, to be against China, to be against them wiping out our semiconductor industries, to be against them not playing fair, et cetera, et cetera.

But do you have a sense of what the scenarios are as we go forward? Are we going to just become an autarkic economy that doesn't import anything? We seem to have alienated all our allies, so I don't know how this is going to work. What, do you have a, I don't, I'm not asking you to predict because that's impossible. Give me a couple of scenarios.

[12:24]

HEERMAN: Well, I don't know if I can give you concrete scenarios, but I think we are headed for a period in which, at the very least, trade policy feels unsettled. I think you identified it correctly: for a very long time, that there was a consensus that was broadly held across parties, across society, across our alliances that openness is the best way to achieve both prosperity and security.

And now that consensus has been challenged for some very good reasons and for some political reasons as well.

And I think, again, we had a great conversation about this at the event last week. One of the panelists, Nora Todd, who was a colleague of mine in the Biden administration, called for what we really need is a broader national conversation about what the objectives of trade policy should be. How do we balance out the need for opportunity and value that trade provides? But also balance that with the very real security and vulnerability issues that exist in today's world?

Anytime you change any of those, you're going to have some trade-offs, as economists like to say. If you take away the opportunity, there's going to be costs. And those costs are going to fall not evenly across everybody, but they're going to hit certain industries hard. Just like when you liberalize, you take away some of the protection and that's going to hit certain communities and certain communities hard.

And we have to have an awareness that those tradeoffs exist, and that we have to balance them. And to have trade policy settled will take a bigger consensus on that.

[13:57]

WESSEL: One thing that I've noticed that when the president talks about trade, you'd think that all of us work in factories and everything we import from abroad is made from a factory. But in fact, there's a lot of trade in services, which he doesn't seem to recognize. So talk a little bit about what does trade in services mean and where does the U.S. rank in that world?

[14:20]

HEERMAN: Trade in services encompasses everything from movies, from lawyers, from accountants, to consultants, to travel. All kinds of things.

WESSEL: Tourism.

HEERMAN: Tourism, healthcare. A lot of these kind of things that we actually spend most of our paychecks on and most of us work in. Services. Think tanks are services providers. I think very important that they be exported around the world. These are where most of us work, where most of our economic value is.

They are traded through just the way that this podcast will be traded — somebody in another country outside of our borders will listen and that will be a trade in service that is produced by the United States.

So that is a a big and growing part of our international trade, especially growing because of digital technology enabling things like this podcast to be received by somebody halfway across the world. So that is an important and growing part of both of our technological power and our economic power as well.

[15:26]

WESSEL: So, if you had to think of one lesson that we've learned in the past year that policymakers should remember, what would it be?

[15:33]

HEERMAN: Well, I think Ben Harris, who made opening remarks at our event last week, said it really well, and I'll be paraphrasing him, so, you know, don't fire me if I get it wrong. He said that the strength, the depth, and the dynamism of the United States economy, along with our longstanding alliances really does protect us in some way from disruption. You saw this in COVID, and this trade policy in 2025 was certainly a disruption.

And firms can recover from a disruption in the United States because we have a lot of assets, but it probably can't last unlimited disruption.

[16:09]

WESSEL: So I think that's right. I think that we've learned how resilient the U.S. economy is and how you can go through big shocks like the Trump tariff shocks and it, the place doesn't fall apart.

There's a great line from Keynes that economists do us no service when they tell us that when the storm is over, the sea will be calm again. The period of disruption and transition can be very painful and can really hurt a lot of people.

My concern is that a lot of these things are going to have long lasting effects, and while they may not show up in GDP or unemployment in the first quarter of 2026, we may look back on this period and say, we did things as a country — trade, immigration cutting investment in R&D — that hurt us a generation from now in slower productivity growth.

And I think it's really hard to explain to people that just because you don't see the pain instantly doesn't mean it's not going to hurt.

So with that, I think we've come to the end. If you want to know more about Kari's research, you can find it on Brookings dot edu. You can watch the full replay, the video of the event that she mentioned, the January 28th event that she hosted on America First trade policy.

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She maintains something called the Trade Tracker that monitors tariff rates in real time.

So thanks for coming in and thanks to you for watching *The Current*.