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U.S. Tariff Policy: Overview

Introduction

A tariff is a tax levied on imported goods and services. Historically, tariffs were a major source of revenue for many countries and were often the primary source of federal revenue through the late-nineteenth century. Today, other taxes account for most government revenue in developed countries. Tariffs are now typically used selectively to protect certain domestic industries, advance foreign policy goals, or as negotiating leverage in trade negotiations.

The U.S. Constitution empowers Congress to set import tariffs, a power that Congress has partially delegated to the President. The United States is also a member of the World Trade Organization (WTO) and a party to a number of trade agreements, which include specific tariff-related commitments. Congress and the President thus create U.S. tariff policy within the context of a rules-based global trading system.

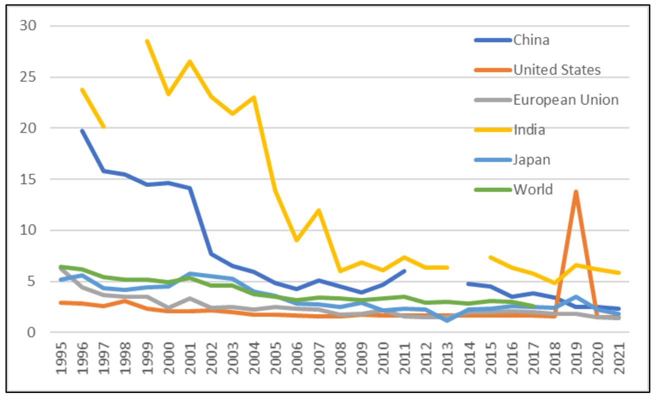
Rules-Based Global Trading System

The rules-based global trading system was established following World War II. It began as the General Agreement on Tariffs and Trade (GATT), which was later integrated into a larger set of agreements establishing the WTO. This system aimed to reduce trade barriers and prevent trade wars by establishing rules for the use of tariffs. Among this system's core rules with regard to tariffs are:

- **Nondiscrimination.** Under the most-favored nation (MFN) rule, a country must extend any trade concession, such as a reduced tariff rate, granted to one member to all other WTO members. There are exceptions, such as preferential rates for Free Trade Agreements (FTAs), special treatment for developing countries, and remedies for addressing certain unfair trading practices.
- **Binding Commitments.** Through multilateral negotiations, countries bind themselves to ceilings on tariff rates for specific imports. That ceiling is called the bound rate, which can be higher than actual applied rates.
- **Transparency.** The WTO requires members to publish and report their tariff rates.
- **Safety Valves.** The WTO agreements permit members to raise tariffs to address unfair trade practices and to allow domestic industries to adjust to sudden surges in imports in some circumstances.

Following the establishment of the GATT in 1947 and the WTO in 1995, global tariff rates declined, spurring trade and opening markets for U.S. exports (**Figure 1**). Since the establishment of the WTO, the value of exports of U.S. goods have increased more than 160% adjusted for inflation.

Figure 1. Weighted Average Applied Tariff Rates



Source: World Bank.

Notes: Weighted average of applied tariff rates (expressed as percentages) globally and among the five largest economies by GDP. Gaps indicate missing data. 2021 is the most recent year with fully comparable data.

U.S. Tariff Policy

Who Makes U.S. Tariff Policy?

The Constitution grants Congress the power to lay and collect duties and to regulate commerce with foreign nations. Because tariffs are no longer a major element of domestic tax policy, they have instead become an instrument of U.S. foreign policy and trade promotion. As such, Congress often works with the President to set tariff policy by authorizing the President to negotiate trade agreements and to adjust tariffs in certain circumstances.

Presidential Trade Promotion Authority (TPA). Prior to the 1930s, Congress usually set tariff rates legislatively. As U.S. and global tariff rates increased during the Great Depression, U.S. exports decreased. Congress responded by authorizing the President to negotiate reciprocal trade agreements and proclaim tariff reductions up to a pre-set boundary. Hence, such agreements could enter into force without further congressional action. However, by the late 1960s, nontariff barriers to trade (such as discriminatory technical standards) became a greater focus of trade negotiations. As a result, it became difficult to predict the substance of the negotiations and authorize changes to existing U.S. laws by proclamation before the negotiations took place. Congress addressed this challenge in 1974 by establishing expedited procedures to enact implementing legislation for trade agreements addressing non-tariff barriers. Under these procedures, currently known as Trade Promotion Authority (TPA), Congress establishes U.S. trade negotiating objectives as well as consultation and notification requirements. If the President satisfies these objectives and requirements, implementing legislation for an agreement may receive expedited treatment including an "up or down vote" without amendment. The most recent TPA, the Bipartisan Comprehensive Trade Priorities and Accountability Act of 2015, expired in the summer of 2021.

Presidential Discretionary Authority over Tariff Rates. In dozens of statutes, Congress has authorized the President to adjust tariff rates in response to specific trade-related concerns related to U.S. foreign policy and national security interests, or that require an administrative finding by a U.S. agency. For example, Section 232 of the Trade Expansion Act of 1962 empowers the President to adjust tariffs on imports that threaten to impair U.S. national security. Section 5(b) of the Trading with the Enemy Act and Section 203 of the International Emergency Economic Powers Act empower the President in a time of war or emergency to impose tariffs on imports. Section 201 of the Trade Act of 1974 empowers the President to raise tariff rates temporarily when the U.S. International Trade Commission (ITC) determines that a sudden import surge has caused or threatened serious injury to a U.S. industry. Congress has also empowered U.S. agencies to impose duties to offset certain injurious trade practices.

How Is U.S. Tariff Policy Administered?

The Secretary of the Treasury is charged with establishing regulations on the collection of tariffs and U.S. Customs and Border Protection (CBP) administers those regulations at U.S. ports of entry.

When a good enters a U.S. port of entry, merchandise is classified and tariffs are assessed using the Harmonized Tariff Schedule of the United States (HTSUS), a compendium of tariff rates based on a globally standardized nomenclature. Today, importers self-classify and declare the value or quantity of their goods. CBP reviews the paperwork, performs occasional audits, and then collects any applicable tariffs or penalties as well as any administrative fees. Finally, CBP deposits any revenue from tariffs or other penalties into the General Fund of the United States.

What Has U.S. Tariff Policy Been?

Over the past 70 years, tariffs have never accounted for much more than 2% of total federal revenue. In FY2024, for example, CBP collected $77 billion in tariffs, accounting for approximately 1.57% of total federal revenue. Instead, the United States has generally used its tariff policy to encourage global trade liberalization and pursue broader foreign policy goals.

Since 1934, the United States has reduced or eliminated many tariffs as part of bilateral and multilateral trade agreements. By supporting the creation of the GATT and the WTO, the United States Congress sought to reduce tariff rates globally within a rules-based trading system. Roughly 70% of all products enter the United States duty free.

U.S. reductions in tariff rates have not always inspired others to follow. During the most recent (Doha) round of WTO trade negotiations, the United States unsuccessfully attempted to convince advanced emerging economies, such as China, India, and Brazil, to commit to lower their bound tariff rates, which they declined to do. This dispute was arguably one of the reasons that the Doha round of negotiations was unable to produce an agreement.

Low U.S. tariff rates have also served as an instrument to achieve other foreign policy goals. For example, to encourage global economic development, Congress created the Generalized System of Preferences (GSP), which authorizes the President to give unilateral duty-free treatment to some products from some developing countries. The United States has also pursued FTAs as part of broader foreign policy and security goals.

Key Dates in U.S. Tariff History

1913: Underwood Tariff Act reimposed federal income tax and lowered tariff rates from roughly 40% to 25%. Federal revenue now comes primarily from income taxes.

1930: Tariff Act of 1930, known as the Smoot-Hawley Tariff, raised U.S. tariffs to their highest levels since 1828. This was the last tariff act in which Congress set rates.

1934: Reciprocal Tariff Act delegated to the President the power to negotiate bilateral, reciprocal trade agreements. It was been renewed periodically until the 1970s.

1947: The United States and 23 other countries entered the GATT to lower tariffs and other trade barriers.

1976: The United States instituted its Generalized System of Preferences (GSP), establishing preferential tariff rates for developing countries.

1995: The United States entered the WTO. This is the last time GATT/WTO members multilaterally agreed to major reductions in tariff rates.

Issues for Congress

For more than 80 years, Congress has delegated extensive tariff-setting authority to the President, who was more insulated from domestic protectionist pressures than individual Members of Congress. This delegation led to an overall decline in global tariff rates. However, it has meant that the U.S. pursuit of a low-tariff, rules-based global trading system has been the product of executive discretion. While Congress has set negotiating goals, it has relied on Presidential leadership to achieve those goals.

The Trump Administration was openly critical of low-tariff policies and made extensive use of authorities delegated to the President to increase tariffs on certain goods. As a result, duties paid on U.S. imports doubled from FY2015 to FY2020 from approximately $37 billion to $74 billion. The Biden Administration has maintained many of those policies with CBP collecting $77 billion in FY2024. Some Members have supported the increased use of tariffs; however, others have expressed concern about the economic impact of increasing tariffs. Some Members and committees have also expressed concerns about the President raising tariffs without congressional approval.

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