

# Issue Brief

MARCH 24, 2020  
BY BRYAN RILEY

## Two Years of Trade War Have Taken a Significant Economic Toll

March 23, 2020 marks the two year anniversary of import taxes on steel and aluminum.<sup>1</sup> Like most of the Trump administration's trade actions, the new taxes were imposed with no congressional approval. The White House's tariffs represent, in percentage terms, the largest federal import tax increase since 1920. (See Appendix 1 for annual U.S. customs revenue data.)

President Trump has pursued a smorgasbord of protectionist executive actions including costly "Buy American" regulations, disruptive information and communication technology supply chain rules, and proposed new taxes on imported cars and parts. Now his administration is reportedly contemplating new limits on imports of pharmaceuticals and medical devices.<sup>2</sup> The cumulative impact of these actions on Americans is significant.

<sup>1</sup> President Donald Trump, "Presidential Proclamation on Adjusting Imports of Steel into the United States," March 8, 2018. Retrieved from: <https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states/>.

<sup>2</sup> Cook, Sara, and Watson, Kathryn. "Peter Navarro pitches executive action to cut dependence on medicine made abroad," CBS News, March 17, 2020.

## Key Facts:



As a result of President Trump's import tax increases, tariffs are projected to cost the average American household \$718 in fiscal year 2020, up from \$256 per year in fiscal year 2016. That is a \$462 per household tax hike.



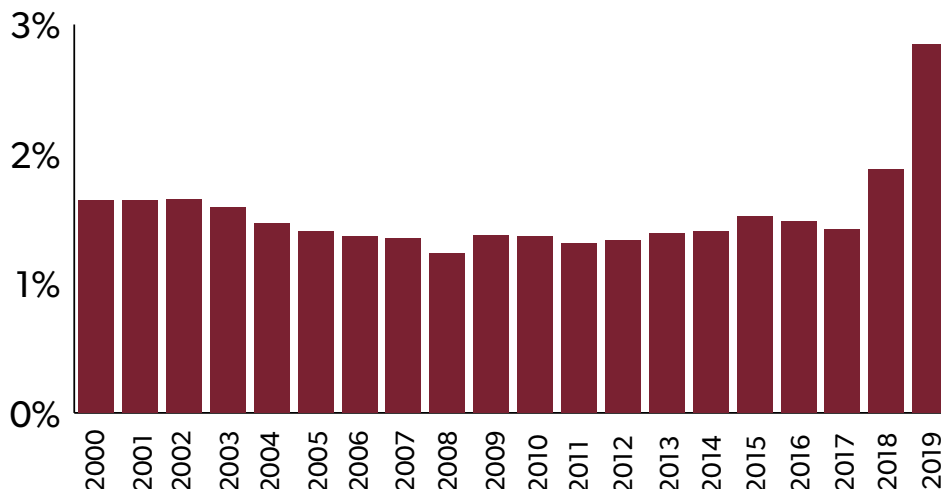
If President Trump wants to strengthen the economy, he could begin by reducing or eliminating taxes imposed under Sec. 232 and Sec. 301. These cuts could be implemented immediately, with no need to wait for congressional action.



President Trump should use his authority under the Bipartisan Congressional Trade Priorities and Accountability Act of 2015 to reduce and, when possible, eliminate all tariffs on medically useful imports.

Figure 1: Biggest Import Tax Increases Since 1920<sup>3</sup>

**The Average US Import Tax Rate is now 73% Higher than in 2000**

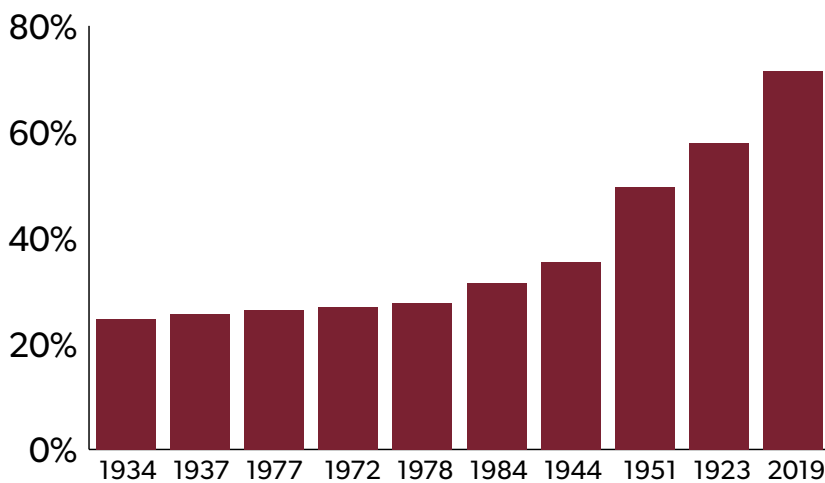


Source: calculations from [dataweb.usitc.gov](http://dataweb.usitc.gov)

In terms of the average tariff rate Americans face, the Trump administration has reversed a trend toward lower U.S. and global tariffs that began after World War II.

Figure 2: Average U.S. Tariff Rate<sup>4</sup>

**Biggest Annual Increase in Customs Revenue, 1921-2019**



Fiscal Year (Sources: Office of Management and Budget, Department of Commerce)

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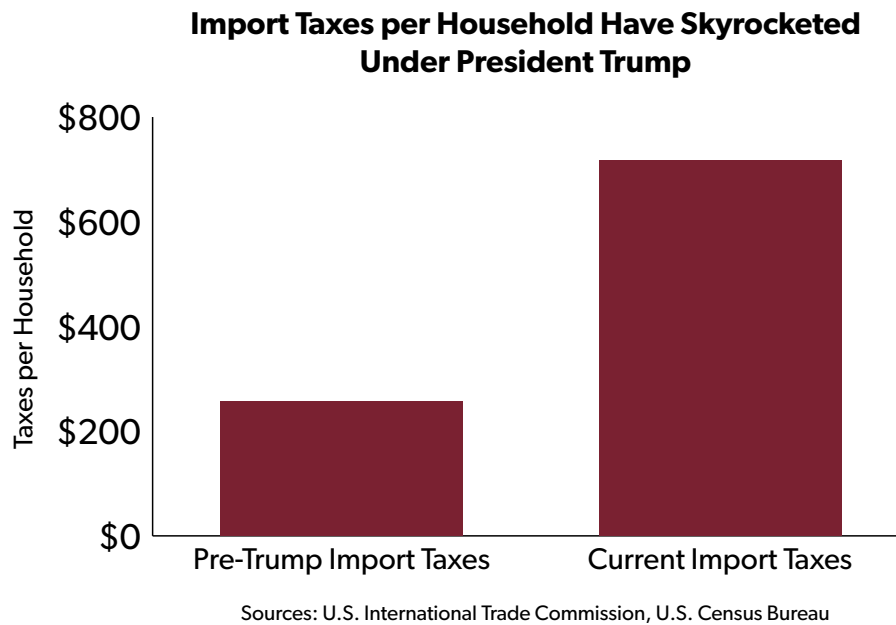
<sup>3</sup> Office of Management and Budget. (2020). “Historical Tables, Table 2.5—Composition of ‘Other Receipts’: 1940–2025.” Retrieved from: <https://www.whitehouse.gov/omb/historical-tables/>; and U.S. Census Bureau, “Historical Statistics of the United States, Colonial Times to 1970.” pp. 1105-1106. Retrieved from: [https://www2.census.gov/library/publications/1975/compendia/hist\\_stats\\_colonial-1970/hist\\_stats\\_colonial-1970p2-chY.pdf?#](https://www2.census.gov/library/publications/1975/compendia/hist_stats_colonial-1970/hist_stats_colonial-1970p2-chY.pdf?#).

<sup>4</sup> Author’s calculation from U.S. International Trade Commission “DataWeb” Accessed March 18, 2020. Retrieved from: <https://dataweb.usitc.gov/>.

While revenue cost to households is a useful measure, it does not represent the net economic impact of tariffs. President Trump has said that billions of dollars “are pouring into the coffers of the U.S.A. because of the Tariffs being charged to China.”<sup>5</sup> Although the tariffs are being charged to Americans, not China, it is true that the tariffs provide revenue to finance government spending, and any benefits associated with that should be accounted for.

On the other hand, the revenue cost understates the impact of tariffs because it does not include their indirect economic burden. A summary of current research on the topic found estimates of the net economic cost to U.S. households in 2020 ranges from \$500 to \$1700.<sup>6</sup>

Figure 3: Import Taxes Per Household<sup>7</sup>



### Section 232 steel and aluminum taxes continue to harm American manufacturers

The Trump administration’s taxes on imported steel and aluminum took effect March 23, 2018. The new taxes were imposed under Section 232 of the Trade Expansion Act of 1962. Sec. 232 is a cold war-era measure that allows the president to restrict imports for national security reasons.

When the tariffs were announced, one of the key talking points from U.S. Commerce Secretary Wilbur Ross and Director of Trade and Manufacturing Policy Peter Navarro was that steel and aluminum tariffs would have little to no impact on prices for American businesses and consumers. Navarro said the impact of steel and aluminum tariffs would be “negligible to nothing.”<sup>8</sup> According to Secretary Ross, the tariffs would be “no big deal.”<sup>9</sup>

<sup>5</sup> President Trump, November 29, 2018. Tweet. Retrieved from: <https://twitter.com/realDonaldTrump/status/1068120444279103488>.  
<sup>6</sup> Russ, Kathryn. “What Trump’s tariffs have cost the U.S. economy.” PBS News Hour, October 11, 2019. Retrieved from: <https://www.pbs.org/newshour/economy/making-sense/what-trumps-tariffs-have-cost-the-u-s-economy>.  
<sup>7</sup> Author’s calculation from: U.S. International Trade Commission “DataWeb”.Retrieved from: <https://dataweb.usitc.gov/> (Accessed March 18, 2020); and U.S. Census Bureau. (November 2019.) “Historical Household Tables.” Retrieved from: <https://www.census.gov/data/tables/time-series/demo/families/households.html>. (Accessed March 18, 2020.)  
<sup>8</sup> Tillett, Emily. “WH trade adviser: Tariffs will have ‘negligible’ impact on consumer prices,” CBS News, March 4, 2018.  
<sup>9</sup> Berkely Lovelace Jr, “Commerce Secretary Wilbur Ross on potential price increases from Trump tariffs: ‘No big deal,’” CNBC, March 2, 2018.

Navarro and Sec. Ross turned out to be wildly mistaken. According to Christine McDaniel of the Mercatus Center, the Commerce Department has received more than 107,000 requests to have imported products excluded from steel or aluminum tariffs.<sup>10</sup> The sheer number of requests indicates that American businesses do, in fact, think the restrictions are a “big deal.”

Moreover, the exclusion process appears to be highly flawed. Last year, the Commerce Department’s Office of Inspector General issued an alert “regarding a lack of transparency that contributes to the appearance of improper influence in decision-making for tariff exclusion requests under Section 232.”<sup>11</sup>

As more evidence that steel and aluminum tariffs are wreaking havoc on downstream American industries, on January 24 President Trump issued a proclamation “Adjusting Imports of Derivative Aluminum Articles and Derivative Steel Articles Into the United States.”<sup>12</sup> His proclamation would allow for the imposition of additional taxes on imported products containing steel or aluminum. If steel and aluminum tariffs were not affecting downstream industries, there would be no reason to issue a new proclamation authorizing new tariffs on imports made with steel or aluminum.

So far, Sec. 232 steel and aluminum taxes have cost Americans \$8.9 billion.<sup>13</sup>

### **Section 301 taxes have backfired**

There is a persistent theme being pushed in some quarters that the Trump administration is pursuing a trade strategy designed to decouple the U.S. economy from China. However, the administration’s policy has not had the effect that this rhetoric might suggest. For example, the administration initiated a dispute under Section 301 of the Trade Act of 1974 explicitly designed to make China a better place to do business.

According to U.S. Trade Representative Robert Lighthizer, for example, “Protection of intellectual property is not anti-Chinese. Stopping people from forcing transfer of technology is not anti-Chinese. In fact, the reformers would say it’s pro-Chinese. It will help their economy, not hurt their economy.”<sup>14</sup>

In the wake of the COVID-19 coronavirus global health pandemic originating in Wuhan, China, outside calls to decouple have only strengthened. And in fact, there may be good reason for American businesses to think carefully about how to structure their supply chains as a result.

But historically, unilateral trade threats like the administration’s Sec. 301 dispute with China have often either failed to achieve their goals or ignited a retaliatory back-and-forth trade war. That’s why the United States led efforts to create an international dispute resolution system in the World Trade Organization designed to hold countries accountable to global trade rules.

One of the main results of the current U.S. Sec. 301 dispute—in addition to costing Americans billions of dollars in taxes—has been to empower China’s communist leaders. According to Mary Lovely and

<sup>10</sup> McDaniel, Christine, and Brunk, Joe. “Section 232 Steel and Aluminum Tariff Exclusion Requests Continue Apace.” Mercatus Center, January 21, 2020. Retrieved From: <https://www.mercatus.org/bridge/commentary/section-232-steel-and-aluminum-tariff-exclusion-requests-continue-apace>.

<sup>11</sup> Rice, Carol N. (Assistant Inspector General for Audit and Evaluation). Memorandum to: Sec. Wilbur Ross (Secretary, United States Department of Commerce). Final Memorandum No. OIG-20-003-M, October 28, 2019. Retrieved from: <https://www.oig.doc.gov/OIGPublications/OIG-20-003-M.pdf>.

<sup>12</sup> Proclamation 9980 of January 24, 2020, “Adjusting Imports of Derivative Aluminum Articles and Derivative Steel Articles Into the United States”. Retrieved from: <https://www.federalregister.gov/documents/2020/01/29/2020-01806/adjusting-imports-of-derivative-aluminum-articles-and-derivative-steel-articles-into-the-united>

<sup>13</sup> Department of Homeland Security. (2020). “CBP Trade Statistics.” Retrieved from: <https://www.cbp.gov/newsroom/stats/trade>. (Accessed March 17, 2020).

<sup>14</sup> Chang, Alisa. “U.S. Trade Representative Robert Lighthizer Discusses Ongoing Trade Talks With China,” National Public Radio, March 25, 2019.

Chad Bown of the Peterson Institute for International Economics, “The phase one accord committing China to buy additional US goods seems certain to strengthen Chinese state-owned enterprises (SOEs) and state control of the economy—the very policies the administration’s trade war supposedly sought to combat.”<sup>15</sup>

So far, Sec. 301 taxes have cost Americans who import goods from China \$48.3 billion.<sup>16</sup> Even after the administration’s phase one trade deal with China, billions of dollars in U.S. taxes on Chinese imports remain in place. The Peterson Institute’s Bown has further documented how Sec. 301 tariffs have weakened the U.S. response to COVID-19: “The administration’s tariffs on Chinese medical products may contribute to shortages and higher costs of vital equipment at a time of nationwide health crisis.”<sup>17</sup>

These results were entirely predictable. In 2018, NTU released a letter from more than 1,100 economists, including 15 Nobel laureates, stating: “We are convinced that increased protective duties would be a mistake. They would operate, in general, to increase the prices which domestic consumers would have to pay. A higher level of protection would raise the cost of living and injure the great majority of our citizens.”<sup>18</sup> This is exactly what happened in the United States as a result of the executive branch’s tax increases.

## **What to do next**

After two years and billions of dollars in costs to American businesses and individuals, the trade war has done little beyond weakening America’s economy. In the face of an economic shutdown from a global health crisis, these impacts will be felt more strongly than ever.

If President Trump wants to strengthen the economy, he could begin by reducing or eliminating taxes imposed under Sec. 232 and Sec. 301. These cuts could be implemented immediately, with no need to wait for congressional action. In the event President Trump decides not to act, Reps. Stephanie Murphy (D-FL) and Joe Cunningham (D-SC) recently urged Congress to suspend all of President Trump’s tariffs.<sup>19</sup> Dozens of businesses and trade associations have called on President Trump “to provide tariff relief as one of the measures to help those hurting financially from the economic effects resulting from the current public health crisis.”<sup>20</sup>

In addition, President Trump should reduce and, when possible, eliminate all tariffs on medically useful imports. Under Section 103(a) of the Bipartisan Congressional Trade Priorities and Accountability Act of 2015, whenever the President determines that existing U.S. duties or other import restrictions are unduly burdening and restricting the foreign trade of the United States, the President may reduce duties by up to 50 percent. On products for which tariff rates that are currently 5 percent or lower, the President may eliminate tariffs.<sup>21</sup>

<sup>15</sup> Bown, Chad P., and Lovely, Mary E. “Trump’s phase one deal relies on China’s state-owned enterprises,” Peterson Institute for International Economics, March 3, 2020.

<sup>16</sup> Department of Homeland Security. (2020). “CBP Trade Statistics.” Retrieved from: <https://www.cbp.gov/newsroom/stats/trade>. (Accessed March 17, 2020).

<sup>17</sup> Bown, Chad P. “Trump’s trade policy is hampering the US fight against COVID-19,” Peterson Institute for International Economics, March 13, 2020.

<sup>18</sup> “Economists Join NTU to Voice Opposition to Tariffs, Protectionism,” National Taxpayers Union, May 3, 2018. Retrieved from: <https://www.ntu.org/publications/page/economists-join-ntu-to-voice-opposition-to-tariffs-protectionism>.

<sup>19</sup> “Murphy, Cunningham Urge Congressional Leadership to Suspend Tariffs in Upcoming Coronavirus Response Bill.” Office of U.S. Congresswoman Stephanie Murphy, March 18, 2020. Retrieved from: <https://murphy.house.gov/news/documentsingle.aspx?DocumentID=1254>.

<sup>20</sup> Americans for Free Trade. “Tariff Relief Letter to President Donald Trump.” March 18, 2020, Retrieved from: [https://mcusercontent.com/697d5698403556f603315998d/files/3240e689-c7ef-4b2e-b4f5-49c9e8e9ffb9/AFT\\_Tariff\\_Relief\\_Letter\\_to\\_President\\_Trump\\_Final\\_031820.pdf](https://mcusercontent.com/697d5698403556f603315998d/files/3240e689-c7ef-4b2e-b4f5-49c9e8e9ffb9/AFT_Tariff_Relief_Letter_to_President_Trump_Final_031820.pdf).

<sup>21</sup> 26 U.S.C. § 172 (2015)

In 2019 the federal government collected \$150 million in taxes on imported instruments and appliances used in medical, surgical, dental or veterinary sciences, and another \$31 million in tariffs on surface-active washing and cleaning preparations.<sup>22</sup> Even as a symbolic move, eliminating these tariffs would demonstrate the Trump administration's dedication to public health.

With the Declaration of Independence, our country's founders initiated a rebellion against leaders who cut off our trade with all parts of the world. Today, we must remain vigilant against efforts to impose costly tariffs on American families and businesses.

### **About the Author**

*Bryan Riley is the Director of NTUF's Free Trade Initiative.*

*Appendix 1 follows on the next page.*

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<sup>22</sup> U.S. International Trade Commission "DataWeb". Retrieved from: <https://dataweb.usitc.gov/> (Accessed March 18, 2020)



*2019 National Taxpayers Union Foundation*  
*122 C Street NW, Suite 650, Washington, DC 20001*  
*ntuf@ntu.org*



<b>Fiscal Year</b>	<b>Customs Duties (Millions)</b>								
1789-1791	\$4	1834	\$16	1881	\$198	1928	\$569	1975	\$3,676
1792	\$3	1835	\$19	1882	\$220	1929	\$602	1976	\$4,074
1793	\$4	1836	\$23	1883	\$215	1930	\$587	1977	\$5,150
1794	\$5	1837	\$11	1884	\$195	1931	\$378	1978	\$6,573
1795	\$6	1838	\$16	1885	\$181	1932	\$328	1979	\$7,439
1796	\$7	1839	\$23	1886	\$193	1933	\$251	1980	\$7,174
1797	\$8	1840	\$14	1887	\$217	1934	\$313	1981	\$8,083
1798	\$7	1841	\$14	1888	\$219	1935	\$343	1982	\$8,854
1799	\$7	1842	\$18	1889	\$224	1936	\$387	1983	\$8,655
1800	\$9	1843	\$7	1890	\$230	1937	\$486	1984	\$11,370
1801	\$11	1844	\$26	1891	\$220	1938	\$359	1985	\$12,079
1802	\$12	1845	\$28	1892	\$177	1939	\$319	1986	\$13,327
1803	\$10	1846	\$27	1893	\$203	1940	\$331	1987	\$15,085
1804	\$11	1847	\$24	1894	\$132	1941	\$365	1988	\$16,198
1805	\$13	1848	\$32	1895	\$152	1942	\$369	1989	\$16,334
1806	\$15	1849	\$28	1896	\$160	1943	\$308	1990	\$16,707
1807	\$16	1850	\$40	1897	\$177	1944	\$417	1991	\$15,949
1808	\$16	1851	\$49	1898	\$150	1945	\$341	1992	\$17,359
1809	\$7	1852	\$47	1899	\$206	1946	\$424	1993	\$18,802
1810	\$9	1853	\$59	1900	\$233	1947	\$477	1994	\$20,099
1811	\$13	1854	\$64	1901	\$239	1948	\$403	1995	\$19,301
1812	\$9	1855	\$53	1902	\$254	1949	\$367	1996	\$18,670
1813	\$13	1856	\$64	1903	\$284	1950	\$407	1997	\$17,928
1814	\$6	1857	\$64	1904	\$261	1951	\$609	1998	\$18,297
1815	\$7	1858	\$42	1905	\$262	1952	\$533	1999	\$18,336
1816	\$36	1859	\$50	1906	\$300	1953	\$596	2000	\$19,914
1817	\$26	1860	\$53	1907	\$332	1954	\$542	2001	\$19,369
1818	\$17	1861	\$40	1908	\$286	1955	\$585	2002	\$18,602
1819	\$20	1862	\$40	1909	\$301	1956	\$682	2003	\$19,862
1820	\$15	1863	\$69	1910	\$334	1957	\$735	2004	\$21,083
1821	\$13	1864	\$102	1911	\$314	1958	\$782	2005	\$23,379
1822	\$18	1865	\$85	1912	\$311	1959	\$925	2006	\$24,810
1823	\$19	1866	\$179	1913	\$319	1960	\$1,105	2007	\$26,010
1824	\$18	1867	\$176	1914	\$292	1961	\$982	2008	\$27,568
1825	\$20	1868	\$194	1915	\$210	1962	\$1,142	2009	\$22,453
1826	\$23	1869	\$180	1916	\$213	1963	\$1,205	2010	\$25,298
1827	\$20	1870	\$195	1917	\$226	1964	\$1,252	2011	\$29,519
1828	\$23	1871	\$206	1918	\$180	1965	\$1,442	2012	\$30,307
1829	\$23	1872	\$216	1919	\$184	1966	\$1,767	2013	\$31,815
1830	\$22	1873	\$188	1920	\$323	1967	\$1,901	2014	\$33,926
1831	\$24	1874	\$163	1921	\$309	1968	\$2,038	2015	\$35,041
1832	\$28	1875	\$157	1922	\$356	1969	\$2,319	2016	\$34,838
1833	\$29	1876	\$148	1923	\$562	1970	\$2,430	2017	\$34,574
		1877	\$131	1924	\$546	1971	\$2,591	2018	\$41,299
		1878	\$130	1925	\$548	1972	\$3,287	2019	\$70,784
		1879	\$137	1926	\$579	1973	\$3,188	2020	\$92,304
		1880	\$187	1927	\$606	1974	\$3,334	estimate	