



The Daily Dish

Tariffs and Small Businesses

DOUGLAS HOLTZ-EAKIN | APRIL 24, 2025

There is good reason to be concerned about the impact of the sharp tariff increases on the near-term economic outlook. The sheer economic mechanics of a tax hike of hundreds of billions of dollars are a severe headwind to growth and have already produced a significant decline in consumer sentiment, small business optimism, and other survey-based measures.

But it is likely that the tariffs will have an especially large impact on small businesses. Smaller firms are much more reliant on cash-flows to finance their capital investment and inventories, and the steep hike in tariffs will eat into those cash-flows. Small businesses imported \$868 billion in goods (31 percent of all imports), with 49 percent in wholesale, 14 percent in manufacturing, and 35 percent in other industries. Of the imports, \$148 billion are intermediate goods. The increased cost of these intermediate goods will be a burden on capital expenditure plans.

This is especially true of the 145-percent China tariffs as 40 percent of imports from China are purchased by small businesses. Unsurprisingly, small businesses also import a lot from Canada (31 percent of the total) and Mexico (22 percent). These country-based tariffs are the most damaging on the books, and accordingly the most damaging to small businesses. Those firms with fewer than 500 employees employ more than 60 million workers - nearly 50 percent of the workforce in 2023. Those jobs are at risk from the tariffs.

It is widely recognized that tariffs are regressive and will hurt the spending ability of lower-income households disproportionately. It is likely as well that tariffs will be most burdensome on the critical small business sector.