

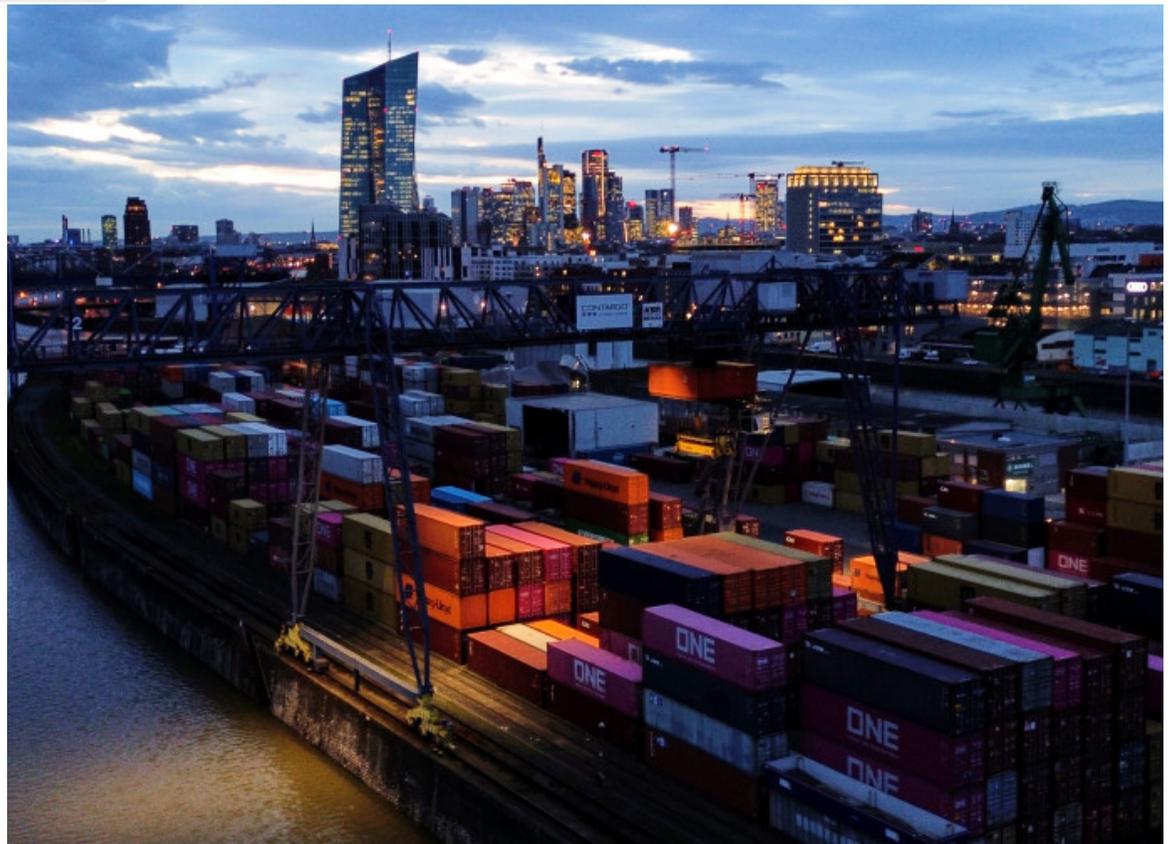
TRUMP

Trump Tariffs Fall While the US Trade Deficit Rises

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**Vincenzina
Santoro**



On February 20 the United States Supreme Court ruled that the tariffs imposed last year by President Trump were illegal given that the law chosen – the 1977 International Emergency Economic Powers Act (IEEPA) does not give the president the authority to impose tariffs. Trump had chosen to impose tariffs under this law for the sake of expediency. There are other laws in place that would allow the president to invoke

tariffs, they are more complex in their operation, but the president is now likely to resort to them given his penchant for imposing tariffs.

The Court ruling was a 6-3 decision with two majority-voting Justices being Trump appointees. Shortly after the announcement Trump held a news conference, called the ruling “deeply disappointing” and proceeded to cast disparaging remarks on those Justices who voted in the majority. Shortly afterwards he announced an across-the-board tariff increase of 10%, which he subsequently decided to raise to 15% the following day, a decision he could change again as he has done many times.

Interestingly, the Court ruling made no mention as to whether duties collected were to be reimbursed. Plaintiffs in the case apparently were seeking restitution. As a result, they will have to take up the matter in the United States Court of International Trade where litigation could go on for years.

The impact of higher tariffs on government revenue was significant. According to the US Treasury, customs duties received by the federal government in the fiscal year ending September 2025 amounted to nearly \$195 billion, up from \$77 billion the prior year. A study by the Federal Reserve Bank of New York revealed that approximately 90% of Trump’s tariffs were paid by American importers.

Tariffs imposed by the president were meant to not only raise revenues given that the federal government deficit and indebtedness are quite high, but also to discourage imports, especially from China but also Europe, given the magnitude of the US trade deficit. As the president repeats over and over, in his view these countries were “ripping us off.”

Full year 2025 merchandise trade data for the US, issued the day before the Court ruling, showed mixed results. Last year the trade deficit increased marginally to a record \$1,230 billion, a 2.1% increase from the year before and the fifth consecutive annual trade deficit of more than one trillion dollars. Interestingly, last year China produced a record trade surplus of similar magnitude: \$1,189 billion. Both results indicate a shift in trading destinations. China was able to boost exports to markets other than the US while the US shifted import sourcing from countries other than China. In particular, the US recorded much larger deficits with Taiwan, Vietnam and Ireland last year.

However, the bilateral deficits with China and the European Union did decline. In 2025, the trade deficit with China dropped by nearly a third to \$202 billion as imports also fell by a third. But US exports to China fell 25%.

As for the European Union, both US exports and imports increased in 2025, but the US deficit fell to \$219 billion from \$236 billion the previous year. Unlike China, the US expanded its exports to the EU by 12%, while importing only 4.5% more.

The same EU pattern was also noted in trade with Italy. American exports to Italy rose a whopping 35% to \$43.7 billion as Italy rose in ranking last year to become the 14th largest destination for US exports, up from 16th the prior year. Such a large increase usually indicates purchases of large-ticket items.

US imports from Italy fell 2.5% last year most likely due to tariffs. Thus, the trade deficit with Italy narrowed from \$43 billion in 2024 to \$30 billion last year. Looking at Italian data, ISTAT shows that Italy's largest non-EU bilateral trade surplus continues to be with the US.

Italy did its share to help reduce the US trade deficit and last year's results should encourage Trump to recognize that Italy is a significant trading partner and a good client – and he should go easy on tariffs.