

US tariff policy – At this time, the brakes don't work

Remarks of

Alan Wm. Wolff¹

At the

George Washington University

Panel on

Current US Trade Policy and Fiscal and Financial Effects

Washington, DC

October 1, 2025

Overview

The President has free rein to impose whatever tariffs he wishes and that is likely to persist for some time.

- The Congress will not step in, not very soon and not completely reversing US policy to adopt a no additional tariff policy, not perhaps even later,
- the Supreme Court will, more likely than not, support the president on his tariffs,
- the markets have not forced a change, and seem unlikely to do so soon, and
- the key players – EU, after UK, and Japan, then Korea, went along with the US tariffs, and did not retaliate, giving permission through negotiations for the tariffs.

In the long run, there will be a change back to more open trade, but not for the present. The situation with Congress and the courts, and in international trade relations can and will likely change as well, but not now. Economic forces will in the end prevail

The current tariff picture

¹ Senior Fellow, Peterson Institute for International Relations (PIIE). PIIE does not take positions on issues. This talk represents the personal views of the speaker.

The application of tariffs to US trade by President Trump continues apace.

Effective in August 2025, the U.S. implemented new reciprocal tariffs ranging from 10% to 41% on many trading partners. The European Union agreed to a framework trade deal in late August 2025 that sets most import duties at 15%. India faced an additional 25% tariff on goods in August 2025 for allegedly importing Russian oil. Japan reached a trade deal in late July 2025 to lower auto import tariffs to 15%. South Korea reached a deal in late July 2025 to reduce planned levies on imports to 15%.

As for tariffs affecting specific products, there is no end in sight to the section 232 cases, an authority relating to the nation's security.

Under section 232, the administration has levied tariffs targeting specific industries or products, regardless of the country of origin. (Note: Some have special conditions or exemptions):

- Steel and aluminum: National security tariffs on these materials from most countries remain in effect. Downstream products are swept into the added tariffs.
- Autos and auto parts: Tariffs are currently in place on vehicles and parts.
- Wood products: As of October 14, 2025, the U.S. will impose tariffs on wood products, including a 10% duty on softwood timber and lumber and a 25% duty on certain upholstered wood products, bathroom vanities and kitchen cabinets. Canada, a major lumber supplier, is expected to be hit particularly hard.
- Pharmaceuticals: A 100% duty on foreign-made patented drugs went into effect on October 1, 2025, unless the manufacturing company builds a U.S. plant.
- Heavy-duty trucks: Imported heavy trucks are subject to a 25% duty.
- Movies: A 100% tariff on movies made outside the U.S. was announced in September 2025, although the mechanics of implementation are not yet clear.

There is no end in sight to more tariffs being imposed by product under section 232 with resulting greater uncertainty for trade.

There are additional back-up statutes for imposing tariffs: section 301 of the Trade Act of 1974, as well as the never used section 338 of the Trade Act of 1930 (Smoot-Hawley). Unlikely to be used is section 122 of the 1974 Act, the balance of payments authority, as it is specifically limited in time (not to last more than 150 days) and amount (15% tariff).

Effects of the tariffs

This is a consumption tax levied on imports only. It can be compared the EU with Member States having VAT rates at 17 -27%, but with some key differences. There is great uncertainty in the US tariffs. This affects negatively business planning including investment and therefore will adversely affect US employment.

The Impact of the tariffs:

- They are very regressive. The burden falls most heavily on those at the bottom of income levels.
- It is not clear that the tariffs are effective as industrial policy (a subsidy would have been better, but politically unpalatable).
- They cannot affect the overall US trade balance, a stated purpose.
- They are damaging relations with allies.
- The tariffs cannot reverse the loss of manufacturing. There is no example of the approach working, the law of similars in Brazil, Australia abandoning making automobiles.
- On top of a base tariff approaching 20%, there is presidential daily reactive use of tariffs – the Bolsonaro tariff, Modi Nobel Peace Prize tariff, the Swiss 39% alpine tariff. There could be a tariff imposed as a reaction to an EU digital tax.
- The commentariat calls the president transactional – and he has shown this with Nvidia/AMD export licensing, Intel and Nippon Steel/US Steel share ownership. Tik/Tok. Each demonstrates a hands-on government.

- The administration of the tariffs will likely be implemented with an unpredictable exemptions policy and there will be tariff spikes.
- Section 232 tariffs pile on top of other tariffs and become a significant factor for the overall US economy.
- The tariff revenue received, some \$300-400 billion cannot replace the income tax. Tariff Runs to about one-fifth of the Federal Income Tax.

There are no reliable US domestic constraints

The Congress

The Congress is nonexistent for this purpose. If the Democrats win the House in the election in November 2026, that is not enough to reverse tariff policy. Even were the Democrats in control of all three branches of government, they may not rescind all the additional tariffs, although they certainly will roll back some of them. The reasons: an important source of revenue becomes hard to jettison, beneficiaries of the tariffs lobby in favor of keeping them and adding to them. Looking weak in defense of US commercial interests is politically unattractive.

The Courts

The Court of international trade and the Federal Circuit Court of Appeals decisions (7-4) were decided correctly on the law as it now stands. It is likely that the Supreme Court will back the President (60-40 or better odds). It is likely that a decision for the President will be clothed in the Foreign Affairs power together with the declarations of national emergency under the International Emergency Economic Powers Act (IEEPA) enacted in 1977. The courts have never overturned an emergency under this Act, close to seventy of them before the second Trump Administration. The courts have rarely opposed the president on a major national security matter. An exception, in *Youngstown Steel v US*, the Supreme Court ruled against President Truman's seizure of the steel mills in the face of a labor strike during the Korean War.

In the present instance, the President has enlarged the stakes, arguably making the tariff program, the mainstay of America's current foreign economic policy, in effect "too big to fail". The court may be inclined to follow in the same manner the reasoning of the Federal Government when it bailed out AIG or major banks in the Global Financial Crisis, that they were too big to fail. In this case has the President made this issue too important to allow effective restraint from the Court. He has put the court somewhat in an analogous position to that of the

UK, EU, Korea and Japan when they decided to accept the new Trump tariffs and enter into bilateral agreements with the US. The geostrategic stakes were too high for America's allies to take a chance on opposing the US.

Are there other constraints?

The markets.

The dollar. All other things being equal, imposition of a tariff wall should cause the US dollar to appreciate. The value of the U.S. dollar against other currencies dropped about 11% in the first half of this year, the biggest decline in more than 50 years. [Morgan Stanley Research](#) estimates the U.S. currency could lose another 10% by the end of 2026. Appreciation would have made US exports less competitive, disrupting the attempt to restore manufacturing onshore.

Growth and unemployment. Morgan Stanley predicts that the delayed impact of tariffs on growth and unemployment – besides policy uncertainties – are likely to keep negative pressure on the dollar. As the same time, foreign investors have been hedging their exposure to U.S. assets, which will likely further weaken the dollar, making imported goods more costly. The attack on the Fed and surrounding policy uncertainty may also dampen growth rates.

Trade. Cumulative US imports, 2025/2024 have been running in 2025 at a higher level than in 2024, in part due to stockpiling during the period before imposition, but were [easing off](#), based on early data. Imports may become somewhat depressed, but the US is the richest, most perfected, largest single market on the planet. America is still the world's largest importing country even with the tariffs.

The bond markets. Bond yields shuddered and rates spiked following the April 2 tariff announcement. Investors anticipating higher inflation and economic disruption sold off. There is now said to be a fragile equilibrium: While supportive factors exist, such as faith in America's economic resilience and the Fed's proactive stance, risks remain due to factors like geopolitical issues and the U.S. government shutdown. The bond markets have not forced a change in policy.

The stock markets. There was in April a "Liberation Day" crash, replaced by record highs: Following a somewhat more moderate approach to tariffs (compared with the initial announcement, not compared with any time from 1940 to 2024), the S&P 500 and [Nasdaq](#) closed at all-time highs by late June. The S&P 500 was up over 10% in the second quarter alone. Since the 2024 presidential election, the S&P 500 is up 13.5%, the Nasdaq is up 20%, and the Dow is up 6.1%.

Consumers

All other things being equal, there should be inflationary pressures from the tariffs that would cause a public backlash, but consumer prices have been rising only slowly. The Consumer Price Index (CPI) in the US for August 2025 saw an increase of 0.4% from the previous month, with the 12-month change being 2.9%. Food prices rose 3.2% over the year, while energy prices saw a smaller increase of 0.2%.

A US multilateral plan?

Jamieson Greer, the US Trade Representative suggested in an op-ed that Bretton Woods had been supplemented by the Turnberry System (named after the golf course where the US and EU met to agree to a trade deal that may have stabilized US tariffs applicable to the EU.) Other countries have not bought publicly into the idea of a "Turnberry Round". It is not a formal proposal if a trade negotiation round, but a phrase for the US trade strategy that emerged from that meeting. This US framing portrays the Trump administration's trade actions not as a rejection of trade, but as a deliberate and generational project to remake the global trading order.

Foreign country reactions

There has not been a direct consolidated response directly to the US tariffs. The UK, the EU, Japan and Korea have entered into bilateral arrangements with the US recognizing the new reality in their trading relations. The deals underline the fact that for the time being, increased US tariffs are acceptable. Negotiations with China are likely to take place, starting with a new plateau of high tariffs applicable to bilateral trade in both directions.

Other developments include talk of some trade coordination between the EU and the CPTPP countries. There is also the founding of a FIT-P, the Future of Investment and Trade Partnership, through 14 mid-level economies have agreed to meet to address issues of common concern, including trade. In Geneva at the WTO, a group of countries, [international progressives](#), motivated to make multilateral or at least plurilateral progress at the WTO, is to be found.

Conclusion

- To date, the earthquake has been confined to trade policy not as much in economic effects, with the US breaking the rules of the trading system.
- Trade with the US has not come to an end with Trump tariffs. As noted, merchandise imports in 2025 are at above 2024 levels.
- US goods will be less internationally competitive,
 - Inputs are more expensive
 - Disruptions to international supply chains are occurring. More will become apparent over time.
- None of the disciplines that might have been expected have restrained the US President:
 - No trade retaliation or serious resistance from America's trading partners other than China.
 - No large negative reactions from the financial markets.
 - No consumer rebellion (yet)
 - No effective opposition from the Democratic Party.
 - And no reliable push-back from the Supreme Court.

The US is only 13% of world imports, so much of the world's countries for the time-being will continue to trade among themselves as they have in the past.

As for the future, those directly engaged in trade will work towards economic efficiency, which requires general tariff reduction and elimination. Businesses will not choose to be less efficient, nor will that be the public policy choice for the United States longer term. US tariffs will be pared back but will not be removed fully. The additional revenue is addictive

While efficiency in the end wins out over seeking to promote competitiveness via protection, efficiency as an objective will be adjusted for other efforts at attaining social goals.

