Benefits and Costs of Tariffs

Since the turn of the 21st century, U.S. average tariff rates have consistently been at or near their lowest levels in the nation's history; today, they're also among the lowest in the world. In 2016, according to the World Bank, the average applied U.S. tariff across all products was 1.61%; that was about the same as the average rate of 1.6% for the 28-nation EU, and not much higher than Japan's 1.35%. Among other major U.S. trading partners, Canada's average applied tariff rate was 0.85%, China's was 3.54% and Mexico's was 4.36%. Under NAFTA, most trade between the U.S., Canada and Mexico is duty-free. Approximately 96 percent of U.S. merchandise imports are industrial (non-agricultural) goods. The United States currently (2018) has a trade-weighted average import tariff rate of 2.0 percent on industrial goods. One-half of all industrial goods entering the United States enter duty free.

Today's low U.S. tariff levels are the product of a (mostly) bipartisan consensus in favor of progressively freer trade that dates back to the post-World War II era. But that consensus was emphatically *not* the case for the first 150 years or so of the nation's history: Tariff policy was the subject of fierce disagreement between Republicans (and earlier, Whigs) who favored high rates to protect American industries from foreign competition, and Democrats who by and large argued that any tariffs higher than necessary to fund the federal government unfairly taxed the many to benefit the few. Until the Federal income tax was passed in 1913, tariffs were the main source of income for the Federal government.

The culmination of this perennial drama – what one contemporary writer called "an endless performance in which the actors are unskilled and the audience dissatisfied; and yet the same old play is staged over and over and over again" – was the infamous Smoot-Hawley Tariff of 1930, which raised import duties on thousands of agricultural and industrial goods. By 1932, U.S. tariffs equaled 59.1% of the value of dutiable imports, the highest level since 1830. A 1995 survey of economic historians found broad agreement that Smoot-Hawley exacerbated the Great Depression, though to what extent is still debated. After that experience, Congress largely gave up on setting the details of U.S. trade policy. Starting in 1934, it delegated to the president authority to negotiate trade deals with other countries and, under certain circumstances (such as to protect national security), raise or lower import duties.

Source: U.S. tariffs are among the lowest in the world – and in the nation's history

Source: Industrial Tariffs

Some random tariffs—think about why these goods might be subject to tariffs (Source: United States International Trade Commission)

Non-specific dairy products	20% tariff on imports
Most vegetables	20% tariff
Wool clothes	25% tariff
Most auto parts	25% tariff
Apricot, cantaloupe, and dates	29.8% tariff
Clothes made of synthetic fabric	32% tariff
Brooms	32% tariff
Canned tuna	35% tariff
Chinese tires	35% tariff
Leather shoes	37.5% tariff
Japanese leather	40% tariff
Sneakers	48% tariff
European meats, truffles, and Roquefort cheese	100% tariff
French jam, chocolate, and ham	100% tariff
Shelled peanuts	131.8% tariff
Unshelled peanuts	163.8% tariff
Tobacco	350% tariff

Benefits of Tariffs

Help manufacturers by protecting them from foreign competition.

Protect domestic labor markets from cheap foreign labor.

Provide revenue for the government.

Protect infant industries.

Protect industries important for national defense.

Decrease a balance of payments deficit.

Costs of Tariffs

Consumers have to pay more for products subject to tariffs.

Consumer choice is reduced.

Employment and production may fall in industries that use inputs subject to tariffs.

Competitiveness may be reduced when industries are protected from foreign competition.

Protected industries have less incentive to innovate.

The increase in prices can cause inflation.