

The Positive and Negative Effects of Tariffs on the US Economy: Historical Overview and Potential Future Impact

As the Trump Administration initiates the new trade war with the closest allies of the US, Canada and Mexico, as well as its main adversaries, such as China, the long-term effects of the new tariffs remain to be determined. In order to better understand the positive and negative impact the international tariffs may potentially have on the American economy and the livelihoods of average Americans, this paper will analyze the past use of tariffs throughout the US history.

Historically, the US used tariffs from the end of the 18th century to the 1930s. At different times, they accounted for nearly 90% of the American budget income. They helped the country protect its economy and market from outside influences, develop new markets and create millions of jobs for its citizens. Over two dozen tariff regulations were put in place between 1789 and 2025, but they had various impacts on the American economy. For example, the Smoot–Hawley Tariff Act, sponsored by a Republican Senator and Representative, enforced tariffs on over 20,000 imported goods. In retaliation, other countries issued counter-tariffs against American-made products. In just a couple of years, the import and export activity in the US plummeted by almost 70%. Some economists (J.P. Morgan Private Bank, 2025) believe this Act exacerbated the negative impact of The Great Depression. The tariffs were lowered and rescinded in 1934 when the Roosevelt Administration came into office.

Since then, some officials suggested tariffs, but their contribution to the US budget has been steadily decreasing. In the last couple of decades, the tariffs only contributed under 2% of the federal budget. And there have never been effective tariff rates over 10%. Even under the Nixon Administration, the temporary import surcharge remained at 10% for a limited period of time in 1971. From that point, the tariffs remained under 5% or 10% for decades. Considering the globalization of the worldwide economy, free trade is a critical requirement for keeping the prices low and preventing unchecked inflation. The 20% to 25% tariffs on Mexican and Canadian products will severely affect the US economy across multiple industries. For example, automotive parts often have to cross the US-Canadian and US-Mexican border multiple times before the car is ready to go to the showroom. Adding the 25% to the parts' cost every time they cross the border can add up to 25% to the final cost of the car, meaning up to \$20,000 in some cases. And the automotive industry is not the only one that will suffer. The USA imports plenty of oil from Canada. It is processed at the American refineries before becoming gas. Adding 25% to the initial cost of oil will inevitably increase the cost of gas for American families. These and other negative repercussions are probably why the Trump Administration keeps pausing and rescheduling the tariffs with Mexico and Canada.

Donald Trump has already tried to introduce tariffs during his first presidential term in 2018. That time, the Administration started with tariffs against Chinese solar panels and washing machines, but the policy later expanded to include aluminium, steel, and other products from China, Mexico, Canada, India, and other countries. Instead of generating additional income for the country and its citizens, the policies resulted in economic crises across multiple industries. For example, the Trump Administration had to start a federal program to support

the farmers. In the end, the tariffs reduced the real income in the US and led to a decrease of the GDP. There's also some speculation that the tariffs were among the lead causes of the Republicans losing the next elections.

Repeating past actions hoping to achieve a different result does not seem like an effective economic strategy. The current Trump administration repeats the same narratives as the past Trump team, claiming the foreign countries have been "ripping off" America and its people. The President believes the foreign businesses will have to cover the additional expenses of tariffs despite the economists' concerns (Great Speculations, 2025). The latter logically assume the 25% will be added to the final cost of the products, making Americans pay more for everyday products, including groceries, as well as larger purchases, including homes and cars.

The rising inflation and the plummeting stock market will be accompanied by the industry-wide crises. For example, as the current Administration cuts expenses on USAID, the contracts with American farmers are cancelled. They already produce too much food to supply the country, and they depend on these contracts to keep running their businesses. As the car prices rise and the inflation reduces Americans' real income, buying new vehicles will become impossible for many families, leading to lower sales. If these economic policies stay in place for several years, they may lead to significant reductions in manufacturing and country-wide layoffs. Instead of bringing the manufacturing back to the US soil to create new jobs, the Trump Administration is more likely to push the country into a recession with a stagflation scenario.

Overall, the Republicans' tendency to introduce tariffs is in line with their isolationist agenda, and it has been for the last century. But it has as much of a destructive potential for the American economy and our position as the leading world power as it had during the times of the Great Depression. Even the threat of introducing tariffs against Canadian and Mexican products has a negative effect on the markets, but the ongoing uncertainty of starting and pausing them will undoubtedly lead to instability. If the tariffs go into full effect despite the warnings from the economists and investors, they will likely result in industry-wide crises across the US, reduce the real income of American families, and push the country into a lengthy recession. Whether the second Trump Administration will have the same impact on the Americans' political decisions in the next elections is yet to be seen.

References

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