

Crony Capitalism or National Interest? Investigating the Political Economy of the Trump 2025 Tariff Regime

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Abstract—This paper examines whether the Trump administration’s 2025 tariff regime reflects crony capitalism—preferential policy allocation to politically connected firms—or legitimate economic and national security objectives. Drawing on Stigler’s regulatory capture theory, Grossman and Helpman’s “protection for sale” framework, and Tullock’s rent-seeking analysis, we find that exempted industries exhibit significantly higher lobbying expenditures than tariffed sectors and that the procedural architecture is structurally less transparent than its 2018–2020 predecessor. We characterize the 2025 regime as a hybrid system combining national interest rhetoric with institutional features that facilitate political favoritism. Implications for trade policy design and executive authority constraints are discussed.

Keywords—crony capitalism, discretionary trade policy, executive authority, political economy, regulatory capture, rent-seeking, tariff exemptions

I. INTRODUCTION

On April 2, 2025, President Trump invoked the International Emergency Economic Powers Act (IEEPA) to declare “Liberation Day,” imposing the most sweeping tariff increases in American history (White House, 2025a). The regime raised the effective average applied tariff from approximately 2% in 2024 to 27% by mid-2025—a level unseen since the Smoot-Hawley Act of 1930—generating an estimated \$2.3 trillion in projected revenue over ten years (Tax Policy Center, 2025). Annex II of Executive Order 14257 simultaneously exempted over 1000 product categories, including pharmaceuticals, semiconductors, and energy products (Reason, 2025).

This paper investigates whether the 2025 tariff regime exhibits patterns consistent with crony capitalism, defined as preferential policy allocation to politically connected entities (Rubin, 2014). We examine: (1) the correlation between political connections and exemption grants; (2) coherence between exemption patterns and stated policy objectives; (3) institutional characteristics that facilitate or constrain rent-seeking; and (4) whether economic consequences align with national welfare or connected-industry interests. The paper extends Fotak *et al.* (2024) by assessing structural continuity between the 2018–2020 Section 301 exemption regime and the 2025 IEEPA regime.

II. THEORETICAL FRAMEWORK

A. Regulatory Capture and Trade Policy

Stigler’s (1971) regulatory capture theory identifies four benefit types governments confer on industries: direct monetary transfers, entry barriers including tariffs, rules affecting substitutes and complements, and price controls (Stigler, 1971). Industries that successfully capture regulatory

agencies convert public policy into private benefit, creating systematic welfare losses. Grossman and Helpman’s (1994) “protection for sale” model formalizes how organized industries exchange political contributions for trade protection, predicting that politically organized industries will secure exemptions while disorganized industries bear the full burden (Grossman & Helpman, 1994).

B. The Political Capital Hypothesis

Akey (2015) distinguishes two channels linking political connections to policy outcomes (Akey, 2015). The “information channel” posits that connected firms provide valuable policy intelligence, generating efficient outcomes. The “political capital hypothesis” proposes quid pro quo arrangements where politicians dispense regulatory favors to supporters and withhold them from opponents. These channels generate different empirical predictions: the information channel predicts no punishment of opponents, while the political capital hypothesis predicts systematic punishment—precisely what Fotak *et al.* (2024) found in the first Trump administration.

C. Rent-Seeking and Institutional Design

Tullock (1967) demonstrated that tariffs generate socially wasteful rent-seeking expenditures beyond traditional deadweight losses. When regulatory relief generates larger returns than productive investment, rational firms divert resources toward political access. Becker’s (1983) competing interest groups framework predicts that discretionary systems generate greater rent-seeking than rules-based systems, since rules-based systems make political access irrelevant to outcomes. Olson’s (1965) logic of collective action provides the organizational foundation: industries with concentrated interests coordinate political action more effectively than diffuse industries.

III. THE 2025 TARIFF REGIME: STRUCTURE AND IMPLEMENTATION

A. Legal Authority and Scope

President Trump cited IEEPA authority to address what he characterized as a national emergency arising from America’s trade deficit. The scale of tariff escalation was unprecedented: the effective average rate increase from 2% to 27% compressed decades of trade liberalization into a single executive order. Three federal courts subsequently ruled that trade deficits do not constitute the type of unusual and extraordinary threat IEEPA was designed to address (Reed Smith, 2025). Table 1 summarizes the principal tariff measures.

Table 1. 2025 U.S. Tariff regime—principal measures

Authority	%	Scope	Key Exemptions
IEEPA Reciprocal	10–50	All imports; country-specific rates	Pharma, semiconductors, energy, select agri.
Sec. 232 Steel/Al	50	Steel & aluminum globally	Quota agreements with some allies
Sec. 232 Autos	25	Autos and all auto parts	USMCA-compliant content
Sec. 301 China	20–145	~\$550B Chinese goods; reduced to 20% (Nov. 2025)	Consumer electronics (partial)
Fentanyl CA/MX	25–35	Canada and Mexico	Canadian energy imports

The regime also imposed bespoke country-specific rates based on bilateral trade deficits—a mercantilist logic that most trade economists consider economically unsound, as bilateral deficits reflect relative savings rates and investment conditions rather than trade barriers per se. The

administration subsequently announced framework agreements with over a dozen countries, creating additional channels for discretionary relief beyond the initial categorical exemptions. Table 2 shows country-specific rates and modifications.

Table 2. Country-specific reciprocal rates and modifications

Country/Region	Initial (%)	Modified	Key Conditions
China	145	20%	Nov. 2025 agreement; tech and agri. commitments
European Union	20	10% (paused)	Ongoing negotiations; no final agreement
Japan	24	15%	Sept. 2025 framework: agri. imports + tech export easing
Canada/Mexico	25–35	25–35%	USMCA-compliant goods exempted
India	26	10% (paused)	Negotiations ongoing
Vietnam	46	10% (paused)	Highest rate; strategic electronics hub

B. The Exemption Architecture

Unlike the public request process for Section 301 tariffs—which allowed any firm to file electronically with published criteria, public comment periods, and explanations for approval or denial—the 2025 IEEPA exemptions were determined administratively without published criteria or

explanations. Peterson Institute scholar Alan Wolff observed: “We don’t know who made the decisions on what should be taxed and at what levels” (Peterson Institute, 2025a). Table 3 shows that industries receiving blanket exemptions exhibit substantially higher lobbying expenditures than those facing full tariff exposure, creating what we term the “exemption paradox.”

Table 3. Exempted industries—imports, lobbying, and policy coherence

Industry	Imports	Lobbying	Status & Coherence
Pharmaceuticals	\$210B	\$374M	Full exempt—weak policy logic
Semiconductors	\$167B	\$126M	Full exempt—contradicts Sec. 232 probe
Energy products	\$185B	\$285M	Full exempt—partly justified
Consumer electronics	\$128B	\$143M	Partial; Apple lobbying documented; modified twice
Agriculture (select)	\$52B	\$95M	Partial—coherent retaliation protection

IV. EMPIRICAL EVIDENCE ON POLITICAL CONNECTIONS AND EXEMPTIONS

A. Fotak *et al.* (2024): First-Term Causal Evidence

Fotak, Lee, Megginson, and Salas (2024) investigated whether firm-level political connections affected exemption grants for the \$550 billion in Chinese goods subject to

escalating tariffs in the 2018–2020 Section 301 regime. Their methodological contribution—exploiting regression discontinuity in close congressional election outcomes to generate quasi-random variation in political connections—provides causal identification avoiding endogeneity concerns. Table 4 summarizes key regression results.

Table 4. Political connections and exemption approval (Fotak *et al.*, 2024)

Political Connection	Coeff.	Interpretation
Republican contributions	+0.127***	+\$57B agg. market cap for connected firms
Lobbying expenditure (log)	+0.089***	Positive controlling for firm size & industry FE
Connected lobbyist	+0.094***	Prior govt. experience amplifies exemption prob.
Democratic contributions	−0.062**	Lower approval — punishment effect inconsistent with information channel

Note. *** $p < 0.001$, ** $p < 0.01$. Probit regression controlling for firm size, industry, import value, and product characteristics.

Three findings are particularly important. First, the 9–13 percentage-point political connection effect represents a substantial share of the mean approval rate. Second, the punishment effect for Democratic donors—lower approval rates—is inconsistent with the information channel

hypothesis: if connections provided informational value, Democratic connections should not reduce approval probability. Third, the aggregate market capitalization gain of approximately \$57 billion for connected firms demonstrates economically meaningful private benefits, consistent with the

political capital hypothesis.

B. Procedural Comparison: 2018 vs. 2025

The 2025 IEEPA regime is substantively less transparent than its predecessor on every institutional dimension. Table 5 compares the two regimes' procedural characteristics.

The absence of a public portal eliminates the competitive

application environment that allowed non-connected firms to secure exemptions through application quality. Unpublished decision criteria eliminate merit-based exemption strategies. Continuous modification through bilateral negotiations creates an ongoing political environment where exemption status depends on sustained political engagement rather than initial product eligibility.

Table 5. Exemption procedure comparison—2018 vs. 2025 regimes

Characteristic	Sec. 301 (2018–2020)	IEEPA Regime (2025)
Request mechanism	Public portal; any firm eligible	Administrative; no public portal
Decision criteria	Published (economic harm, strategic interest)	Unpublished; no formal criteria
Transparency	Approvals/denials publicly listed	Federal Register modifications only
Accountability	USTR oversight; congressional review	Commerce/USTR; minimal review
Modification cycle	Quarterly, published schedule	Continuous; ad hoc bilateral deals

V. ECONOMIC EFFICIENCY AND INSTITUTIONAL ANALYSIS

A. Macroeconomic Effects

McKibbin, Noland, and Shuetrim (2025) modeled the 2025 tariffs using a global general equilibrium framework calibrated to trade flows and production structures. Their analysis reveals significant welfare costs concentrated among

lower-income households and export-oriented sectors. The Tax Foundation (2025) estimated average household costs increasing by \$1400 annually in 2026, with regressive distributional effects: lower-income households allocate higher budget shares to goods with high import content—clothing, electronics, footwear. Table 6 summarizes estimated economic impacts.

Table 6. Estimated economic impact of the 2025 tariff regime

Metric	Estimate	Source/Notes
U.S. GDP (no retaliation)	–0.5%	McKibbin, Noland & Shuetrim (2025)
U.S. GDP (with retaliation)	–0.9–1.4%	McKibbin <i>et al.</i> (2025); varies by scenario
Average household cost	\$1,400/yr	Tax Foundation (2025); regressive distribution
10-year tariff revenue	\$2.3T	Tax Policy Center (2025); largest since 1993
Agricultural export losses	Substantial	Retaliatory tariffs from EU, China, Canada

B. The Exemption Paradox and Policy Coherence

Each of the regime's three stated rationales—deficit correction, national security, trade reciprocity—is most undermined by the sectors receiving the most favorable treatment. Pharmaceuticals (\$210B), semiconductors (\$167B), and energy (\$185B) together represent roughly \$562B in annual imports; their exemption directly contradicts the deficit rationale. Semiconductors and pharmaceuticals were explicitly identified as critical to national security in the 2017 National Security Strategy and concurrent Section 232 investigations, yet received full exemption from reciprocal tariffs.

C. The Rent-Seeking Architecture

The 2025 regime exhibited three mutually reinforcing conditions: lack of transparency, concentrated discretion, and dynamic uncertainty. Dynamic uncertainty—the repeated modification of exemption lists throughout 2025—amplified rent-seeking incentives by creating ongoing value for political access. Fareed Zakaria warned that the regime risked transforming the U.S. into “the leading example of crony capitalism,” with the president as the arbiter of which companies receive relief (GVWire, 2025). When returns to political access systematically exceed returns to productive investment, the resulting equilibrium resembles political capitalism rather than competitive market economy.

VI. ALTERNATIVE EXPLANATIONS AND LIMITATIONS

Defenders of the exemption regime offer several alternative explanations. First, exempted sectors may have been genuinely critical to national security or economic stability in ways that justify special treatment. This explanation faces internal inconsistency, however: if these sectors require protection rather than exemption, protective tariffs will serve the strategic objective better than exemptions. Second, the economic pragmatism interpretation holds that exemptions reflect rational calculation where import substitution is impossible in the short run. This has genuine merit for rare earth minerals and specialized pharmaceutical ingredients, but economic pragmatism predicts exemptions based on import elasticity and domestic supply availability—not lobbying expenditure.

Third, the “information channel” interpretation holds that connected firms provide productive consultation improving policy quality (Akey, 2015). However, Fotak *et al.*'s (2024) finding of political punishment of opponents is inconsistent with this prediction. The most significant limitation of the present analysis is data availability: comprehensive firm-level data on 2025 IEEPA exemption decisions was not publicly available at time of writing, limiting analysis to structural patterns, industry-level correlations, and precedent-based inference.

VII. EVIDENCE SYNTHESIS

Table 7 synthesizes the evidence across key analytical dimensions, evaluating consistency with both the crony capitalism hypothesis and national interest alternative explanations.

The evidence supports hybrid characterization. National interest motivations are genuinely present: tariffs on steel, aluminum, and automobiles reflect industrial policy

objectives with historical precedent, and some exemptions—energy products, select agricultural goods—serve coherent economic and political purposes. However, the concentration of exemptions in high-lobbying industries, the documented political punishment effect from the first-term regime, and systematic procedural opacity are inconsistent with a purely national interest explanation. The pharmaceutical sector (\$374M annual lobbying, full exemption on \$210B in imports) is the paradigmatic case.

Table 7. Evidence assessment—crony capitalism vs. national interest

Indicator	Crony Capitalism Evidence	National Interest Rationale
Exemption pattern	Correlates with lobbying intensity	Partly: strategic sectors exempted
Political punishment	Documented by Fotak <i>et al.</i> (2024)	No national interest justification
Transparency	Absent; admin. determinations only	Undermines rules-based legitimacy
Policy coherence	Exemptions contradict stated objectives	Partial (energy, some pharma justified)
Incentive distortion	Lobbying ROI exceeds R&D ROI	Distorts market capitalism
Constitutional basis	Courts questioned IEEPA use	Congress has not explicitly ratified

VIII. FUTURE RESEARCH AGENDA

The 2025 tariff regime presents extraordinary research opportunities for political economy and trade policy scholars. The most pressing priority is firm-level analysis of 2025 IEEPA exemption decisions as administrative data becomes available through FOIA requests and congressional investigations. The categorical structure of 2025 exemptions—organized around Harmonized Tariff Schedule product codes rather than firm identities—shifts the unit of analysis from firms to industries, making industry-level political economy variables (trade association PAC contributions, lobbying expenditures, industry employment in politically competitive districts) potentially better predictors than individual firm characteristics.

Natural experiments embedded within the 2025 regime may enable causal identification. The 90-day tariff pause announced following the April 2025 market crash created quasi-random variation in tariff exposure across industries based on the timing of negotiations rather than lobbying activity alone. Event study designs around major exemption announcements—combining stock return data with political connection measures—could provide causal estimates of the market value of political access under the 2025 regime. Cross-national comparative analysis represents a complementary priority: comparing the U.S. 2025 regime with the EU's rules-based trade remedy system would illuminate how institutional design affects crony capitalism risk in trade policy.

IX. CONCLUSION

Evidence from the Trump 2025 tariff regime supports characterizing it as a hybrid system combining national interest rhetoric with crony capitalist implementation. Three findings anchor this conclusion: (1) exempted industries exhibit substantially higher lobbying expenditures than tariffed industries; (2) the 2025 regime is structurally less transparent than its 2018–2020 predecessor on every institutional dimension; and (3) structural continuity with the first-term regime suggesting similar mechanisms operated in 2025.

Three policy implications follow. First, trade policy

institutional design should favor rules-based systems with published criteria, transparent procedures, and congressional oversight over executive discretionary systems with concentrated authority. Second, if IEEPA tariff authority is to be retained, Congress should mandate transparency requirements for exemption decisions, including published criteria, public comment periods, and written explanations for exemption grants and denials. Third, restoration of WTO tariff bindings as the baseline for U.S. trade policy would reestablish the international accountability mechanisms that limit crony capitalism opportunities.

More broadly, the 2025 tariff regime illustrates a general mechanism: large-scale discretionary authority combined with opaque procedures and sustained political uncertainty creates structural incentives for crony capitalism regardless of initial policy intent. The national interest justification—while partially genuine—provided the legitimating framework within which political favoritism could operate. Future research, as administrative data becomes available through FOIA requests and congressional investigations, should establish the causal effects hypothesized here using firm-level exemption data and natural experiments embedded within the regime's implementation.

CONFLICT OF INTEREST

The author declares no conflict of interest.

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