



# Issue Brief

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## Tariffs Are Bad. Import Quotas Are Worse.

The Trump administration has imposed tariffs on \$274.9 billion of imports, with a [total cost](#) to businesses and taxpayers of \$37.9 billion per year. These tariffs are a hidden tax that makes the United States weaker by undermining economic growth and inviting foreign retaliation against U.S. exporters. Some White House officials now want the government to go a step further and cap imports of goods ranging from steel to aluminum to cars. It's an odd strategy coming from an administration that has successfully cut regulations and taxes in other areas.

From FDR to Barack Obama, U.S. presidents attempted to avoid destructive trade wars, and both U.S. and foreign trade barriers steadily declined. The Trump administration, in contrast, has attempted to use tariffs—and the threat of tariffs—to coerce changes by our trading partners. In addition to tariffs, some officials in the Trump administration have embraced the use of quotas to restrict imports. As opposed to taxing imports with tariffs, quotas limit the quantity of goods that Americans can import.

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## Key Facts:



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government, as President Trump has repeatedly [pointed out](#). In contrast, quotas drive up prices by restricting imports, but the federal government doesn't collect a dime.

Quotas are also more restrictive than tariffs. Under a tariff, companies can always import more as long as they are willing to pay extra. With a quota, once imports hit the cap amount, nothing else can be imported at any price. That creates economic distortions and costly incentives for businesses, and it penalizes small companies that don't have the ability to stockpile inventories in case imports are cut off.

Quotas and tariffs are both hidden taxes. Tariffs increase the price of imports, but they don't show up on the price tag. However, at least it is possible to see their cost through the tariff revenue collected by the federal government. Quotas increase prices by restricting supply, but it is hard for purchasers to see how much of their price is due to quotas. This is one reason U.S. trade policy for decades was based on "tariffication" —the conversion of quotas to tariffs.

Additionally, quotas are typically more complex and bureaucratic than tariffs. For example, there is not just one U.S. steel quota; there are 54 [separate](#) quotas for different types of steel. The U.S. government must monitor imports and enforce a separate cap on each of these different types of steel for each of our trading partners. [According to Christine McDaniel](#) of the Mercatus Center, "So far, the steel quotas have not been administered in a transparent way, which has made it even harder for U.S. manufacturers to access the steel they need for their everyday production processes."

Quotas can also be harder to reverse than tariffs. Although quotas cap the total level of sales from a given country, the foreign exporters who are allocated a portion of a quota benefit from higher prices and less competition. As a result, there may be less pressure from our trading partners to get rid of quotas once they have been put in place.

The United States and other countries sometimes use trade sanctions to punish foreign governments that are bad actors on the world stage. Quotas and other domestic trade restrictions punish Americans in the same way that trade sanctions punish foreign countries: by distorting markets, raising prices paid by consumers, and depriving people of needed goods. As economist Henry George [explained](#) in 1886: "What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war."

## **Quotas and central planning**

Import quotas are a common feature of centrally planned economies like Venezuela, which imposed import quotas under socialist leaders Hugo Chavez and Nicolas Maduro. In 2001, the Chavez regime [implemented](#) import quotas in a misguided effort to boost domestic producers. Venezuela also [imposed](#) quotas on automobile imports in 2008 to promote domestic automobile manufacturing. The results of such policies were predictable. According to one [report](#): "The human suffering is hitting [Venezuelan] society at every level—hyperinflation, violent crime, widespread deprivation, deepening poverty, and stifling import quotas that exacerbate the scarcity of critical goods."

## **Import quotas in the United States**

Like Venezuela, the United States has occasionally restricted imports by using tariff-rate quotas, which impose hefty tariffs on imports once a specific threshold has been met. For example, as a result of tariff-rate quotas on sugar imports, Americans pay [twice](#) the world price for sugar. Sugar-using companies have often been forced to relocate to other countries in order to access their most important

input at an affordable price. As one candy manufacturer [pointed out](#), “If we could just buy sugar at the price the rest of the world pays for sugar, we could move the 250 jobs we have in Mexico to Ohio.”

The Trump administration has also supported the use of quotas to restrict steel and aluminum imports. While it imposed a 25 percent tariff on steel imports and a 10 percent tariff on aluminum imports from most countries, it also offered an exemption from tariffs to countries that agreed to accept quotas instead. It used quotas instead of tariffs to [restrict](#) steel imports from countries including Argentina, Brazil, and Korea. The alleged benefits of this approach were described by Treasury Secretary Steve [Mnuchin](#), “South Korea will reduce the amount of steel that they send into the United States as part of this. So I think this is an absolute win-win.”

That’s backwards. Economists are nearly [unanimous](#) in their opposition to trade barriers, including tariffs on steel and aluminum imports. Economists also broadly agree that quotas are even worse than tariffs from the U.S. perspective. According to the University of Wisconsin’s Menzie [Chinn](#), “Watch for this ostensibly ‘get tough’ policy to reappear. Like many seemingly tough policies, they are actually just plain stupid.”

### **The Trump administration should honor our commitments to our allies**

It’s bad enough to impose quotas on trading partners like Brazil or South Korea. But the administration has [reportedly](#) also pushed to impose quotas on steel and aluminum imports from Canada and Mexico, by far our largest and most important trading partners, even after agreeing upon a major trade deal.

According to U.S. Trade Representative Robert [Lighthizer](#), “The president’s view was that it makes sense that if we get a successful agreement, to have them be excluded [from steel and aluminum barriers]. It’s an incentive to get a deal.” The U.S.-Mexico-Canada (USMCA) trade pact was agreed upon November 30, 2018, and yet the administration has persisted with threats of imposing quotas.

There is also a risk the administration may impose quotas on automobile imports as part of its so-called national security [investigation](#) into motor vehicle imports.

### **Foreign and domestic interests alike have opposed quotas**

Foreign leaders have been unwilling to play along. According to Mexico Deputy Economy [Minister](#) Luz Maria de la Mora, “Quotas make no sense, they’re a way of managing trade.” EU Trade Commissioner Cecilia Malmstrom [said](#) the EU would not accept auto quotas as an alternative to tariffs.

Business groups have attempted to make it clear how they would be harmed by import quotas. According to a [letter](#) signed by The Aluminum Association, which represents aluminum producers including Alcoa and Reynolds Consumer Products,

“Replacing a tariff with a quota on aluminum imports in North America would be highly detrimental. If there is a quota system for aluminum trade within North America, it will be difficult to ensure that downstream manufacturers of aluminum products will have access to the aluminum inputs they need.”

The American Petroleum Institute [noted](#) that quotas “would inflict even more harm to our economy than tariffs as they prevent much-needed steel from crossing the border and result in lengthy delays or even cancelations of major construction and manufacturing projects.”

## Quotas are not the American way

As it considers import quotas, the Trump administration should reject the policies of socialist leaders like Nicolas Maduro and follow the guidance [provided](#) by President Harry Truman:

"But if controls over trade are really to be tight, tariffs are not enough. Even more drastic measures can be used. Quotas can be imposed on imports, product by product, country by country, and month by month. Importers can be forbidden to buy abroad without obtaining licenses. Those who buy more than is permitted can be fined or jailed. Everything that comes into a country can be kept within limits determined by a central plan.... This is precisely what we have been trying to get away from, as rapidly as possible, ever since the war. It is not the American way."

The founders of the United States [pointed](#) to the King of Great Britain "cutting off our Trade with all parts of the world" as a reason to declare independence. Soon after, the U.S. Constitution created the world's most successful free trade zone by banning trade barriers between the states. Imposing self-destructive import quotas would be more likely to close foreign markets than to open them, and would be a costly departure from the Trump administration's efforts to cut taxes and regulations.

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