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Repeal #NeverNeeded Trade Barriers

Tariff Relief Would Aid Virus Response, Economic Recovery, and Long-Term Resiliency

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The most important priorities during the coronavirus pandemic are keeping people safe and minimizing economic damage. Trade barriers are harming both priorities. This paper contains three proposals that Congress and the Trump administration can enact immediately to lift trade barriers. They would have both short- and long-term benefits for the COVID 19 response, economic recovery, and resiliency against future crises, for at least three reasons.

First, repealing health care-related tariffs would immediately benefit COVID 19 patients, front-line workers, and the general population. They would gain greater supplies of personal protective equipment (PPE) and medical treatments, and at lower prices.

Second, as the worst of the pandemic passes, repealing all of the tariffs President Trump has imposed since 2017 would lower consumer prices and aid economic recovery by reducing businesses' supply costs and providing them some regulatory certainty.

Third, institution-level reforms to U.S. trade policy would improve resiliency against future crises. Tariff-making authority should move back to Congress, which properly holds all taxing powers. That means repealing Section 232 of the Trade Expansion Act of 1962 and Sections 201 and 301 of the Trade Act of 1974.

Tariff relief should not take the form of limited exemptions, but apply universally. In line with President Trump's Executive Order 13924, this tariff relief should be permanent.[1] If Congress does not act, the Commerce Department should use all available emergency powers to provide tariff relief.

The Bare Minimum: Repeal Trade Barriers against Medical Supplies. Health care tariffs would have immediate benefits for treating COVID 19 patients and maximizing supplies of personal protective equipment for health care workers and the general population. A common rule in public policy is that if you want less of something, you tax it.[2] During a pandemic, medical supplies are the last thing that should be taxed. Yet, Trump administration officials have proposed increasing tariffs and other barriers against imported medical supplies.[3]

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A second common sense policy guideline is to not let regulations get between patients and medical care. The fact that some needed medical supplies are made outside of the United States does not justify denying people access to them. The Buy American provisions being promoted by Peter Navarro and other presidential advisers would have dire and immediate humanitarian costs.[4]

Rather than add to trade barriers than have been recently increased, Congress and the administration should simply delete all medical-related tariffs from the Harmonized Tariff Schedule.[5] Table 1 lists the most obvious candidates for immediate removal.

Table 1. Health-Related Tariffs in the Harmonized Tariff Schedule

Section	Chapter	Description
II	12	Medicinal plants
VI	30	Pharmaceutical products
VI	34	Soap, organic surface-active agents, washing preparations
VII	39	Plastics and articles thereof
XI	50-52, 58-63	Fabrics, such as for facemasks and other PPE
XII	65	Headgear and parts thereof
XVIII	90	Medical or surgical instruments and apparatus; parts and accessories thereof
N/A	N/A	Pharmaceutical Appendix to the Tariff Schedule[6]

Source: International Trade Commission, Harmonized Tariff Schedule, https://hts.usitc.gov/current.

Broader Tariff Relief Will Aid Economic Recovery. As the virus hopefully wanes and lockdowns ease up, economic recovery will take on even greater importance. This is another area where tariff relief can have a major positive impact. The wave of tariffs President Trump enacted were, in a perverse way, an ideological luxury good that the administration could indulge in during a boom. Total economic growth was enough to outweigh the half percentage point or so of growth the Trump tariffs are estimated to cost.[7] People can no longer afford to subsidize the president's protectionist ideology.

The country has learned this lesson at least once before. The 1930 Smoot-Hawley tariffs, passed early in the Great Depression, caused imports to drop by 15 percent almost immediately. Other countries retaliated by imposing new barriers aimed directly at the United States.[8] If that sounds familiar, it might be because China, in response to the Trump tariffs, increased its barriers against the United States while decreasing them against other countries.

Depression-era policy makers eventually learned their lesson. Tariffs became politically unpopular, and after World War II, a new rules-based global trading system emerged under the General Agreement on Tariffs and Trade, which was then succeeded by the World Trade Organization. This process was an explicit reaction against the harm that Smoot-Hawley and its retaliations caused, and a belief that economic cooperation would help to build a lasting peace.

History is certainly not repeating itself, but parts of it are currently in rhyme with the 1930s-era stanza. Congress should improve its poetic sensibilities by repealing the entire tranche of new tariffs that the Trump administration has enacted since 2017. Though not nearly as extreme as Smoot-Hawley, the Trump tariffs have still roughly doubled the average tax rate that Americans pay on imports.[9] They have also sparked retaliatory tariffs against hundreds of billions of dollars of U.S. goods and are causing diplomatic harm at a time when the U.S. needs allies to fight both the coronavirus and a severe economic downturn.

Trump's first major tariffs were against steel and aluminum. These were intended to aid domestic industries, although for legal reasons they were officially enacted on national security grounds. Not only did these tariffs fail to prevent pre-COVID layoffs in the metals industry, they had significant negative impacts in downstream metal-using industries from autos to beverages.[10] As of 2017, roughly 27 percent of steel in the U.S. is used by the auto industry.[11] Ford and General Motors both announced billion-dollar losses and a combined 21,500 layoffs in the wake of the tariffs.[12]

Roughly 43 percent of steel in the U.S. is used by the construction industry.[13] That means higher prices for construction projects, fewer new buildings, fewer construction jobs, and higher housing costs. Repealing Trump's metals tariffs would not undo all that damage, but it would make recovery easier for the auto, construction, and other metal-using industries across the economy.

Tariffs against China are currently raising prices on more than $354 billion of Chinese goods—and have decreased imports by almost half over the last two years.[14] Many of these products are assembled from U.S.-made designs and components. President Trump has also enacted tariffs against allies such as Canada, Mexico, and the European Union, and has threatened further tariffs. Other smaller actions have been levied against countries such as Turkey and India.

In a tacit admission that tariffs are self-harming, the Trump administration has issued 10 separate rounds of exemptions from its China tariffs as of June 2020.[15] It also issued some limited 90-day tariff deferrals when the seriousness of the COVID-19 crisis became apparent, although they excluded any tariffs enacted in 2017 or later.[16] Congress should finish what the administration has started in this regard.

Longer-Term Effects. A subtle, but important point about trade policy is that it is not a one-shot game. Dishonest people soon learn that a tactic that benefits them in the short term has long-term costs. A traveler can probably get away with a dine-and-dash at a restaurant in a town they will never visit again. A real estate developer can probably get away with stiffing a contractor or a lender once. But such tactics do not work in repeated interactions. If the diner shows up at that restaurant again, he will probably not be welcomed, and might be arrested. Contractors talk to each other about problem clients who don't pay their bills. Lenders check credit scores.

A dine-and-dash trade policy will not work. Trump trade adviser Peter Navarro told Fox Business host Maria Bartiromo in 2018, "I don't believe any country in the world is going to retaliate" against the Trump administration's tariffs.[17] They did, penalizing hundreds of billions of dollars of U.S. goods.

Trade is a repeat-play game that never ends. Americans will continue to trade with Canadians, Mexicans, Chinese, and Europeans forever. This is a fatal flaw to the administration's one-shot approach to trade policy. With the stakes higher than ever, the time has come to put tariff-making authority back into more responsible hands.

Congress Must Reclaim its Tariff-Making Authority. It is not enough to just repeal tariffs on medical supplies or ones that inhibit economic recovery. There must be system-level trade reforms as well. That means returning tariff-making authority to Congress. President Trump has proven that he will not use his tariff-making powers responsibly. His trade war was already costing as much as a half percentage point of GDP growth before the coronavirus hit.[18] That is bad enough during good times. It is disastrous during a pandemic.

Congress originally delegated away this power in the 1960s and 1970s because it found itself incapable of reducing tariffs the way that it wanted to in the early postwar era. Vote-trading and favor exchanges that are a common part of congressional operating procedure weakened trade liberalization bills beyond what Congress wanted. Members added so many exemptions for special interests in their districts that the liberalization most members wanted was not happening.

That made U.S. trade negotiators' jobs more cumbersome and difficult. So, to help expedite trade negotiations, Congress delegated tariff policy to the other end of Pennsylvania Avenue on the theory that the president, with a national constituency, would be less prone to giving narrow favors to a single congressional district at the expense of the whole country.[19]

The strategy worked through several administrations from both parties. Average U.S. tariffs continued a slow but steady post-Smoot-Hawley decline. In 1932, Smoot-Hawley tariff rates on dutiable goods peaked at 59.1 percent—the second highest value in U.S. history.[20] It slowly decreased to about 5 percent by the time Trump entered the White House. Since most goods were duty-free at that point, the average tariff against all imports was closer to 1.41 percent when Trump took office. It now stands at 2.85 percent.[21]

Congressional tariff parochialism wasn't entirely thwarted, but the delegation of trade authority to the president helped to pass several rounds of General Agreement on Tariffs and Trade and World Trade Organization negotiations. These lowered not only U.S. trade barriers, but other countries' barriers as well. Lifting these restrictions helped to lift millions out of poverty around the world and opened new markets for U.S. goods. More diverse supply networks also meant greater resilience against shortages and other economic problems that could happen during a pandemic.[22]

Congress' delegation strategy no longer applies in the current political environment. Having accomplished its purpose, and with delegation now enabling significant economic harm at the worst possible time, Congress should end the policy. Table 2 lists the sections of legislation Congress should repeal to reclaim its proper taxing authority.

Table 2: Legislative Grants of Tariff-Making Authority in Need of Repeal

Section	Justification	Enacted Tariffs
Section 232, Trade Expansion Act of 1962	National security	Steel, 25 percent and aluminum, 10 percent, against various countries including several allies.
Section 201, Trade Act of 1974	Competing with U.S. producers	None as of June 2020; periodic threats made against autos from the European Union.
Section 301, Trade Act of 1974	Treaty violations	$354 billion of Chinese goods at rates up to 25 percent.

Trump roughly doubled the average U.S. tariff in his first three years as president. If the Phase One agreement with China takes effect, the rate against Chinese goods will average 19.3 percent—which is actually down from 20.3 percent before the agreement.[23] According to American Action Forum analyst Jacqueline Varas, the Trump tariffs impact more than $460 billion of imports and exports per year and cost consumers roughly $57 billion per year on top of previously existing trade barriers.[24] This is unacceptable in the era of coronavirus recovery.

Conclusion. Tariff reform was an important priority even before the coronavirus hit. It now takes on added urgency. Congress and the president should act immediately to lift trade barriers against health care supplies and treatments. Repealing all of the Trump administration's recently enacted tariffs would aid the coming economic recovery. Institution-level reforms are important for long-run resiliency against future emergencies. Congress should restrain future executives' protectionist impulses and reclaim the tariff-making authority it delegated away under Sections 232, 201, and 301. The tariffs were never needed in the first place, and they are causing massive harm during a potentially Depression-level economic collapse. The time to act is now.

Notes

[1] President Donald J. Trump, "Regulatory Relief to Support Economic Recovery," Executive Order 13924, May 19, 2020, https://www.govinfo.gov/content/pkg/FR-2020-05-22/pdf/2020-11301.pdf.

[2] Economists call these "sin taxes" or "Pigouvian taxes" after Arthur C. Pigou, who popularized the idea of using taxes to discourage certain behaviors. Arthur C. Pigou, *The Economics of Welfare, Fourth Edition*, (London: Macmillan, 1932), https://oll.libertyfund.org/titles/pigou-the-economics-of-welfare.

[3] Andrea Shalal and Susan Heavey, "Trump Order to Buy U.S.-Made Medical Supplies Coming Soon: Navarro," *Reuters*, May 4, 2020, https://www.reuters.com/article/us-health-coronavirus-usa-navarro/trump-order-to-buy-us-made-medical-supplies-coming-soon-navarro-idUSKBN22G1SX.

[4] Sally Pipes, "Pending 'Buy America' Executive Order Threatens Coronavirus Response," *Forbes*, March 17, 2020, https://www.forbes.com/sites/sallypipes/2020/03/17/new-pending-buy-american-executive-order-threatens-coronavirus-response/#2817c47b22cd.
[5] International Trade Commission, "Harmonized Tariff Schedule, 2020, Revision 12, https://hts.usitc.gov/current.
[6] International Trade Commission, "Pharmaceutical Appendix to the Tariff Schedule," 2020, Revision 11, https://hts.usitc.gov/view/Pharmaceutical%20Appendix?release=2020HTSARev11.
[7] Congressional Budget Office, "The Budget and Economic Outlook: 2020-2030," January 2020, https://www.cbo.gov/system/files/2020-01/56020-CBO-Outlook.pdf, p. 33.
[8] Ibid, p. 144.
[9] Daniel J.Ikenson, "Who Is Paying for Trump's Tariffs?" *Cato at Liberty*, Cato Institute, February 27, 2020, https://www.cato.org/blog/whos-bearing-burden-tariff-boom.
[10] Steven Frank, "Ross Says Tariffs Working Despite U.S. Steel Plant Layoffs," *Bloomberg*, December 20, 2019, https://www.bloomberg.com/news/articles/2019-12-20/ross-says-tariffs-working-despite-u-s-steel-plant-layoffs.
[11] Statista, "Steel Demand in the United States as of 2017 by Sector," https://www.statista.com/statistics/752484/us-steel-demand-by-sector/.
[12] Kevin Kelleher, "Ford Prepares for Mass Layoffs After Losing $1 Billion to Trump's Trade Tariffs, Report Says," *Fortune*, October 9, 2018, https://fortune.com/2018/10/09/ford-stock-today-layoffs-trump-trade-tariffs/. Ryan Young, "Lessons from the GM layoffs: End the tariffs and the subsidies," Fox Business, November 28, 2018, https://www.foxbusiness.com/markets/lessons-from-the-gm-layoffs-end-the-tariffs-and-the-subsidies.
[13] Ibid.
[14] Ken Roberts, "U.S. Imports From China Down Almost 50 Percent From 2 Years Ago," *Forbes*, May 31, 2020, https://www.forbes.com/sites/kenroberts/2020/05/31/us-imports-from-china-down-almost-50-percent-from-2-years-ago/#6d46cccb252b.
[15] United States Trade Representative, "Notice of Product Exclusion Extensions: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation," *Federal Register*, pp. 33775-33779, June 2, 2020, https://www.federalregister.gov/documents/2020/06/02/2020-11833/notice-of-product-exclusion-extensions-chinas-acts-policies-and-practices-related-to-technology.
[16] Ryan Young, "Trump Defers Tariff Payments for Struggling Businesses: A Good Start, More Needed," *OpenMarket*, Competitive Enterprise Institute, April 24, 2020, https://cei.org/blog/trump-defers-tariff-payments-struggling-businesses-good-start-more-needed.
[17] See approximately 3:24 in the video clip embedded in a tweet from @MorningsMaria, March 2, 2018, 8:46 AM, https://twitter.com/MorningsMaria/status/969584638514679810.
[18] Congressional Budget Office, "The Budget and Economic Outlook:2020-2030," p. 33.
[19] Douglas Irwin, *Clashing Over Commerce: A History of U.S. Trade Policy*, (Chicago: University of Chicago Press, 2017), pp. 521-555.
[20] The highest value, 62 percent, occurred in 1830 in the wake of the 1828 Tariff of Abominations. Irwin, *Clashing Over Commerce*, p. 125. Unusual monetary conditions during the Depression played a role in Smoot-Hawley's high rates, although this hardly absolves the bill from blame. Many Smoot-Hawley tariffs were for a fixed amount of money, rather than a percentage of a good's value. The money supply fell by roughly a third during the Great Depression, which meant there was substantial deflation. This meant that a dollar per ton tariff, for example, became a much higher percentage tariff on a good's value as nominal prices fell. Irwin, *Peddling Protectionism*, p. 106.
[21] Ikenson, "Who Is Paying for Trump's Tariffs?"
[22] Though these added complexities can come with diminishing returns, and can prove fragile against larger cascade effects. Joseph R. Tainter, *The Collapse of Complex Societies*, (Cambridge: Cambridge University Press, 1988). Stephen Davies, "COVID-19 and the Collapse of Complex Societies," *Reason,* July 2020, https://reason.com/2020/06/02/covid-19-and-the-collapse-of-complex-societies-2/.
[23] Chad P. Brown, "US-China Trade War Tariffs: An Up-to-Date Chart," Peterson Institute for International Economics, February 14, 2020, https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart.
[24] Jacqueline Varas, "The Total Cost of Trump's Tariffs," American Action Forum, June 2, 2020, https://www.americanactionforum.org/research/the-total-cost-of-trumps-new-tariffs/.