

Why are pickups so expensive? Blame the Chicken Tax

Tariffs on imported trucks leaves domestic manufacturers with little competition.

By Daniel Griswold

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Americans love their pickup trucks, and nowhere more than Texas. But through a conspiracy of factors, new and used light trucks have become more expensive and harder to buy in 2022, and Washington is a big part of the problem.

Chip shortages and supply-chain disruptions because of COVID have played a role, but so too have U.S. government policies. A prohibitive 25% tariff on imported trucks continues to restrict competition in the domestic market, inflating prices and leaving supply chains even more vulnerable to disruption.

As Texans know, pickup trucks are not necessarily a luxury item. Families find them useful for work and for chores at home, especially in rural areas. Light trucks are indispensable for towing trailers, boats and RVs, and trucks are popular for transporting family members safely and comfortably to school or the football game.

Yet owning a pickup truck has become harder to reach for middle-class households. According to the U.S. Bureau of Labor Statistics, **prices for new cars and trucks** in January were up 12% from a year earlier and **prices for used vehicles** up a whopping 40%. Fewer units are available on dealer lots, and Ford has been forced to suspend orders altogether for its lower-priced Maverick pickup truck because of production shortages.

Higher truck prices and production shortages impose an outsize cost on many Texas drivers. Even though fewer than one in ten Americans lives in Texas, Texans buy one out of every six full-size pickups sold in the U.S., **according to MOTORTREND.**

Contributing to the shortages and lack of affordability is a 25% tariff on pickup trucks that dates back to a trade dispute with Europe in the 1960s. When the European Economic Community raised tariffs on imported chicken from the U.S., President Lyndon Johnson retaliated with a 25% “chicken tax” on imported trucks and other items. The tariff was originally aimed at

vehicles made by Volkswagen in West Germany, but even though the original issue over chickens has been resolved, and Germany no longer makes light trucks for the U.S. market, the tariff remains in place out of political inertia.

The truck tariff enables U.S. automakers to dominate the domestic market. Ford F series, GM Silverado and Sierra, and Dodge Ram trucks **account for 95% of light truck sales** in the United States. Toyota employs more than 3,000 workers at its Texas facility near San Antonio producing its Tundra line of pickup trucks, but they account for a small share of the market, and almost no trucks are imported from outside North America because of the tariff. In 2021, Ford and GM posted record profits of nearly \$10 billion each, with light trucks their most profitable line of products.

Instead of trying to repeal the tariff to make trucks more affordable, the U.S. government in recent years has been moving in the wrong direction. A 2011 U.S. free trade agreement with South Korea was supposed to allow light trucks made in that country to be imported to the United States duty-free starting in 2021, but the Trump administration strong-armed the Koreans into postponing the tariff elimination until 2041. If those tariffs had been allowed to expire last year, the U.S. International Trade Commission estimated in a June 2018 report that an additional 14,000 to 32,000 more light trucks would have been available for sale each year in the domestic U.S. market.

The Trump administration also renegotiated the 1994 North American Free Trade Agreement, replacing it with the U.S.-Mexico-Canada Agreement (USMCA). The revised agreement tightens the rules of origin to require that 45% of the parts in trucks be made by North American workers who are paid more than \$16 an hour. This no-Mexicans-need-apply provision will make it more costly to manufacture pickup trucks in Mexico for duty-free shipment to the United States.

A **USITC study in April 2019** concluded that the USMCA's tighter rules on motor vehicles will result in higher prices for consumers and fewer vehicles available for sale in the U.S. market. Unfortunately, the Biden administration is fighting to make the rules even more restrictive.

If the truck tariff were repealed, domestic production would continue at a robust level. For a number of reasons, it makes sense to manufacture trucks in the market where they're sold. Domestic production reduces transportation costs while making it easier to tailor vehicle design to local consumer preferences. That's one reason why international automakers, such as Toyota, Nissan and BMW, produce hundreds of thousands of cars in the United States each year even though the tariff on imported cars is a relatively low 2.5%.

Congress and the president should work together to lower or eliminate the steep duty on imported pickup trucks. The result would be enhanced competition, more flexible inventories and lower prices, making it more likely that Texans will find the right truck at the right price.

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