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# Eliminating Tariffs Would Free Up to $6 Billion a Month for Americans

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**KEY TAKEAWAYS**

Tariffs increase the cost of doing business, suppress employment, make common household products more expensive, and create supply-chain uncertainty.

Temporarily deferring tariff payments on some imports was a positive step, but the Administration should permanently eliminate the tariffs imposed since 2018.

Removing tariffs on thousands of products from the EU and China would be a much-needed boost to the U.S. economy and create savings for Americans.

Earlier this year, The Heritage Foundation published "A Pro-Growth Agenda to Strengthen the American Economy."[1] The agenda details dozens of recommendations for Congress and the Administration in anticipation of the projected recession. With more than 30 million unemployment insurance claims filed in March and April alone due to COVID-19, it is time to act on those recommendations. One immediate source of economic relief for Americans would be the elimination of tariffs on imported goods.

Tariffs increase the cost of doing business, which suppresses employment. They make common household products more expensive. Frequent changes in tariff rates create supply-chain uncertainty. Right now, the government is looking for ways to lower costs for American businesses and families in an effort to keep economic activity going. The Trump Administration

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has recently deferred certain tariffs for 90 days. The Administration should go even further and eliminate all tariffs it has imposed since 2018. Furthermore, the Administration and Congress should seriously consider extending the deferral of tariff payments to more products and for a longer period of time.

## Tariffs: A Tax that Americans Don't Need Right Now (Or Ever)

Before the economic slowdown brought on by the COVID-19 outbreak, Americans paid an average of more than $6 billion a month in customs duties. Generally, the majority of tariffs can be separated into two groups: those that predate the Trump Administration, and those that have been imposed since 2018. While U.S. officials collect the tariffs from U.S. importers, the costs are borne by both businesses and American families. According to the U.S. Customs and Border Protection,[2] the agency in charge of tariff collection, since 2018, the U.S. government has collected:

- **$185 million** in additional duties on washing-machine and washing-machine-parts imports through the use of Section 201 of the Trade Act of 1974,
- **$1.48 billion** in additional duties on solar-panel and parts imports through the same Section 201 authority,
- **$8.96 billion** in additional duties on steel and aluminum imports through the use of Section 232 of the Trade Expansion Act of 1962,
- **$500 million** in additional duties on certain imports from the European Union through the use of Section 301 of the Trade Act of 1974, and
- **$49.22 billion** in additional duties on certain imports from China through the same Section 301 authority.

This $60.34 billion in additional tariff duties represents roughly half of the $128.21 billion in total duties collected and recorded by the U.S. Department of the Treasury's monthly statements since early 2018.[3]

Besides the duties that Americans pay due to Sections 201, 232, and 301 tariffs, the majority of the remaining duties collected by the U.S. government predate the Trump Administration and apply to imports from World Trade Organization (WTO) members.

The U.S. gives WTO members what is referred to as most-favored-nation (MFN) status. Some MFN rates the U.S. applies to imports can be as low as 2 percent (such as fire alarms, air conditioners for cars, and microwave ovens), while others can be greater than 25 percent (such as beef and deer meat, pickup trucks, and footwear). On average, Americans pay an MFN rate of 3.4 percent on imports from most WTO members.[4] U.S. free trade agreements, like those with Canada, Chile, Mexico, Peru, Singapore, South Korea, and 14 other countries, allow tariff-free imports that would otherwise have an MFN tariff rate.[5]

On April 19, President Donald Trump signed an executive order to extend the deadline for certain tariff payments.[6] This would allow the Treasury Department to defer the payments for all imports except for the roughly $60 billion collected from Section 201, Section 232, Section 301, and anti-dumping and countervailing duty tariffs. While this policy could free up cash in the short term, the bill will still come due in 90 days.

Congress and the Administration should instead reduce or eliminate MFN tariffs permanently and unilaterally, or by expediting new free trade agreements with Georgia, Switzerland, and Taiwan. Reduced import costs immediately and in the long run will benefit American families and businesses during the pandemic and after.

## Tariffs: A Drag on the Economy

Just like with a sales tax, tariffs can increase the price of goods. Higher costs mean economic consequences for American businesses and families. For businesses, spending more on tariffs could put a strain on their capital costs, making it difficult to choose between limited business decisions. Businesses may have to delay plans to expand production, hold off on hiring new workers, cancel plans to increase employee salaries and benefits, or simply raise prices.

Families face these challenges in the form of lower wages, fewer job opportunities, and higher prices. The Treasury Department expects to collect $92 billion in tariff revenue this fiscal year, which is roughly equivalent to $717 per U.S. household.[7]

In the case of tariffs on washing machines and parts, it was found that families bore the brunt of the cost. One study found that washer prices increased by 12 percent, and, because washers and dryers are typically purchased in a set, the price of dryers increased as well.[8]

Similarly, tariffs on solar products are estimated to have cost the U.S. economy $4 billion in investment in 2017, $2 billion in 2018, and nearly $3 billion in 2019. Lost investment is expected to spike in 2020 and 2021 to more than $4 billion each year. This lost opportunity translates to roughly 62,000 jobs that could have been added to the economy between 2017 and 2021.[9]

Other tariffs, such as those on imports from China, have a greater and more-lasting effect on the economy. One study found that in the short term, tariffs of 25 percent on $250 billion worth of imports from China would cost a family of four $767 a year, and reduce existing jobs by more than 900,000.[10]

Regardless of which goods are targeted, tariffs are a cost to the economy. And that cost is borne directly and indirectly by American families and businesses. As policymakers are looking to free up finances for Americans, they should take these effects into consideration.

## Recommendations for the U.S.

Eliminating tariffs on washing machines, steel, aluminum, manufacturing tools, and thousands of other products from the EU and China would be a much-needed boost to the U.S. economy and for American families. Cutting as many extra costs as possible will help businesses to keep essential employees and help to keep prices down. Both of these things help families stretch each dollar a little further, which is especially needed during this difficult time.

To mitigate the negative impact on the U.S. economy from the COVID-19 pandemic, the Trump Administration should:

- **Eliminate all tariffs imposed since 2018.** Removing the tariffs on washing machines, solar products, steel, aluminum, and recently targeted imports from the EU and China would reduce costs for Americans by $3 billion a month.

Congress should:

- **Eliminate tariffs on imported goods.** Permanently removing all tariffs for countries with MFN status, as well as reducing all other extraneous tariffs, would reduce the costs for Americans by another $3 billion a month.

## Using All Options to Fight the COVID-19-Induced Recession

Eliminating taxes on imports is a simple way to reduce the cost of doing business in America and help each family's budget to go a bit further during these trying times. As Congress and the Administration consider policies to ease the financial burden for Americans during the COVID-19 pandemic, eliminating tariffs should be a priority.

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## Endnotes

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10. The short term in this scenario is one to three years. This study does not take into account the additional 7.5 percent tariff on $300 billion worth of imports from China that was finalized on February 14, 2020. Trade Partnership Worldwide, “Estimated Impacts of Tariffs on the U.S. Economy and Workers,” February 2019, https://tradepartnership.com/wp-content/uploads/2019/02/All-Tariffs-Study-FINAL.pdf (accessed April 7, 2020).