



**Statement of
Bryan Riley
Director, Free Trade Initiative
National Taxpayers Union**

**Prepared for
The Committee on Health, Education, Labor & Pensions
United States Senate
Regarding the Committee's Hearing
"The Impact of Zero Tariffs on U.S. Autoworkers"
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**Contact Information:
Bryan Riley
National Taxpayers Union and National Taxpayers Union Foundation
122 C Street NW, Suite 650
Washington, DC 20001
briley@ntu.org**

Introduction

Chairman Alexander, Ranking Member Murray, and distinguished members of the committee, thank you for the opportunity to submit testimony on the impact of tariffs on U.S. workers. Founded in 1969, National Taxpayers Union (NTU) is the oldest taxpayer group in the United States. We serve as the “Voice of America’s Taxpayers” and strive to represent their best interests before governments at all levels. NTU has a long history of opposing costly import taxes that drive up prices and weaken the U.S. economy. Thank you for the opportunity to comment on how a zero-tariff policy would benefit U.S. workers.

Trade has been an important part of our country’s history from the very start, beginning with the Declaration of Independence, which was in part a response to barriers that cut off our trade with all parts of the world, and the U.S. Constitution, which created the largest and most successful free trade area in history,

NTU supports President Trump’s stated goal of zero tariffs, zero non-tariff barriers, and zero subsidies in international trade. However, we are concerned that for the first time since the end of World War II, U.S. and foreign trade barriers are increasing precipitously.

Tariffs harm the economy and weaken U.S. security

One of the things the Commerce Department considers in its national security investigations under Section 232 of the Trade Expansion Act is whether imports are “weakening our internal economy.”¹ Based on this standard, the federal government should not impose new tariffs on motor vehicles and parts, and it should remove existing tariffs on steel and aluminum due to overwhelming evidence U.S. trade barriers weaken our internal economy.

A 1983 Section 232 investigation conducted in the midst of the Cold War with the Soviet Union included this comment from the Council of Economic Advisers:

¹ U.S. Department of Commerce, “The Effect of Imports of Steel on the National Security,” January 11, 2018, <https://www.bis.doc.gov/index.php/forms-documents/steel/2224-the-effect-of-imports-of-steel-on-the-national-security-with-redactions-20180111/file>, and “The Effects of Imports of Aluminum on the National Security, January 17, 2018, <https://www.bis.doc.gov/index.php/forms-documents/aluminum/2223-the-effect-of-imports-of-aluminum-on-the-national-security-with-redactions-20180117/file>.

Trade restrictions impose hidden costs on the economy. They are not included in the appropriations of elected officials, they show up on no agency's budget, and they tend to be overlooked when assessing the impact of the broader policy of which they are a part. But hidden or not, ***these costs act as a drag on the rest of the economy, eroding the industrial base in other sectors, and undermining our ability to sustain a balanced defense effort in a national emergency.***² (emphasis added)

Although the Cold War is over, the logic still applies. Tripling U.S. taxes on imported vehicles and parts, as some have proposed, would leave Americans with less money to spend and invest elsewhere, weakening our economy.

This view is nearly universally accepted by economic experts. Earlier this year, NTU released a letter signed by more than 1,100 U.S. economists, including 15 Nobel laureates.³ They wrote:

We are convinced that increased protective duties would be a mistake. They would operate, in general, to increase the prices which domestic consumers would have to pay. A higher level of protection would raise the cost of living and injure the great majority of our citizens.

Our export trade, in general, would suffer. Countries cannot permanently buy from us unless they are permitted to sell to us, and the more we restrict the importation of goods from them by means of ever higher tariffs the more we reduce the possibility of our exporting to them. Such action would inevitably provoke other countries to pay us back in kind by levying retaliatory duties against our goods.

The world's strongest economies are found in countries that are the most open to international trade. Earlier this year, Federal Reserve Chairman Jerome Powell observed:

In general, countries that have remained open to trade, that haven't erected barriers including tariffs, have grown faster, they have higher incomes, higher

² Department of Commerce, "The Effect of Imports of Nuts, Bolts, and Large Screws on the National Security," February 1983, Appendix I (emphasis added), <https://www.bis.doc.gov/index.php/forms-documents/section-232-investigations/1672-the-effect-of-imports-of-nuts-bolts-and-large-screws-on-the-national-security-1983/file>.

³ "Economists Join NTU to Voice Opposition to Tariffs, Protectionism," May 3, 2018, <https://www.ntu.org/publications/page/economists-join-ntu-to-voice-opposition-to-tariffs-protectionism>.

productivity. Countries that have gone in a more protectionist direction have done worse..⁴

The Initiative on Global Markets at the University of Chicago's Booth School of Business asked a panel of economists to respond to the following statement: "Adding new or higher import duties on products such as air conditioners, cars, and cookies -- to encourage producers to make them in the US -- would be a good idea." Not a single one of the economists who were asked thought this would be a good idea.⁵ In other words, the consensus of the economic community could not be stronger in support of the notion that trade barriers are harmful to America's economy.

That consensus carried through to the Commerce Department's July hearing on possible auto tariffs, where every group but one spoke out against the levies. Even the one exception -- the United Automobile Workers union (UAW) -- warned: "We caution that any rash actions could have unforeseen consequences, including mass layoffs of American workers."⁶ An NTU analysis found that only about one percent of nearly 2,300 online comments endorsed the imposition of auto tariffs.

Previous Section 232 investigations acknowledged the benefits trade with our allies generates for U.S. national security. In one instance the Commerce Department noted: "The U.S. has long been a champion of a free international trading system, because such a system promotes the economic well being of the American people and that of our trading partners -- the most important of which are also U.S. allies."⁷

Tariffs vs. auto workers

Forcing American manufacturers to pay more for steel and aluminum has costly implications for downstream industries like car manufacturing. One study found that when the Bush administration imposed steel tariffs in 2002, 200,000 Americans lost their jobs as a result. That was more than total steel industry employment at the time.⁸

⁴ "Powell: 'Rising chorus' of concern from business over tariffs," CNBC, July 11, 2018, <https://www.cnbc.com/2018/07/17/powell-countries-that-levy-tariffs-have-done-worse-over-time.html>.

⁵ IGM Economic Experts Panel, University of Chicago Booth School of Business, October 4, 2016, <http://www.igmchicago.org/surveys/import-duties>.

⁶ Jennifer Kelly, United Automobile Workers, "U.S. allies warn of retaliation if Trump imposes auto tariffs," Politico, July 19, 2018, <https://www.politico.com/story/2018/07/19/trump-auto-tariff-commerce-hearing-698100>.

⁷ U.S. Department of Commerce, "The Effects on the National Security of Imports of Glass-Lined Chemical Processing Equipment, March 1, 1982, <https://www.bis.doc.gov/index.php/forms-documents/section-232-investigations/1668-glass/file>

⁸ Joseph Francois and Laura Baughman, "The Unintended Consequences of U.S. Steel Import Tariffs: A Quantification of the Impact During 2002," Trade Partnership Worldwide, February 7, 2003, https://www.tradepartnership.com/pdf_files/2002jobstudy.pdf.

According to a recent estimate, for every worker making steel or aluminum today, 38 people work in industries using steel or aluminum as an input.⁹ Another recent report found that steel tariffs could destroy 40,000 auto jobs, equal to nearly one-third of the steel workforce.¹⁰

A 25 percent tariff on imported auto parts would further reduce U.S. automaking employment by imposing a significant new cost on assembling cars in the United States.

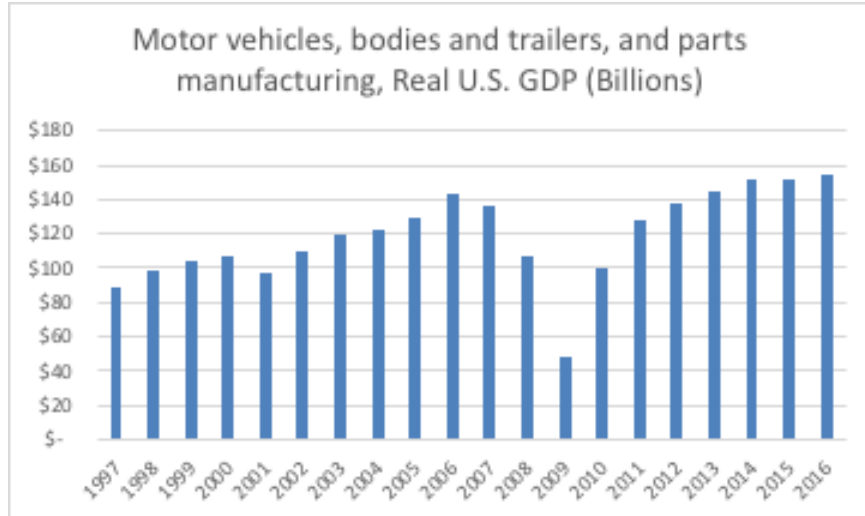
Tariffs -- not imports -- threaten a U.S. industry that is currently more successful than ever. There is no national security threat here since our domestic industry is in no danger of disappearing.

In fact, the last 30 years have seen foreign manufacturers scrambling to build American manufacturing capacity. Automakers like BMW, Mercedes, Toyota, Honda, Volkswagen, Hyundai, Nissan, and others all built huge plants in the United States. New tariffs could threaten this American success story.

Figure 1: U.S. Auto Industry Production

⁹ See Mark J. Perry, "Lesson for Trump: 38 Americans work in industries using steel or aluminum for every worker making steel or aluminum," American Enterprise Institute, March 27, 2018, <http://www.aei.org/publication/lesson-for-trump-many-more-us-workers-depend-on-industries-that-use-steel-or-aluminum-than-on-industries-that-make-it/>

¹⁰ Benn Steil *and* Benjamin Della Rocca, "Trump Steel Tariffs Could Kill Up to 40,000 Auto Jobs, Equal to Nearly One-Third of Steel Workforce, Council on Foreign Relations, March 8, 2018, <https://www.cfr.org/blog/trump-steel-tariffs-could-kill-40000-auto-jobs-equal-nearly-one-third-steel-workforce>.

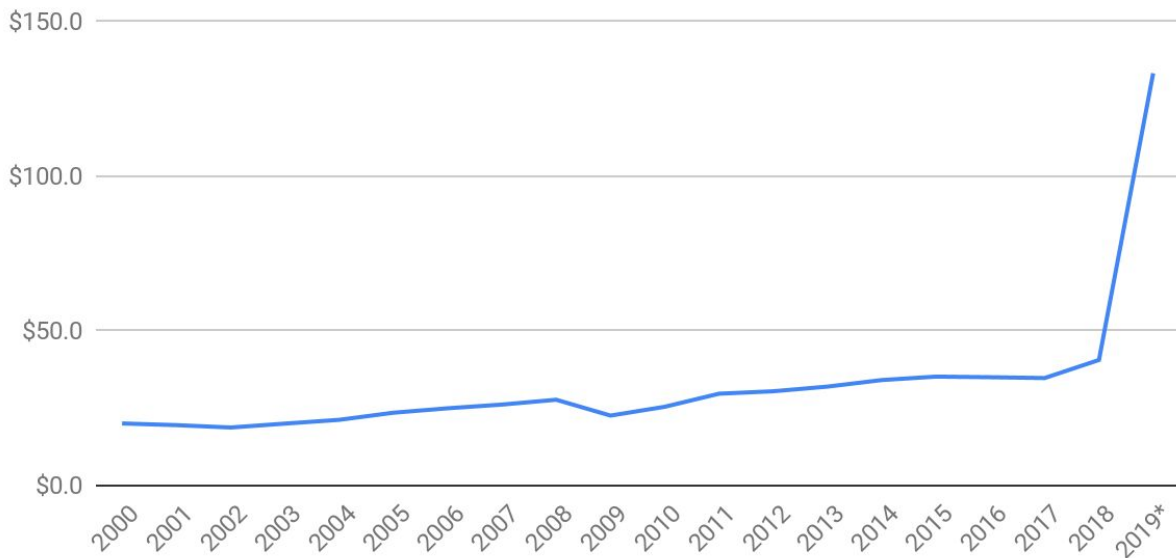


New import restrictions could cost taxpayers billions of dollars a year

The harm to Americans is not limited to new levies on imported steel that impact domestic production. According to many reports the Administration is also considering a 25 percent tax on imported vehicles and parts. Based on 2017 import volume, a 25 percent tariff could roughly triple total U.S. import taxes to the highest level in post-war history.

Figure 2: U.S. Duty Revenue

Customs Duties and Fees (Billions)



Sources: OMB and USITC. *NTU projection for 2019 based on adoption of all pending tariffs.

The average price of an imported car would increase by \$4,205, and the average price of an imported pickup truck would increase by \$5,089.¹¹

In addition to driving up prices on imported cars and pickup trucks, these tariffs would increase prices on cars and trucks manufactured in the United States. Cars assembled domestically would see price increases of at least \$1,262, and the total impact of these tariffs would amount to a federal tax increase on all Americans of over \$65 billion, in addition to the impact of existing steel and aluminum tariffs. According to AutoWise, the price of a U.S.-assembled Toyota Camry could increase by \$1,762, the price of a Dodge Ram by \$1,910, and the price of a Ford F150 by \$1,038.¹²

¹¹ Bryan Riley, "Trump's Car Tax Would Boost Average New Car and Truck Prices by \$1,262 to \$5,089," National Taxpayers Union Foundation, May 30, 2018, <https://www.ntu.org/foundation/detail/trumps-car-tax-would-boost-average-new-car-and-truck-prices-by-1262-to-5809>.

¹² "How Trump's Auto Tariff Will Shake the Industry," *AutoWise*, July 2018, <https://autowise.com/trump-auto-tariffs/>.

As Peterson Institute scholars have pointed out, these are regressive tax increases that fall disproportionately on lower-income Americans, who spend a higher share of their income on vehicles.¹³

A zero-tariff policy would benefit U.S. workers

Fortunately, the U.S. government does not need to engage in lengthy negotiations to help U.S. autoworkers, It just needs to eliminate its own self-destructive trade barriers.

Most U.S. imports are either intermediate goods or capital goods used by U.S. manufacturers to compete in the global economy. Eliminating import taxes on automobile parts and inputs like steel and aluminum would make it easier to assemble vehicles in the United States, boosting employment and manufacturing in that sector. Similarly, eliminating our 2.5 percent tax on imported auto parts would benefit autoworkers. In contrast, increasing it to 25 percent would be extremely damaging.

Catch up with other countries by negotiating new zero-tariff trade agreements

The United States should also implement President Trump's stated goal by negotiating more zero-tariff trade agreements. U.S. car exports to the European Union (EU) face a 10 percent tariff. But auto exports from Canada and Mexico face no tariff, because those countries have negotiated free trade agreements with the EU. There's no reason the United States shouldn't be able to do the same.

Similarly, the EU and Japan signed an agreement this summer to eliminate almost all tariffs. While other countries are signing new agreements, the United States has been threatening to terminate existing trade deals.

Zero-tariff deals like the North American Free Trade Agreement (NAFTA) have been good for U.S. manufacturing. According to the Federal Reserve Bank, real manufacturing output is 36 percent higher than it was in 1994, and the average manufacturing worker earns 22 percent more today after adjusting for inflation. Because U.S. manufacturing workers are more productive than ever, there are fewer manufacturing jobs. But overall, the economy has added 32 million new jobs since NAFTA took effect.¹⁴

Do not weaken existing trade agreements

¹³ Mary E. Lovely, Jérémie Cohen-Setton, and Euijin Jung, "Vehicular Assault: Proposed Auto Tariffs Will Hit American Car Buyers' Wallets," Peterson Institute for International Economics, July 2018, <https://piie.com/system/files/documents/pb18-16.pdf>.

¹⁴ Federal Reserve Bank of the United States, "Manufacturing Sector: Real Output," "Manufacturing Sector: Real Compensation Per Hour," and "Total Nonfarm Payrolls," <https://fred.stlouisfed.org>.

U.S. trade agreements must be designed to benefit American workers. There are reports that a new NAFTA agreement could contain provisions that would threaten U.S. autoworkers.

For example, the deal would seek to change rules of origin for North American automobiles. American Enterprise Institute scholar Claude Barfield called the rules of origin proposal in the U.S.-Mexico trade deal announced last week “an abomination — so complex and anti-competitive that they invite endless litigation and corruption.”¹⁵ According to the Peterson Institute’s Chad Bown, “Tighter rules of origin, potentially combined with import restrictions on nonconforming autos, would mean higher consumer prices for Mexican or American-made cars. Such a price increase would trigger a natural incentive for Americans to switch to relatively cheaper cars assembled outside of the region.”¹⁶

The Trump administration has worked to attract foreign investment by cutting taxes and regulations. Trade agreements should not infringe on the ability of Congress and the administration to change Corporate Average Fuel Economy (CAFE) regulations, labor laws, or other policies in order to promote economic growth. But it’s possible that such changes could violate the proposed new U.S.-Mexico trade deal, according to fact sheets released by the U.S. Trade Representative. Specifically, changing environmental or labor laws to attract foreign investment could soon become an “enforceable” trade violation.¹⁷

Conclusion

In 1993, when I first started working on trade policy, Congress was preparing to approve NAFTA and to reject a proposed 25 percent tax on imported minivans and sport-utility vehicles. Those were the right decisions for America 25 years ago. Today, negotiating more zero-tariff trade agreements, cutting import taxes on inputs used by U.S. manufacturers, and resisting the impulse to impose new levies on imported cars and other goods are still the right policies for America.

¹⁵ Claude Barfield, “The US and Mexico reach an ‘understanding’ on NAFTA update — maybe,” American Enterprise Institute, August 27, 2018,

<https://www.aei.org/publication/the-us-and-mexico-reach-an-understanding-on-nafta-update-maybe/>.

¹⁶ Chad P. Bown, “Sweating the Auto Details of Trump’s Trade Deal with Mexico,” Peterson Institute for International Economics, August 29, 2018,

<https://piie.com/blogs/trade-investment-policy-watch/sweating-auto-details-trumps-trade-deal-mexico>.

¹⁷ See Office of the U.S. Trade Representative, “UNITED STATES–MEXICO TRADE FACT SHEET: Modernizing NAFTA to be a 21st Century Trade Agreement,” August 2018,

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/august/modernizing-nafta-be-21st-century>.