Issue Brief

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American Households Spared Even Higher Bill with New China Trade Deal, but $54 Billion in Import Taxes Remain

U.S. trade taxes imposed on imports from China under Section 301 of the Trade Act of 1974 currently cost each U.S. household $425 a year. The recently announced deal between the United States and China averts a 5 percent tax increase on $250 billion of imports from China, from 25 percent to 30 percent. That tax hike had been scheduled to hit on October 15, and it would have brought the total taxes on imports from China imposed by the Trump administration to $492 for the average American household.[1]

The exact details of the deal are not yet clear. But for the time being at least, Americans avoided a new tax increase, and that result should be applauded. Moreover, this development suggests Americans may be able to avoid a new 15 percent tax on $160 billion in imports that is scheduled to hit just before Christmas.

On a per-household basis, Section 301 taxes currently rank in the top 10 of all tax increases imposed since the conclusion of World War II. Taxes on imported washing machines, solar panels, aluminum, and steel have cost Americans another $9.2 billion.[2]

Key Facts:

- **U.S. trade taxes imposed on imports from China under Section 301 of the Trade Act of 1974 currently cost each U.S. household $425 a year.**
- **On a per-household basis, Section 301 taxes currently rank in the top 10 of all tax increases imposed since the conclusion of World War II.**
- **According to the Congressional Budget Office, tariffs will reduce real GDP by 0.3 percent, or about $58 billion, in 2020. This would amount to lopping off Maine or North Dakota from the U.S. economy.**

[1] Trade Act of 1974, https://legcounsel.house.gov/Comps/93-618.pdf, Office of the U.S. Trade Representative, "USTR Statement on Section 301 Tariff Action Regarding China," August 23, 2019, and Chad P. Bown and Melinda Kolb, "Trump's Trade War Timeline: An Up-to-Date Guide," Peterson Institute for International Economics, updated August 23, 2019.
[2] "Trade Statistics," U.S. Customs and Border Protection, https://www.cbp.gov/newsroom/stats/trade.

Table 1: Significant Post-WWII Tax Increases (2019 Dollar Equivalents)[3]		
	Cost (billions)	Cost Per Household
Revenue Act of 1951	$48.70	$1,089
Tax Equity and Fiscal Responsibility Act of 1982	$87.00	$1,024
Revenue Act of 1950	$41.10	$943
Omnibus Budget Reconciliation Act of 1993	$77.90	$803
Excess Profits Act of 1950	$30.20	$692
Omnibus Budget Reconciliation Act of 1990	$57.20	$592
Tax Adjustment Act of 1966	$33.70	$577
Affordable Care Act, 2010	$53.40	$454
Sec. 301 taxes on imports from China (as of Oct. 15):	**$54.30**	**$425**
Omnibus Budget Reconciliation Act of 1987	$28.30	$309

Estimates of the tax impact per household are based on a 31.5-percent reduction in imports from China, in line with research on the impact of tariffs imposed in 2018.[4] The tax burden of new tariffs is not calculated based on current import levels, because the value of goods coming from China is likely to fall from previous levels as families put off purchases of tariffed goods due to their inflated after-tax cost. In addition, the U.S. tariffs may cause companies currently producing in China to relocate to Vietnam and other countries where before the tariffs it was not cost effective to produce their products. This would also increase costs for Americans but reduce revenue generated by taxes on Chinese-made goods. Tariff exclusions granted by the government for selected products will also reduce the overall tax cost.

New "national security" taxes

Soon after the U.S.-China trade deal was announced, President Trump decided to increase taxes on steel imported from Turkey from 25 percent to 50 percent under Section 232 of the Trade Expansion Act of 1962. This law allows the president to unilaterally restrict imports if they allegedly pose a threat to national security. A 50 percent tariff could dramatically reduce U.S. imports of steel from Turkey.

These imports do not threaten U.S. national security. Overall, Turkey is not one of the top suppliers of steel to the United States.[5] According to a senior White House official, "So many people conveniently forget that Turkey is a big trading partner of the United States, in fact they make the structural steel frame for our F-35 Fighter Jet."[6] If accurate, then restricting Turkish steel imports would be more likely to harm U.S. national security than to strengthen it.

Alleging dubious "national security" threats to justify tariffs has been a consistent theme of the Trump administration's Section 232 investigations. For example, earlier this year the Commerce Department alleged that cars and trucks made in the United States by companies that are not American-owned somehow threaten to impair U.S. national security.[7]

[3] Tempalski, Jerry. U.S. Department of the Treasury, "Revenue Effects of Major Tax Bills," OTA Working Paper 81, September 2007; Estimated Revenue Effects Of The Amendment In The Nature Of A Substitute To H.R. 4872, The "Reconciliation Act Of 2010," As Amended, In Combination With The Revenue Effects Of H.R. 3590, The "Patient Protection And Affordable Care Act ('PPACA')," As Passed By The Senate, And Scheduled For Consideration By The House Committee On Rules On March 20, 2010, Joint Committee on Taxation, JCX-17-10, Bureau of Labor Statistics, and authors' calculations. PPACA tax increase based on annual average of estimated revenue impact from FY 2011 through FY 2019.
[4] Fajgelbaum, Pablo, et al. "The Return to Protectionism," National Bureau of Economic Research and the University of California Los Angeles, March 10, 2019.
[5] U.S. Department of Commerce, International Trade Administration Global Steel Trade Monitor.
[6] President Donald Trump, Twitter, October 8, 2019.
[7] The White House, "Adjusting Imports of Automobiles and Automobile Parts Into the United States", May 17, 2019.

Additional trade war costs

The tax cost is only a partial measure of the overall cost inflicted by tariffs. At some point, high U.S. tariffs render imports uncompetitive, essentially blocking them from our market. If the Trump administration tariffs continue to increase, the value of imports will fall as tariffs approach an effective rate of infinity. The tax cost to households will fall toward zero because "zero imports" means "zero tariff revenue." However, it does not mean zero costs for American families and businesses.

The tax increase alone does not represent the net economic costs that tariffs impose on the economy. The U.S. Congressional Budget Office (CBO) identified three additional ways the Trump administration's tariffs are costly for Americans:

1. They reduce the purchasing power of U.S. consumers and businesses. Tariffs boost the cost of imports originating from other higher-cost countries, and they allow domestic producers to charge higher prices.
2. They increase uncertainty, leading businesses to delay or forgo new investments, or to make expensive changes to their supply chains.
3. They prompt retaliatory tariffs and reduce exports.

According to CBO, tariffs will reduce real GDP by 0.3 percent, or about $58 billion, in 2020.[8] This would amount to lopping off Maine or North Dakota from the U.S. economy.[9]

The CBO report understates the cost of tariffs, because it only includes tariffs in effect as of July 25.[10] Since then, new tariffs have been announced by the United States and China that will raise the cost for consumers and businesses even higher.

"I never get too attached to one approach."

When it comes to trade policy, the Trump administration has been in a hole that it keeps digging deeper. On October 15, the Trump administration hit "pause" on new digging when it decided not to impose new import taxes. This break was immediately followed by the announcement of possible new Section 232 tariffs on steel imports from Turkey based on dubious national security grounds.

A better approach would be for the White House should remove its ineffective and self-destructive tariffs.

So far, tariffs have failed to achieve any changes in the economic policies targeted by the U.S. Section 301 investigation. New Section 232 national security tariffs are more likely to weaken U.S. security than to strengthen it.. In The *Art of the Deal*, President Trump wrote: "I also protect myself by being flexible. I never get too attached to one deal or one approach." It's time for him to apply that flexibility to his tariff policies and spare households from $425 a year in import taxes.

About the Author

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[8] Congressional Budget Office, Historical Data and Economic Projections, August 2019.
[9] Bureau of Economic Analysis, Regional Data: GDP and Personal Income.
[10] Fried, Daniel, "The Effects of Tariffs and Trade Barriers in CBO's Projections," Congressional Budget Office, August 22, 2019, https://www.cbo.gov/publication/55576.

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