AMERICANS FOR PROSPERITY

MARCH 2019

CONGRESS SHOULD REJECT THE RECIPROCAL TRADE ACT

BY ALISON ACOSTA WINTERS

SENIOR POLICY FELLOW,
AMERICANS FOR PROSPERITY

Congress has an opportunity to preserve the U.S. role as a global leader advancing trade and improving lives by rejecting the Reciprocal Trade Act.[1]

The proposal would grant the president the authority to unilaterally impose retaliatory tariffs on any good imported into the United States from a country with a higher tariff for that good than the existing U.S. tariff. The president could, for example, without the approval of Congress, match the European Union's tariff on auto imports of 10 percent, which is higher than the U.S. tariff of 2.5 percent.

Over the years, Congress has delegated trade authority to the executive branch, ceding its clear Article I legislative responsibilities provided by the Constitution. Some of this is positive and has helped increase opportunities for millions of Americans when used by presidents who have lowered barriers to trade. But this delegation has also enabled the administration to increase tariffs on dubious grounds.

Delegating yet more authority to unilaterally impose tariffs through the Reciprocal Trade Act would be a profound mistake. Instead, because tariffs are a tax on Americans, Congress should pass legislation to require congressional authorization of any tariff increase proposed by a president.[2] No president should be able to increase taxes on Americans without congressional approval.

TRADE IMPROVES LIVES AND DRIVES PROSPERITY

The United States has been the global leader in increasing trade through a positive agenda of reducing trade barriers and opening markets. Trade has helped American workers and entrepreneurs, and increased our standard of living. But tariffs are a tax that restricts trade, raises costs, and imposes barriers that hurt Americans.

WRONG DIRECTION

The Reciprocal Trade Act goes against the long-held value that trade is mutually beneficial by reversing the steady lowering of tariffs across the globe that has opened markets for American businesses, workers and consumers.

For a century, tariff "nondiscrimination" has helped fuel American prosperity. This means that any tariff must be applied the same to all countries. Allowing a president to unilaterally impose "reciprocal" tariffs would replace this positive agenda of reducing trade barriers with a harsh "eye for an eye"[3] approach to raising tariffs.

Rather than a uniform "rule of law" approach to tariffs in which all countries are treated equally, this would become an ad hoc "anything goes" race to the bottom with the U.S. copying the worst trade practices of other countries.

VIOLATE OUR TRADE AGREEMENTS

The United States has formal trading relations with other countries through various trade agreements, offering Americans a rich array of different goods at lower cost. Unilaterally imposing these reciprocal tariffs would violate those agreements, especially our commitments to the World Trade Organization. It would doubtless prompt swift retaliatory tariffs from our trading partners.

For example, the European Union could slap reciprocal tariffs of their own on U.S. imports, perhaps by matching our 25 percent tariff on light trucks and SUVs, or our 132 percent tariff on peanut butter. There can be no doubt this kind of response would occur, considering the retaliatory tariffs that were immediately imposed by countries affected by the administration's recent steel and aluminum tariffs.

TAX INCREASE AND AN ADMINISTRATIVE NIGHTMARE

New or increased tariffs constitute a tax increase on American businesses and consumers. The Reciprocal Trade Act would be an immense tax hike. Dan Griswold of the Mercatus Center analyzed tariffs rates that would be subject to the Reciprocal Trade Act.[4] He found that imposing higher reciprocal individual tariffs on our top 10 major trading partners would more than double the average U.S. tariff rate Americans pay on imports of everything from autos to footwear to food. Average U.S. tariff rates for those countries would jump from 2.1 percent to 5.4 percent. And as noted, tariffs would be much higher for targeted imports. This would bring our average tariff rate higher than the average rate of 3.9 percent U.S. exports would face in these countries. This would be a harmful step backward.

This would also massively complicate tariff duties and add a huge administrative burden to U.S. Customs. Rather than charging each country the same tariff on any specific import, customs agents would need to determine the specific tariff applied for that import for each specific country. Our trade barriers would increase dramatically from 5,800 separate tariffs to 25,800—just for these 10 countries.[5]

NOT NECESSARY

Punitive tariffs on selected goods are not necessary because overall trade barriers are now low. Our major trading partners have, on average, tariff levels that are on par with ours. For example, the average U.S. tariff rate is 1.6 percent, Canada 0.8 percent, the European Union 1.6 percent, and Japan 1.4 percent.[6] China's average rate is higher at 3.5 percent, but much lower since becoming a WTO member.[7] Although average tariff rates are tricky to calculate, any measure tells the same story: Most of our trading partners have average rates similar to ours.

Moreover, increasing tariffs takes us in the wrong direction. Under our positive trade agenda, tariffs have decreased dramatically. Since 1990 the average global tariff rate has fallen by more than 60 percent.[8] Average tariff barriers among the world's largest trading nations have fallen by more than 400 percent, from about 22 percent to 5 percent over the past 70 years.[9] Free-trade agreements such as NAFTA go even further by eliminating all tariffs on nearly all imports.

Some countries have high tariffs on certain goods, even while maintaining low tariff rates overall. The United States is no different. Beyond high tariffs on light trucks, SUVs and peanut butter other high U.S. tariffs include 187 percent on sour cream, modified whey at 63 percent, blue cheese at 49.8 percent, tuna at 35 percent, while sugar, jewelry, and various clothing articles have high tariffs of their own.[10] It would be far better for us to lead by enticing countries to join us in reducing high tariffs than to challenge them in a tit-for-tat frenzy of tariff increases.

TARIFFS HURT AMERICANS

Tariffs hurt Americans. While tariffs can impact our trading partners, studies have shown clearly that countries that impose tariffs suffer more, with the damage including economic and job losses. This is especially true for wealthy countries with growing economies, like the United States.[11]

The misnamed Reciprocal Trade Act is not about more trade. Rather, it's about more and higher tariffs that will result in less trade, higher barriers to opportunity for American businesses and workers, and higher costs for our consumers.

CONCLUSION

A better approach would ensure that Congress plays a robust role in closely scrutinizing and voting to approve new or increased tariffs or other policies that reduce trade and deprive individuals of the ability to engage in the voluntary exchange of ideas, goods, and services.

ENDNOTES

1 The Reciprocal Trade Act was introduced in the House of Representatives in the 116th Congress as H.R. 764, at the request of the administration.

2 Alison Acosta Winters, "Congress has granted the president too much authority," *Washington Post*, February 15, 2019

3 WSJ Editorial Board, "An Old Testament Approach to Trade," *The Wall Street Journal,* January 23, 2019

4 Daniel Griswold, "Mirror, Mirror, on the Wall: The Danger of Imposing 'Reciprocal' Tariff Rates", Mercatus Center, January 2019, note: figures are for trading partners with whom we do not have a free trade agreement, so this excludes Canada and Mexico, for example

5 *Ibid.*

6 Simon Lester, "Comparing Countries Tariff Levels," Cato at Liberty, June 18, 2018 using average trade weighted data from the WTO

7 Clark Packard, "There is No Need to Give Trump New Tariff Powers," The National Interest, January 2019

8 Bryan Riley, "Reciprocal Trade Act Would Close Markets and Punish Americans," National Taxpayers Union blog, January 10, 2019

9 Griswold

10 Dataweb, "Annual Tariff Data, 2018", United States International Trade Commission; Lester

11 A number of bills introduced this Congress take this approach, including: The Bipartisan-Bicameral Congressional Trade Authority Act (S. 287 and H.R. 940); The Global Trade Authority Act (H.R. 723), and The Bipartisan-Bicameral Trade Security Act (S. 365 and H.R. 1008)