AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. HRG. 115–843

THE IMPACT OF ZERO TARIFFS ON U.S. AUTOWORKERS

HEARING

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING THE IMPACT OF ZERO TARIFFS ON UNITED STATES AUTOWORKERS

SEPTEMBER 5, 2018

Printed for the use of the Committee on Health, Education, Labor, and Pensions

Available via the World Wide Web: *http://www.govinfo.gov*

U.S. GOVERNMENT PUBLISHING OFFICE

31–557 PDF WASHINGTON : 2020

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

LAMAR ALEXANDER, Tennessee, *Chairman*

MICHAEL B. ENZI, Wyoming	PATTY MURRAY, Washington
RICHARD BURR, North Carolina	BERNARD SANDERS (I), Vermont
JOHNNY ISAKSON, Georgia	ROBERT P. CASEY, JR., Pennsylvania
RAND PAUL, Kentucky	MICHAEL F. BENNET, Colorado
SUSAN M. COLLINS, Maine	TAMMY BALDWIN, Wisconsin
BILL CASSIDY, M.D., Louisiana	CHRISTOPHER S. MURPHY, Connecticut
TODD YOUNG, Indiana	ELIZABETH WARREN, Massachusetts
ORRIN G. HATCH, Utah	TIM KAINE, Virginia
PAT ROBERTS, Kansas	MAGGIE HASSAN, New Hampshire
LISA MURKOWSKI, Alaska	TINA SMITH, Minnesota
TIM SCOTT, South Carolina	DOUG JONES, Alabama

DAVID P. CLEARY, *Republican Staff Director*
LINDSEY WARD SEIDMAN, *Republican Deputy Staff Director*
EVAN SCHATZ, *Democratic Staff Director*
JOHN RIGHTER, *Democratic Deputy Staff Director*

C O N T E N T S

STATEMENTS

WEDNESDAY, SEPTEMBER 5, 2018

Page

COMMITTEE MEMBERS

WITNESSES

THE IMPACT OF ZERO TARIFFS ON U.S. AUTOWORKERS

Wednesday, September 5, 2018

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The Committee met, pursuant to notice, at 10:06 a.m., in room SD–430, Dirksen Senate Office Building, Hon. Lamar Alexander, Chairman of the Committee, presiding.

Present: Senators Alexander [presiding], Isakson, Scott, Young, Murray, Casey, Bennet, Warren, Kaine, Hassan, Smith, and Jones.

OPENING STATEMENT OF SENATOR ALEXANDER

The CHAIRMAN. The Committee on Health, Education, Labor, and Pensions will please come to order.

Senator Murray and I will have an opening statement. Then we'll hear from our witnesses, and then we look forward to questions and conversations between Senators and witnesses.

There's a lot going on in the Senate today, so people will be coming in and out. But this is an interesting topic, and we look forward to it.

President Trump has set as a goal zero tariffs. He said at the G–7 meeting no tariffs, no barriers. That's the way it should be. In a meeting a few weeks later with the president of the European Commission, they said, "We agreed to work together toward zero tariffs, zero non-tariff barriers, zero subsidies."

Today is an opportunity to make the case why zero tariffs are good for the U.S. autoworker, and I'll be using the impact of an essentially zero tariff agreement, the North American Free Trade Agreement, on the Tennessee autoworker to make my part of that case.

Let me begin with the story of the Rogue. Rogue is a Nissan vehicle. It's very popular in the United States. It's a small SUV. A few years ago, Nissan internally had a competition to see where to build it, whether in South Korea or Japan or the United States, and the Nissan plant in Smyrna, Tennessee, which employs 8,400 people, won that competition. As a result, all of the Rogues sold in the United States today are built in Tennessee.

A major reason why the plant in Tennessee was able to win that competition with South Korea and Japan was because of the North American Free Trade Agreement and its zero tariff, essentially zero tariff, polices. Nissan is able to move parts and even cars back and forth across the North American borders in order to make a car competitively, one that is low enough cost and high enough quality to compete in the marketplace.

It's not always been true that U.S. automakers have been able to build a car competitively. If one reads David Halberstam's book in 1979, *The Reckoning*, he talks about how the Midwestern auto plants, which was most of our auto plants then, were growing not competitive with European and Japanese cars and were losing the market. What has happened since then is pretty remarkable, and it's especially remarkable in our state.

Let me use a story as an example. Forty years ago, I walked across Tennessee in a campaign for Governor, spending the night with people along the way. One family I stayed with was the Knight family outside Murfreesboro, Tennessee, south of Nashville. Lillian Knight told me she was sad because she had twin sons, high school students, and she said, "They're very smart, but they'll never get a job around here, and I'll never see my grandchildren."

Two years ago, one of those twins, Randy, stepped down as the CEO of Smyrna's Nissan plant, which employs 8,400 people.

Since that time, we've added the General Motors plant and the Volkswagen plant and 1,000 suppliers. Auto suppliers are now in 88 of our 95 counties and are one-third of our manufacturing workers. One out of 15 vehicles made in the United States is now made in Tennessee, and none were 40 years ago.

It's important to us what happens in the auto industry, and much of all the good that I just described has happened since 1994, when NAFTA and its gradual move toward zero tariffs in North America went into effect. Tennessee auto jobs have nearly doubled since 1994. National auto jobs have doubled since 2010. It's true that many auto jobs were lost in the Midwest, about 3.6 million, since 1994. But on the other hand, about 3.6 million jobs were gained in the Southeastern United States. So the United States is producing about the same number of cars today that it did when NAFTA was signed.

Half the cars, nearly, according to the Global Automakers Alliance, are built by so-called foreign-owned cars, who make in the United States what they sell in the United States, like the Rogue. And the practical effect is that in our state, it means family incomes have gone up, as jobs which paid less are being replaced by auto jobs which pay more.

Here's what President Trump said at the G–7 summit in June: "No tariffs, no barriers. That's the way it ought to be." And then later, in July, with the European Commission president, they said, "We agreed today, first of all, to work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods."

One of our witnesses, Stephen Moore, wrote in a piece for the *Washington Times* in July, quote, "Zero tariffs would be the ultimate victory for totally free and fair trade. It would advantage the United States most because we already impose the lowest trade barriers." Zero tariffs, in my view, are the right goal. Piling tariffs on top of tariffs, in my view, is the wrong goal. You don't have to be a math professor to figure that out.

Nissan says that 70 percent of the weight of the vehicles it makes in Tennessee and Mississippi are steel. The cost of steel is up since January by 40 percent, according to Steel Benchmark. That means a several thousand dollar increase in the cost of a Rogue made in Smyrna.

Or you can look at President Bush's experience with steel tariffs. He found out pretty quickly that while there are about 139,000 people—that's today's number—producing steel in the United States, there's 17 million Americans working in industries that use steel. He abandoned steel tariffs, because after about a year, they had destroyed more jobs in the steel-using industry than existed then in the steel-producing industry.

We see the same thing in Tennessee. Electrolux, an appliance manufacturer, has canceled a $250 million expansion because of the new high cost of steel, even though they buy all their steel in the U.S. You import steel, put a tax on it, and everybody else raises their prices, too.

Same with Bush brothers, who can beans, about a third of all the beans in the United States. They estimate their revenues will go down 8 percent because of the higher cost of steel.

Same with Bridgestone. They buy steel cord for tires. None of that is made in the United States, so they have to pay for it—the higher price for imported steel. There are 38,000 waivers at the Department of Commerce from people who would like not to pay the higher tax on steel that's imported.

The zero tariff goal also keeps us from talking about what I consider to be the wrong goal when we talk about trade, and that is to focus on the trade deficit, which really is irrelevant to this discussion. For example, look at the North American Free Trade Agreement. One of the sticking points still is dairy between Canada and the United States. The problem is not a trade deficit. The United States has a trade surplus with Canada on dairy, a pretty big one. The problem is Canada does not do for us what we do for them. Reciprocity, or lack of it, is the problem.

Also, the trade deficit is not a good focus because Mexico, for example, spends about a quarter of its entire wealth buying stuff from the United States. The United States spends one-fifth of 1 percent of what our GDP is buying stuff from Mexico. So the focus—and a zero tariff places this focus properly—should be on reciprocity. Is the other country doing for us what we do for them?

We hope to learn today from distinguished witnesses what the impact of a zero tariff policy will be on U.S. autoworkers. What can we learn about the goal the President has talked about, and what will the impact be?

Senator Murray.

OPENING STATEMENT OF SENATOR MURRAY

Senator MURRAY. Well, thank you very much, Chairman Alexander.

Thank you to all of our witnesses for being here today, and I especially want to thank Ms. Thea Lee, who has a long history of fighting on behalf of workers for better trade policies. I appreciate your advocacy.

We don't often talk about trade and tariffs in this Committee. It's usually a conversation that takes place over in the Finance Committee. But there is no question that President Trump's escalating trade war is already hurting a lot of workers in our country, and things will only worsen on working families if he continues to pursue these reckless trade policies. That is something that everyone, not just the Finance Committee Members, should be worried about.

The Chairman focused on the impact of President Trump's proposed tariffs on the auto industry—very important, but the damage done by the President's ill-conceived ideas could go much further than just the auto industry, and that has the potential of hurting workers in every industry across all 50 of our states. As a voice for my home State of Washington, I hope we can broaden the conversation, because perhaps no state has more to lose in Trump's trade wars than Washington State.

About 40 percent of all jobs in Washington State are tied to trade. So whether we're talking about wheat farmers in eastern Washington or longshoremen who load goods onto ships at one of our ports on the west side, a lot of workers in my home state are at risk.

Last month, I had the opportunity to meet with members of the Agricultural Committee as well as the men and women who work at our ports, and I have to tell you they are already feeling the pain of Trump's reckless trade policies. One example was our fruit tree growers, people who produce those delicious cherries you all love and our famous Washington State apples. They have estimated their losses are already in the tens of millions of dollars for this year alone due to retaliatory tariffs.

Others are feeling the pain because of the uncertainty of this administration's ham-handed approach. They are wrapping up this year's harvest and should be planting for next, and while the Trump administration is telling them to be patient, they cannot hold out forever. And as they made very clear to me, a one-time taxpayer funded aid package like the one the administration announced this summer is not a long-term solution, even if it somehow trickled down to every affected worker, which right now it does not.

What's so important to remember is that our growers and our longshoremen are just the first to feel the effects of President Trump's misguided trade war. We know that their losses will trickle out to workers at businesses I've heard from, to farm suppliers, to local car dealerships, to regional businesses and restaurants, to them and their families and their communities and many more, and that list will go on. The domino effect is very real. It is urgent for my home state and for every state. President Trump is playing a very dangerous game right now, and it's the American workers who are being forced to pay the price.

How do we craft a trade policy that achieves fair trade and lifts up U.S. workers? The answer is not to simply eliminate all trade barriers, including tariffs, but it also is not President Trump's scatter-shot tariffs. There is a toolbox at our disposal to help level the playing field. One example: tariffs can be used carefully and have been by several administrations to combat unfair trade practices or level the playing field or improve conditions for workers. But they have to be used in a strategic, coherent manner that, frankly, has been missing from the current administration to date.

There are other tools that can be used to achieve fair trade, including building stronger labor standards into our trade agreements to make sure our trade partners are respecting their workers' rights and to make sure American workers are competing on a level playing field. And labor standards must not be an afterthought. Meaningful enforcement of basic labor rights abroad should be at the center of our trade policies.

America's workers are dedicated, they are increasingly productive, and they are creative. But it is unfair to ask them to compete against countries who are dumping their products into U.S. markets with workers making sub-minimum poverty wages or workers who face deadly violence or intimidation when they organize for better conditions.

Fair trade should be about respecting workers while growing jobs here at home and opening up markets for our goods overseas, not a race to the bottom. President Trump is not pursuing a rational trade policy that puts our workers first, and I'm very deeply concerned that if he continues to engage in this scatter-shot, tit-for-tat trade war while demonizing our closest allies and long-time trading partners instead of working with them to root out bad actors and address systemic issues, it will be the millions of workers in communities across this country who are forced to bear the brunt of President Trump's trade war.

Mr. Chairman, I stand ready to work with you as well as anyone from either side of the aisle who is willing to work on solutions that restore certainty to our communities and pursue trade policies that work for our families, our workers, and the states we represent. Our workers can't wait much longer, Mr. Chairman.

Thank you.

The CHAIRMAN. Thank you very much, Senator Murray.

We'll now hear from our witnesses and then go to questions from Senators. I will introduce our witnesses.

The first is Stephen Moore, Distinguished Visiting Fellow with the Project for Economic Growth and the Heritage Foundation's Institute for Economic Freedom and Opportunity, currently a senior economic analyst for CNN, former member of the Wall Street Journal editorial board.

Next, Bryan Riley, Director of National Taxpayer Union Free Trade Initiative. He has led grass roots efforts in support of initiatives like the North American Free Trade Agreement and has researched the domestic impact of trade.

Next, Thea Lee. Ms. Lee is President of Economic Policy Institute, has previously worked with the AFL–CIO. She has served on the State Department's Advisory Committee on International Economic Policy, the Export-Import Bank Advisory Committee, and the Board of Directors of the National Bureau of Economic Research.

Our final witness today is John Bozzella, President and Chief Operating Officer of the Association of Global Automakers. He has previously served as a Senior Operating Executive for Cerberus Operations, an advisory company, and Senior Vice President of External Affairs and Public Policy for the Chrysler Group.

Welcome again to all our witnesses.

Mr. Moore, why don't we begin with you.

STATEMENT OF STEPHEN MOORE, DISTINGUISHED VISITING FELLOW, PROJECT FOR ECONOMIC GROWTH, INSTITUTE FOR ECONOMIC FREEDOM AND OPPORTUNITY, THE HERITAGE FOUNDATION, WASHINGTON, DC

Mr. MOORE. Thank you, Mr. Chairman. It is a privilege to testify before this Committee. I am an economic researcher at the Heritage Foundation, but my remarks today are my own views as an economist, not necessarily those of Heritage.

I would start by saying that, Mr. Chairman, you stole my thunder. I mean, I agree with virtually everything you just said. You get an A in economics today, because you got the——

The CHAIRMAN. I never did before, so thank you.

Mr. MOORE. You had it exactly right. And, by the way, I agree with many of the points that Senator Murray made as well.

Let me start by saying that I also served as a senior economic advisor to the Trump campaign and so had many occasions to speak to Donald Trump about trade policy, and he used to always say that—every once in a while, I would say, "Well, you know"—then, we would call him Donald—"those are protectionist trade policies," and he would say, "No, I am not for protectionism. I'm for"—as you said—"I want reciprocity. I want a level playing field. I want more trade, but I want to make sure that it's fair."

I was always somewhat skeptical of that approach. But I would say today I'm less skeptical than I was 6 months ago or 9 months ago. I think that, so far, it appears that Trump is on a right course. I love what you just said, Mr. Chairman, about the zero tariff policy. This is something that I—and I think some of the others at this table—have been urging as a strategy. And you're right. Donald Trump has talked a lot about this. His chief economic advisor, Larry Kudlow, talks a lot about that as well.

I think that the Mexico agreement is a pretty good start. I think we're going to get an agreement in the next few weeks with Canada. The handshake deal that he has with Europe I think is a very promising thing, and, as you know, at the end of that deal, it says the goal here is to get down to zero tariffs so that we have zero tariffs across the Atlantic. That would be a very positive thing.

Then, you concentrate your efforts on China. China is clearly the bad actor on the international scene. They are the country that is abusing our trade laws and our intellectual property. So I think it's going in the right direction.

Senator Murray is right that this is a dangerous game. We're in the fourth inning of the game. So far, it looks like it's going pretty well, but you never know how this is going to end.

A second point I'd make is one that you made as well, Mr. Chairman, which is the U.S. auto industry is healthy in the United States. It really is, and it's healthy—even it's recovering big time in states like Michigan, those Midwestern states. I'm from Illinois, so I'm a Midwesterner. But it's very strong in the southern states, states like yours, in Tennessee, Alabama, Texas, and I've been—I travel a lot on my job. I go to a lot of these factories, and I've seen the economic vibrancy that's going on as a result of the movement of the auto industry into the southern states. So that's a very positive thing.

My kind of view when it comes to auto is if it ain't broke, don't fix it. This is a positive trend, and I have some charts in my testimony that show that it's been a healthy recovery for the auto industry.

The next point I would make is that one of the reasons I'm opposed to protectionist measures, whether it's steel or whether it's aluminum or, in this case, whether it's autos, is that I think we should learn the lessons from the 1970's. We tried that approach in the 1970's of protecting our industries with tariffs, and it led to a loss of jobs. It hurt the American consumer big time. In fact, almost all studies show that the negative wealth effects to consumers outweighed any benefits to the protected workers.

But, more importantly, is that what we discovered from these protectionist policies is that when you gave American industry a kind of cloak of protection of 20 percent, 30 percent, 40 percent trade barriers, they became fat and flabby and inefficient. They didn't have to compete, and that's the worst thing. I'm a big believer—as you said, Senator Murray, we've got the best workers in the world. If you give American industry and American workers a level playing field, we can out compete the Japanese, the Chinese, the Canadians, the Germans, and so on. And the worst thing to do is to give them a cloak of protection, which I think in the long run has a negative effect.

I think we're going to win on these trade policies. As I was saying, Senator Murray, when you were out, I think you're exactly right that this is a bit of a dangerous strategy that Trump is proposing, but I think at the end of the day, I'm an optimistic, and I think this will work out if we move toward the policy of zero tariffs with the kind of labor protections, Senator Murray, that you're talking about.

Thank you.

[The prepared statement of Mr. Moore follows:]

PREPARED STATEMENT OF STEPHEN MOORE

My name is Stephen Moore and I am the Distinguished Visiting Fellow in the Project for Economic Growth at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

President Trump has proposed auto tariffs of 20 to 25 percent on imported automobiles and automobile parts. Although the White House has made progress in trade negotiations to reduce tariffs and other trade barriers against American exports aimed at getting tariffs down to zero, Trump is still holding firm on special tariffs on autos, steel and aluminum. These are said by the White House to be necessary for national security reasons. But the auto tariffs are also designed to save America autoworker jobs. That's a defensible goal, but the impact on overall jobs – even in the U.S. auto industry may be negative, and other economic effects, including the increase in the costs of buying a new car, make auto tariff implementation inadvisable.

History suggests that auto trade restrictions almost never deliver the promised benefits. Back in the late 1970s and early 1980s the U.S. put trade restrictions on the surging Japanese auto companies – including Honda and Toyota. A landmark study by Robert Crandall of the Brookings Institution found that from 1982-85 those trade barriers led to a "$10-$15 billion welfare loss absorbed by U.S. consumers in 1982-85." He argues that the benefits to the domestic auto industry from those policies (about 1.3 million more cars built) were unlikely to be "worth more than a fraction of the cost." The policies were a big net loser for the economy[1]. Most economists come to the same conclusion regarding the Bush steel tariffs in 2002.

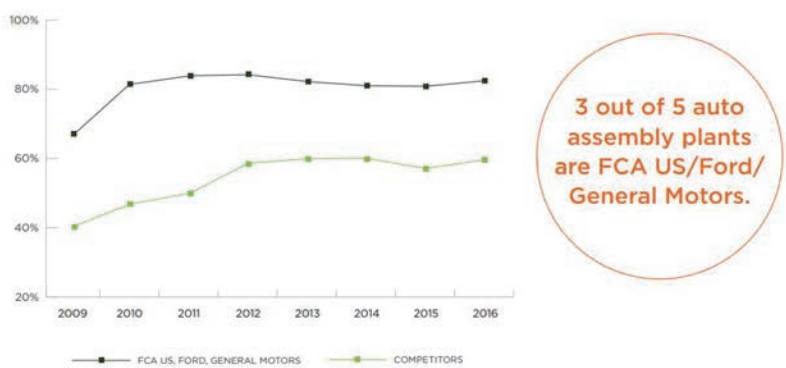
What is very different today from even the failed trade protectionist policies of the 1970s, 80s and 2000s is that global supply chains make it increasingly difficult to determine what country made the car. The steel in a Ford truck may have come from Canada, the parts from Singapore, the electronic gadgetry from Germany and some of the assembly in Mexico. But the Trump tariffs are imposed not just on imported cars but on the auto parts, which makes manufacturing the car in the United States clearly more expensive. For example, the Nissan Rogue, which is made in Tennessee has front seat parts that cross NAFTA borders four times. A 25 percent tariff on these cross-border transactions would be highly punitive.

But there is another big difference between the American auto makers today versus 25 years ago. The United States builds about 12 million cars and light trucks a year. The domestic auto producers in Detroit are down by about 3.5 million cars between 1994-2016. The cars made outside of Detroit, by Nissan, Honda, Toyota, BMW, and others are up by more than 3 million in sales over that period. Auto production in the United States has shifted from outside of the Motor City and to the Southeast, states like Tennessee, Alabama, Texas and South Carolina. These

[1] Robert W. Crandall, "The Effects of U.S. Trade Protection for Autos and Steel," Brookings Papers on Economic Activity, Brookings Institution, 1:1987. https://www.brookings.edu/wp-content/uploads/1987/01/1987a_bpea_crandall.pdf

states have lower costs and Right to Work laws that make them highly competitive in global markets. These also tend to be foreign auto companies with plants in the United States.

U.S. PRODUCTION AS A PERCENTAGE OF U.S. SALES (2009-2016, SALES-WEIGHTED)



Source: American Automotive Policy Council

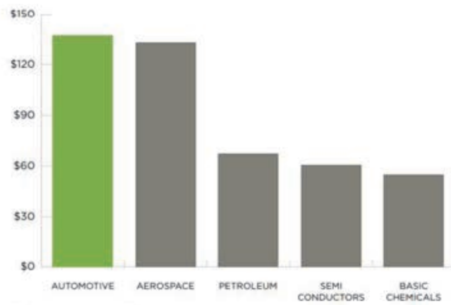
They also import many of their parts and assembly from other nations. Tariffs on these imported intermediate goods will make American cars more expensive and thus less desirable to consumers here and abroad.

Another feature of the U.S. auto industry that is not well understood is that the U.S. is a large and growing auto export country. With $50 billion of annual sales abroad, America is the third largest exporters of cars, behind Germany and Japan[2]. This means that America may end up losing many auto jobs due to the 25 percent tariffs if other nations retaliate with higher tariffs on American-made cars. This is one of the reasons most of the American auto companies *oppose* the tariffs that are supposed to "protect" them from foreign competition.

---

[2] United States Department of Commerce, Bureau of the Census, Foreign Trade Division TPIS Database: USHS EXPORTS, Revised Statistics for 1989-2016.
https://www.trade.gov/td/otm/assets/auto/New_Passenger_Exports.pdf

TOP 5 U.S. EXPORTERS, IN BILLIONS (2016)



Source: American Automotive Policy Council

Lost Jobs

The immediate employment impact of the Commerce Department's proposed 25 percent tariff on automobiles and automobile parts would result directly in a two percent drop in auto sector employment, rising to 5 percent and a total job loss of over 600,000 after expected in-kind retaliation by trading partners, according to an analysis by the Peterson Institute for International Economics.[3]

Table 1 Effects of Trump's proposed auto tariffs

	US autos and parts percent change				Change in total US employment
	Imports	Exports	Production	Employment	
Scenario 1: 25 percent US tariffs on all countries for autos and parts	-5.29	-2.53	-1.50	-1.92	-195,000
Scenario 2: Scenario 1 and retaliation in-kind by all countries	-6.70	-8.80	-3.98	-5.07	-624,000

Source: Calculations by Sherman Robinson and Karen Thierfelder.

[3] Sherman Robinson, Karen Thierfelder, Jeffrey J. Schott, Euijin Jung, Zhiyao (Lucy) Lu, and Melina Kolb, "Trump's Proposed Auto Tariffs Would Throw US Automakers and Workers Under the Bus," Peterson Institute for International Economics, May 31, 2018. https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and

That's only the impact on manufacturers. Dealers would face layoffs as the tariffs price buyers out of the new car market. The Center for Automotive Research found the 25 percent tariff would slash dealer employment by over 117,000 – an average of seven employees per dealership.[4]

In one study by the Trade Partnership, the model found that tariffs could (in the absence of retaliation– a highly unlikely scenario) boost employment in the auto sector. But that increase of about 92,000 jobs would come at the cost of shaving 0.1 percent off of overall GDP and destroying 250,000 jobs in the rest of the economy.[5] That's a net loss of 157,000 American jobs – before retaliation – in an unlikely best case scenario in which the tariffs succeed in boosting domestic sector employment.

The most likely jobs impact scenarios are negative for auto manufacturers, dealers, and the overall economy – both directly and as a result of nearly inevitable retaliation.

Higher Prices for Consumers

For every American who works for an automaker, there are 50 to 100 who buy the cars they make. Since cars are a major expense item in family budgets, the price of new cars and trucks is a major factor for the financial health of American households. The proposed tariffs are a literal regressive tax on car purchasers.

A straightforward analysis of the proposed 25 percent tariff to the foreign content of a typical imported car shows the tariff would add about $6,400 to the price of a $30,000 imported car.[6]

The Center for Automotive Research modeled the impact on U.S. assembled and imported vehicles and found the retail price increase would average $4,400 on imported vehicles and $2,270 on vehicles rolling out of American assembly plants.[7]

However, as a Peterson Institute analysis notes: "Buyers within each market segment substitute different car models in the same class in response to cost. . . . This substitution across models allows all manufacturers to raise prices when tariffs are imposed, regardless of how much foreign content any one of them is using. . . . The key insight is that normal shopping behavior,

[4] Michael Schultz, Kristin Dziczek, Bernard Swiecki, and Yen Chen, "Consumer Impact of Potential U.S. Section 232 Tariffs and Quotas on Imported Automobiles & Automotive Parts," Center for Automotive Research, July 20, 2018. https://www.cargroup.org/trade-briefing-consumer-impact-of-potential-u-s-section-232-tariffs-quotas-on-imported-automobiles-automotive-parts/

[5] Joseph Francois, Laura M. Baughman, and Daniel Anthonym "An Accident Waiting to Happen? The Estimated Impacts of Tariffs on Motor Vehicles and Parts," The Trade Partnership, May 29, 2018. https://tradepartnership.com/reports/an-accident-waiting-to-happen-the-estimated-impacts-of-tariffs-on-motor-vehicles-and-parts/

[6] Francois et al.

[7] Schultz et al.

not the imported content of any one model, is what makes showroom prices reflect the average cost of higher taxes among similar vehicles."[8]

It therefore makes sense to analyze the consumer price impact on market segments, as the Peterson Institute report does. As the chart shows, the impact of the tariff ranges from about $2,000 on compact cars to nearly $7,000 on luxury compact SUVs. Even if producers pass only two thirds of the tax on to consumers, the impact would still range from $1,400 on compacts to $4,700 on luxury SUVs.

Average foreign content shares and tariff-induced price increases

	Compact cars	Compact SUVs/ crossovers	Luxury compact SUVs/crossovers
Estimated current dealer price	$16,852	$22,516	$35,020
Foreign content share (2018)	51	56	84
Steel tariff cost increase	$150	$204	$315
Tax under 25 percent Section 232 auto tariff	$1,907	$2,985	$6,798
Tariff pass-through at 66 percent			
Estimated dealer price with steel and Section 232 tariffs	$18,260	$24,609	$39,728
Price increase due to tariffs	$1,409	$2,092	$4,708
Price increase as percent of current dealer price	8.36	9.30	13.44
Tariff pass-through at 100 percent			
Estimated dealer price with steel and Section 232 tariffs	$18,909	$25,582	$41,992
Price increase due to tariffs	$2,057	$3,066	$6,971
Price increase as percent of current dealer price	12.21	13.62	19.91

Notes: Estimated current dealer price is dealer invoice, including destination fee, minus dealer holdback. Steel tariff assumed to add 1 percent to dealer price net of destination fee and operating profit. Section 232 tariff calculated as 25 percent tax on foreign share of dealer cost, which is dealer price net of destination fee and profit. All figures shown are weighted averages for segment, with the weights corresponding to segment market shares.

Sources: Domestic content from National Highway Traffic Safety Administration (https://www.nhtsa.gov/sites/nhtsa.dot.gov/files/documents/2018_aala_alpha_06262018.pdf); invoice price, dealer price, destination fee, and holdback from Car Buying Strategies (https://www.car-buying-strategies.com/new-car-prices.html); operating margin for each manufacturer data from Bloomberg Finance L.P.; Bloomberg Intelligence; 1 percent increase of price by steel tariff from John D. Stoll and Mike Colias, "Steel, Aluminum Tariffs Could Raise Car Prices by $300," *Wall Street Journal*, March 12, 2018 (https://www.wsj.com/articles/steel-aluminum-tariffs-could-raise-car-prices-by-300-1520867757).

Undermining the Benefits of the Trump Tax Cuts

To put their price impact findings in perspective, the Peterson Institute amortized expected price increases over five years and compared the annual costs to the expected savings from the Trump

---

[8] 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

tax cuts. They found that the tariff-induced increase in the price of a new car would consume about 20 percent of the typical Trump tax cut.

The Tax Foundation also compared the auto tariffs to the Trump tax cuts, but from the perspective of the impact of the tariffs on household incomes. The Tax Foundation found that the proposed tariff would amount to a $73 billion tax increase. Running that tax increase through their Taxes and Growth Model, they found that the auto tariffs would offset half of the value of the Trump tax cuts for low-income households. For middle-income households, the auto tariffs would offset 29 percent of the value of the Trump tax cuts.[9]

Distributional Impact of the Tax Cuts and Jobs Act and Proposed Automobile Tariffs

Percentage Change in After-Tax Income, 2018

Income Group	TCJA	Tariffs	Net	Change in Impact
0% to 20%	1.00%	-0.49%	0.51%	-49%
20% to 40%	1.70%	-0.49%	1.21%	-29%
40% to 60%	1.70%	-0.49%	1.21%	-29%
60% to 80%	1.70%	-0.49%	1.21%	-29%
80% to 100%	3.90%	-0.45%	3.45%	-12%
80% to 90%	1.90%	-0.47%	1.43%	-25%
90% to 95%	2.10%	-0.49%	1.61%	-23%
95% to 99%	3.80%	-0.47%	3.33%	-12%
99% to 100%	7.00%	-0.39%	6.61%	-6%
TOTAL	2.90%	-0.47%	2.43%	-16%

Source: Tax Foundation Taxes and Growth Model, June 2018, and Tax Foundation calculations

The proposed auto tariffs would wipe out a significant portion of the Trump tax cuts across all income levels according to the Tax Foundation model. On top of that drop in income, anyone in the market for a new car would pay thousands of dollars more; for some taxpayers, their entire tax savings could disappear in just the price *increase* for a new car purchase.

Lost Lives

If the Trump administration believes its own published model on the relationship between higher new vehicles costs and overall safety of the vehicle fleet, then it should measure the cost of the proposed auto tariffs not just in dollars, *but in human lives*.

[9] Erica York, "Automobile Tariffs Would Offset Half the TCJA Gains for Low-income Households," Tax Foundation, June 4, 2018. https://taxfoundation.org/automobile-tariffs-2018/

The Trump administration's Department of Transportation and Environmental Protection Agency have published a model that associates higher prices for new vehicles with significant safety harms.

Specifically, in proposing a relaxation of fuel economy standards, the DOT and EPA touted the fact that higher prices "will induce some consumers to delay or forgo the purchase of newer safer vehicles and slow the transition of the on-road fleet to one with the improved safety available in newer vehicles."[10]

Specifically, their proposed deregulatory action prevents an average price increase of $1,850 per vehicle and associated financing, taxes, and insurance costs of an additional $490. Their model shows the rule prevents a total of 12,700 fatalities. About half of those fatalities come from the so-called "rebound effect" that people tend to drive more miles in more fuel-efficient vehicles, a factor not relevant to tariff-induced price increases.

But for the other 6,340 fatalities, *vehicle age* is the most significant factor driving the safety findings.

DOT and EPA say: "Some of these safety benefits will come from improved fleet turnover as more consumers will be able to afford newer and safer vehicles. Recent NHTSA analysis shows that the proportion of passengers killed in a vehicle 18 or more model years old is nearly double that of a vehicle three model years old or newer. As the average car on the road is approaching 12 years old – apparently the oldest in our history – major safety benefits will occur by reducing fleet age."

If major safety benefits come from making new cars less expensive at the Department of Transportation, it stands to reason that making new care *more expensive* by imposing a 25 percent tariff will have the opposite effect on safety by pricing buyers out of the new car market and keeping older, less safe vehicles on the road longer.

DOT and EPA say: "Conversely, if buyers' reaction to the changes in prices and attributes of new vehicles . . . causes a decline in their sales, some travel that would otherwise have taken place in newer, safer cars and light trucks will instead be sifted to older models. As a consequence, the safety consequences and economic costs of motor vehicle crashes will rise."

With nearly every economic model in agreement that the retail price impact of the tariffs will be larger than the savings from the revision of the fuel economy rule, if the DOT and EPA are correct about the relationship between retail price and safety then the tariffs will cost thousands of Americans their lives – indeed it is likely that long-term imposition of the proposed tariffs would cost the lives of all of the Americans who would be saved from the fuel economy rule.

---

[10] U.S. Department Of Transportation National Highway Traffic Safety Administration and U.S. Environmental Protection Agency, "Preliminary Regulatory Impact Analysis The Safer Affordable Fuel-Efficient (SAFE) Vehicles Rule for Model Year 2021 – 2026 Passenger Cars and Light Trucks," July 2018.
https://www.nhtsa.gov/sites/nhtsa.dot.gov/files/documents/ld_cafe_my2021-26_pria_0.pdf

Conclusion

On balance, the proposed 25 percent tariffs on automobiles and automobile parts run contrary to the central policy priorities of the Trump administration – promoting employment, manufacturing competitiveness, tax relief, and auto safety.

To give the president his due, the threat of auto tariffs has been a springboard to new trade agreements – so far with Mexico and the European Union – that are more advantageous to the United States. So if the ultimate goal of Trump's auto tariffs is to force other trading nations to reduce their tariffs on U.S. products, the tariff club may make sense. But actual implementation of auto tariffs this high would impose net costs to the American that far exceed the benefits to the domestic automakers or their workers.

####################

The Heritage Foundation is a public policy, research, and educational organization recognized as exempt under section 501(c)(3) of the Internal Revenue Code. It is privately supported and receives no funds from any government at any level, nor does it perform any government or other contract work. The Heritage Foundation is the most broadly supported think tank in the United States.

Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own and do not reflect an institutional position for The Heritage Foundation or its board of trustees.

The CHAIRMAN. Thank you, Mr. Moore.
Mr. Riley.

STATEMENT OF BRYAN RILEY, DIRECTOR, FREE TRADE INITIATIVE, NATIONAL TAXPAYERS UNION, WASHINGTON, DC

Mr. RILEY. Thank you, Chairman Alexander, Ranking Member Murray, and distinguished Senators, for the opportunity to be here today.

I'm Bryan Riley. I'm with the National Taxpayers Union. Founded in 1969, NTU is the Nation's largest taxpayer organization, and we have a long history of opposing import taxes that drive up prices for American consumers and weaken our economy.

You know, I think most Americans remember in our Declaration of Independence the line about no taxation without representation, and maybe not as many remember the line right before that which accuses the king of England of cutting off our trade with all the countries in the world.

Today, you could call any economist at the Economics Department at Vanderbilt or Washington State or almost any university in the country, and they would tell you the same thing. I think they would tell you the same kinds of things which we heard in the opening statements and in Steve Moore's comments and in my comments, that these proposed tariffs and existing tariffs on steel and aluminum and automobiles are a terrible idea, and they're self-destructive.

You know, earlier this year, NTU released a letter from over 1,200 economists, including 15 Nobel laureates, who agreed: "We are convinced that increased protective duties would be a mistake. They would raise the cost of living and injure the great majority of our citizens. Such action would inevitably provoke other countries to pay us back in kind by levying retaliatories against our goods."

NTU strongly supports the kind of zero tariff, zero subsidy agreements that Senator Alexander and Steve Moore have alluded to earlier, and we continue to encourage the administration to move in this direction. However, we are concerned that for the first time since the end of World War II, we're in a cycle of increasing tariffs and trade barriers, not just in the United States, but from our trading partners. A 25 percent tariff on imported auto parts, for example, clearly would be harmful to America's autoworkers. It would be additional damage on top of the steel and aluminum tariffs that are harming America's workers.

Another point I wanted to be sure and share was this is not a policy that most Americans, I think, endorsed. When the Commerce Department held public hearings on tariffs on automobiles earlier this summer, nobody endorsed the idea. There was one—the speaker from the United Auto Workers didn't wholeheartedly endorse it, but didn't wholeheartedly oppose the idea. But none of the other people speaking endorsed the idea of new tariffs on automobiles.

NTU went through nearly 2,300 comments that were submitted online about possible tariffs on automobiles and parts. Only about 1 percent of the comments were in support of new restrictions on imports, and these findings are in line with the public opinion polls, which show that more Americans than ever are supportive of international trade.

I'm concerned that the U.S. is getting left behind as other countries are cutting zero tariff deals. If you're a car maker in Canada or Mexico, you can export to Europe without paying a tariff. If you're based in the U.S., you have to pay a 10 percent tariff. That's not because of any unfair barrier. It's because Canada and Mexico have negotiated deals. I see no reason why the United States should not be able to do the same thing.

In conclusion, I just want to reiterate that we support the goal that the President has stated of moving toward a zero tariff policy. We strongly believe that imposing new regressive taxes on Americans is the wrong approach for U.S. trade policy.

I look forward to hearing any questions that you all may have later this morning.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Riley follows:]

PREPARED STATEMENT OF BRYAN RILEY

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:

> 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

[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.

> 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 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

---

[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.

[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.

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] 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]

---

[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.

[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/

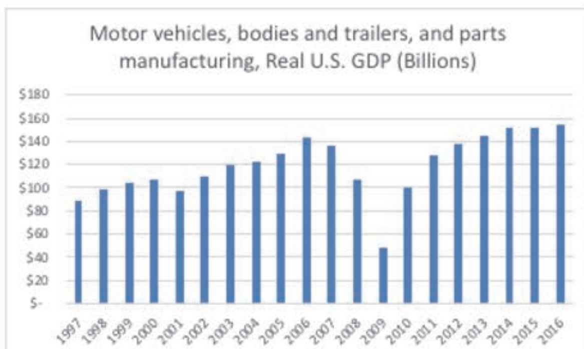
[10] Benn Steil *and* Benjamin Della Rocca, "Trump Steel Tariffs Could Kill Up to 40,000 Auto Jobs, Equal to Nearly One-Third of Steel Workforce, Council on Foreign Relations, March 8, 2018,

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



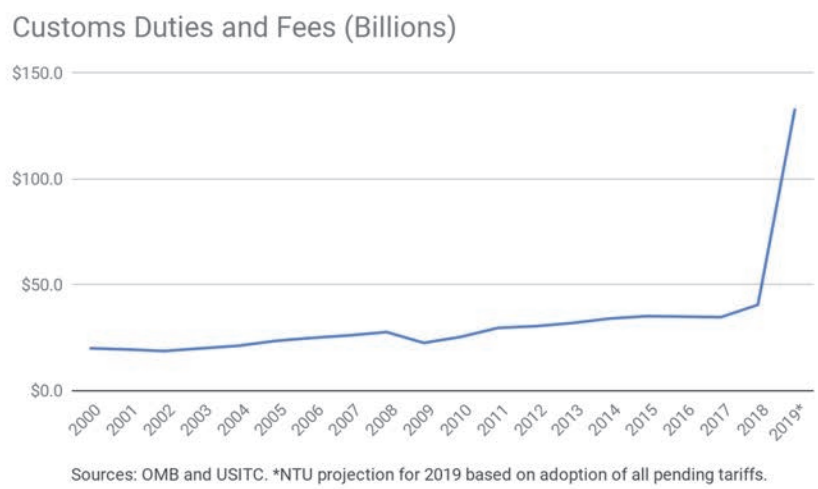
New import restrictions could cost taxpayers billions of dollars a year

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.

---

https://www.cfr.org/blog/trump-steel-tariffs-could-kill-40000-auto-jobs-equal-nearly-one-third-steel-workforce.

Figure 2: U.S. Duty Revenue



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.

[SUMMARY STATEMENT OF BRYAN RILEY]

- 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.
- 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. 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.
- The U.S. automobile manufacturing industry has never been stronger.
- New auto tariffs would be a big, regressive tax increase on American workers.
- Eliminating tariffs on steel, aluminum, and parts would benefit U.S. autoworkers.
- The United States risks being left behind as other countries negotiate zero-tariff agreements.
- NAFTA and other agreements should not impose new costs on the auto industry, and should not undermine the ability of the United States to modify its laws to attract global investment.
- 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 the right policies for America.

The CHAIRMAN. Thank you, Mr. Riley.

Ms. Lee, welcome.

STATEMENT OF THEA LEE, PRESIDENT, ECONOMIC POLICY INSTITUTE, WASHINGTON, DC

Ms. LEE. Thank you, Mr. Chairman. Thank you, Ranking Member Murray, Members of the Committee, for the opportunity to be here today for this important hearing.

I am Thea Lee, President of the Economic Policy Institute. EPI is a nonprofit, nonpartisan think tank, and for just over three decades, we have analyzed the effects of economic policy on the lives of America's working families.

I wanted to start by stepping back for just a moment to put in perspective what has actually happened so far in the so-called trade war the last several months. While there have been a number of separate announcements of tariffs on various goods, all told so far, the total implemented tariffs only affect about one-tenth of 1 percent of the U.S. economy. There may be additional tariffs implemented in the coming months and years, but even those amount to about eight-tenths of a percent of GDP at most, even assuming that tariffs are applied to all motor vehicles and parts, imports, after the auto 232 investigation.

Of course, there is a lot of uncertainty about how other countries may react in retaliation, but even then, it is important to remember that countries often threaten retaliation without actually following through. These tariffs that we've been discussing so far will not by themselves cripple a $19 trillion economy. But, of course, it is important to assess whether they are working as planned and are as effective as possible.

It's important to note that tariffs used strategically can be an important and useful tool. In the case of our trade relationship with China, specifically, tariffs can provide essential leverage to address egregious unfair trade practices, including currency manipulation, illegal subsidies, intellectual property theft, the non-economic motives and actions of state-owned enterprises and other problematic actions.

However, the Trump administration's tariffs have been erratically implemented, inconsistently messaged, and sometimes apparently motivated by politics or whim. Rather than seeking to coordinate, as Ranking Member Murray said, a comprehensive and coherent strategy in conjunction with our allies and complementary to our domestic policies, this administration appears to have no overarching strategy or goal in sight.

Tariffs are designed to change behavior and to disrupt by their nature. They disrupt both domestic producers, consumers, and our trading partners. In an ideal world, they are applied as a short-term strategy to motivate desired behavioral changes, for example, to motivate opening foreign markets or ending illegal subsidies or enforcing workers' rights obligations. Or they can provide short-term relief to an industry experiencing destabilizing imports. During that period, prices do rise. They are meant to rise temporarily. Sometimes, when it's working as planned, that allows domestic producers to regain their competitive edge and motivates trading partners to cease their objectionable actions, ultimately leading to a more efficient outcome and potentially lower prices and more jobs.

But if we are not clear—if the government is not clear about our ultimate goals, then our trading partners and businesses have insufficient information to adjust, and if we alienate and insult our trading partners, then we cannot present a united front to address problematic behaviors. And if our domestic tax and spending policies are contributing to an over-valued dollar and creating incentives to outsource, then we are working at cross-purposes.

In fact, the current tariff regime is problematic on a number of fronts and does not appear so far to be having the desired effects. The U.S. trade deficit with China is up 8.5 percent through June. The overall U.S. trade deficit is up 7.3 percent, which itself is increasing twice as fast as the overall economy. So our trade problems with China are getting worse, not better.

The current administration's trade strategy is likely to deliver the maximum uncertainty and pain from higher import prices but little of the gain in increased exports, jobs, domestic production, and profits that we would get from a more strategic and coordinated implementation or by realigning, reducing the value of the U.S. dollar by about 25 percent to 30 percent. Addressing currency misalignment, in our view, is the single most important step that the U.S. Government should take to rebalance trade and support good jobs.

In conclusion, we absolutely do need to change and reform our current trade policy, but not in a haphazard and reckless way. We need to work together—and I'm glad to see this bipartisan hearing today—to develop and implement a strategic trade policy that aligns with our values and goals and that works as a complement to our domestic policy to create good, skilled, high-wage jobs in manufacturing and agriculture and in the service sector.

The key elements of reform include the following: address currency misalignment, stop seeking additional NAFTA styled trade agreements that have not delivered, make access to the U.S. market contingent on respect and enforcement of internationally recognized core labor rights, and, finally, develop a real economic plan to help workers in America by focusing on skills, workforce development, job quality, infrastructure, clean energy, and expanding a strong social safety net.

Thank you for your attention. I look forward to your questions.

[The prepared statement of Ms. Lee follows:]

PREPARED STATEMENT OF THEA MEI LEE

Thank you, Chairman Alexander, Ranking Member Murray, and Members of the Committee, for the invitation to participate in this important hearing. I'm the president of the Economic Policy Institute (EPI). EPI is a non-profit, non-partisan think tank based in Washington, DC, and for just over three decades, we have analyzed the effects of economic policy on the lives of America's working families.

The policies we've put in place to shape and regulate trade and globalization have major impacts on the wages, jobs, and communities of American workers and on the vitality of American industries and the economy. EPI has examined U.S. trade policy from the perspective of working families since the early 1990's when NAFTA was first proposed—raising concerns about currency, outsourcing, and workers' rights. EPI research assesses the potential economic benefits for the Nation, states, and congressional districts from negotiating better trade agreements and curbing currency manipulation and other unfair trade practices.

What's actually happened

As we begin this discussion, it is important to step back for a moment and separate fact from fiction on what has actually happened in the so-called "trade war" of the last several months. While there have been a number of separate announcements of tariffs on various goods applicable to different countries, all told so far, total implemented tariffs only affect 0.1 percent of the U.S. economy. Additional tariffs may be implemented in the coming months, but even those amount to 0.8 percent of GDP at most, even assuming that tariffs are applied to all motor vehicle and parts imports after the auto 232 investigation. Of course, there is uncertainty about how other countries may react in retaliation, but even then it is important to remember that countries often threaten retaliation without actually following through.

The steel and aluminum tariffs announced by President Trump in March affect only a narrow sliver of the U.S. economy and are quite modest in size. Nevertheless, defenders of the globalization status quo have responded hyperbolically. For instance, many critics of the tariffs have referenced a 2018 study by Francois and Baughman of The Trade Partnership claiming that five jobs will be lost for every new job created in U.S. iron, steel, and nonferrous metals. EPI has already produced a comprehensive report explaining why this study should be considered an outlier and showing that the actual economic impact of the tariffs will be quite minor.

Tariffs as a tool

It is also important to note that tariffs, used strategically, can be an important and useful tool. In the case of our trade relationship with China specifically, tariffs can provide essential leverage to address egregious unfair trade practices, including currency manipulation, illegal subsidies, intellectual property theft, the non-economic motives and actions of state-owned enterprises, and other actions.

However, the Trump administration's tariffs have been erratically implemented, inconsistently messaged, and sometimes apparently motivated by politics or whim. Rather than seeking to coordinate a comprehensive and coherent strategy in conjunction with our allies and complementary to our domestic policies, this administration appears to have no overarching strategy or goal in sight. In fact, my colleague Rob Scott has referred to the administration's approach as "tactics in search of a strategy."

Tariffs are designed to change behavior—both of domestic producers and consumers and of our trading partners. In an ideal world, they are applied as a short-term strategy to motivate behavioral changes (for example, opening foreign markets or ending illegal subsidies or enforcing workers' rights obligations). Or they can provide short-term relief to an industry experiencing destabilizing imports. During that period, prices do rise—temporarily. Sometimes that allows domestic producers to regain their competitive edge, ultimately leading to a more efficient outcome and potentially lower prices and more jobs.

But if we are not clear about our ultimate goals, then our trading partners and businesses have insufficient information to adjust. And if we alienate and insult our trading partners, then we can't present a united front to address problematic behaviors. And if our domestic tax and spending policies are contributing to an overvalued dollar and creating incentives to outsource, then we are working at cross purposes.

In fact, the current tariff regime is problematic on a number of fronts and does not appear so far to be having the desired effects. The U.S. trade deficit with China is up 8.5 percent through June (year to date, over the same period last year), significantly faster than the overall U.S. goods trade deficit, which increased 7.3 percent, twice as fast as the overall economy is growing. Our trade problems with China are getting worse, not better. And the International Monetary Fund recently projected that the overall U.S. current account deficit will rise from $466 billion in 2017 to $798 billion in 2020, an increase of more than 70 percent within the next 3 years.[1]

With sloppily applied tariffs as the centerpiece of the Trump administration's trade strategy, we can expect to get all of the pain from higher import prices, but little of the gain (in increased exports, jobs, domestic production and profits) that we would get from a more strategic and coordinated implementation or by realigning (reducing the value of) the U.S. dollar by 25–30 percent. The Trump administration's tariff policies are also a missed opportunity to work with our international allies to assemble a coordinated plan. However, this is not particularly surprising given that the President appears to approach trade policy as a way to antagonize foreign governments and grandstand, rather than a critical way to help workers in the U.S. regain some ground.

Over the past two decades, growing trade deficits with China and other countries have eliminated millions of good manufacturing jobs in the United States. These deficits are the single most important cause of the loss of 5 million manufacturing jobs since 1997 (Houseman 2018), roughly 30 percent of industry employment, and the disappearance of nearly 90,000 U.S. manufacturing plants.

One reason we are so concerned about the loss of jobs caused by flawed trade policies is that the jobs that are directly displaced are often manufacturing jobs, which provide excellent wages and benefits, especially compared to the service sector, where employment has been growing. These manufacturing jobs have often been unionized, and have generally provided higher wages, on-the-job training, and benefits like health care and retirement security. And EPI research has shown that the wage-suppressing effects of our poor approach to globalization and trade has hit all workers without college degrees across the country—of all races and ethnicities—not just those in manufacturing who have lost jobs directly to import competition. While trade-displaced workers face the largest individual losses, in the aggregate the costs of these job losses are much smaller than the wider effects of downward pressure on wages.

Manufacturing also supports millions of good jobs in high-wage industries such as law, accounting, and engineering and technical services. And it was also responsible for two-thirds of private sector R&D in 2015, according to the National Science Foundation.

Yet, instead of striving to create more good jobs with similar qualities in infrastructure or the clean energy sector, or improving the wages, labor standards, and quality of *all* jobs, the Trump administration and Republicans in Congress have repeatedly attempted to repeal or undermine the Affordable Care Act, to actively roll back or stall basic labor standards (including killing a record-breaking number of workplace safety and other labor regulations through unprecedented use of the Con-

[1] The U.S. trade deficit is expected to rise in the future as a result of recent increases in the value of the dollar, higher rates of growth in the United States relative to our trading partners, and recent increases in the U.S. budget deficits as a result of recent tax cuts and spending increases included in the most recent Federal budget, which are expected to surpass one trillion dollars by 2020.

gressional Review Act), and have failed to take action on expanding meaningful retirement security for all. This Congress also recently pushed through the Tax Cuts and Jobs Act, which is likely to increase incentives to offshore production and profits of American firms, by providing a major tax advantage for foreign profits over domestic profits.

What we should be doing on trade policy

In conclusion, it is crucial that we work together to develop and implement a strategic trade policy that aligns with our values and goals, and that works as a complement to our domestic policy to create good, skilled jobs in manufacturing, in agriculture, and in the service sector. To do that, we need to recognize that our current and past trade policies have failed on a number of fronts.

The key elements of reform include the following:

Address currency misalignment. We need to abandon the strong dollar dogma and target a currency that allows for a manageable and stable trade deficit. We absolutely can manage the value of the U.S. dollar, and we need to set it at a level that essentially balances trade. This will give U.S. manufacturing the breathing room it needs to get back a few million jobs. (See this EPI report on the pervasive negative impact currency misalignment has had on American jobs and wages.)

Stop seeking additional NAFTA-style trade agreements. There's no reason to devote policy resources to chasing a "better trade deal"—certainly not by negotiating agreements that incentivize outsourcing and boost the profits of the U.S. pharmaceutical and software companies while actively subverting the bargaining power of American workers. Policymakers who want to work across international borders could instead focus on eliminating tax havens or harmonizing climate policies to ensure that countries do not free ride on others' efforts to mitigate greenhouse gas emissions (see the recommendations in this 2017 report from EPI on how to reorient national policy toward measures that will benefit the U.S. and other countries).

Make access to the U.S. market contingent on respect and enforcement of internationally recognized core labor rights. These core labor standards include the right of freedom of association and the right to bargain collectively, as well as freedom from discrimination, forced labor, and child labor. Enforcing these core labor rights is win-win for workers in all countries. While the U.S. has included some labor rights provisions in our trade agreements for many years, they have not been effectively and consistently enforced.

We need a new approach and commitment. Prime Minister Trudeau of Canada has requested that U.S. "right-to-work" laws meant to thwart collective bargaining be ended as a condition for NAFTA renegotiation. This is the kind of ambitious, big-picture thinking about how to leverage trade policy to boost labor's bargaining position that we could really use in the United States, and it's been lacking from the Trump administration and recent Democratic administrations alike.

Finally but just as significantly, we need to develop a real economic plan to help workers in America—by focusing on skills and workforce development, job quality, infrastructure, the clean energy transition, and expanding a strong social safety net. The U.S. Government has its own responsibility to develop and implement a coherent long-term economic strategy with respect to both manufacturing and services, both trade-related and domestic. We have failed to invest adequately in infrastructure and skills for decades, and business has not filled the void. We have a tax system that rewards capital over labor and outsourcing over domestic production. It remains riddled with unproductive loopholes, and—especially after last year's changes—it fails to raise adequate revenue to fund needed investments. We must use domestic tax, infrastructure, and workforce development policies to ensure that American workers and businesses have the tools and skills they need to compete successfully.

While textbook trade models show that cutting tariffs is win-win, they also show that the amounts of income redistributed by trade, from workers at the bottom to those at the top, vastly exceed the gains from trade. As Josh Bivens and Dean Baker have explained, the textbook trade models simply imply that the winners from trade gain more than the losers lose, even if the losers far outnumber the winners. A win for everyone from cutting tariffs *only* occurs if the winners compensate the losers. And that is what we have never done in the United States. It is incumbent upon us to develop trade, manufacturing and labor policies that will create good jobs with rising incomes for all working Americans, especially the 70 percent of the labor force that has experienced wage stagnation during the past four decades of globalization.

Thank you for your attention, and I look forward to your questions.

The CHAIRMAN. Thank you, Ms. Lee.

Mr. Bozzella, welcome.

STATEMENT OF JOHN BOZZELLA, PRESIDENT AND CEO, ASSOCIATION OF GLOBAL AUTOMAKERS, WASHINGTON, DC

Mr. BOZZELLA. Thank you very much, Mr. Chairman, Ranking Member Murray, Members of the Committee. Thank you very much for holding this hearing today. My name is John Bozzella. I am the President and CEO of Global Automakers and spokesperson for Here for America.

Mr. Chairman, I wholeheartedly agree with your assessment of the benefits that NAFTA has brought to the U.S. and states like Tennessee. There's just no question about that. And I agree also that we should be working toward zero tariffs. That is the right goal. Our concern is that we appear to be going in a different direction. I'm grateful for the chance to speak this morning on behalf of the industry, which is united in its concern over the impact of tariffs on our workers, our customers, and, frankly, our future.

The industry is already facing additional costs for steel and aluminum and export restrictions due to foreign retaliation. The uncertainty associated with the still ongoing NAFTA negotiations and especially the Commerce Department's investigation of whether trade in autos and auto parts threatens national security foreshadow a future of complex and intrusive rules, higher costs, lower demand, and fewer export opportunities.

Mr. Chairman, today, 14 companies build cars and trucks in the United States, with a 15th soon to begin production in 2021. These companies support a value chain of U.S. businesses across the country. The value chain includes R and D, the manufacture of motor vehicles and high-value components like engines and transmissions, the sale and distribution of cars and trucks, financing, and after sale service.

Directly and indirectly, the United States auto industry currently employs 10 million Americans. All of these employees work at jobs and live in communities that will be directly affected by tariffs on the goods they use and produce. With all due respect to those with a contrary view, these people are not leverage or tactical instruments in a game of international chess. They should be front and center in any discussion of tariffs, along with our customers, who, of course, will also share the brunt of these higher costs.

Many of you heard directly from these hardworking Americans in July when more than 100 autoworkers from U.S. facilities of international automakers came to Washington from across the country, many for the first time in their lives, to express their concern over the effect that high automotive tariffs would have on their jobs, their families, and their communities. They drove to Capitol Hill in cars they built themselves to deliver the message that tariffs are taxes, and these taxes cost jobs.

Mr. Chairman, as you and other Members of the Committee heard from these workers, the U.S. auto industry is, in fact, quite healthy. The vehicles available to American consumers today are unquestionably safer, cleaner, and better built than ever before. Amid all the change, the U.S. auto industry is producing as many vehicles as it has on average during the past 25 or 30 years and selling and exporting American made cars and trucks at near record levels.

Tariffs like those already implemented and those on the horizon raise the cost of producing vehicles in the United States. Higher prices for vehicles made in the United States and imported from abroad inevitably depress sales. With fewer sales, we need fewer workers to build our cars, fewer workers to build parts for those cars, and fewer people to sell and service those cars.

A better way to strengthen and enhance the American auto industry is, first, by holding our trading partners accountable and working toward zero tariffs worldwide for cars and trucks; and, second, by focusing our policy efforts on the development of a workforce equipped with the skills necessary for the auto manufacturing jobs that we have today and that we will have tomorrow. We don't need tariffs to create U.S. auto manufacturing jobs. We need more workforce training to fill the many openings we have right now.

When America does trade the right way, eliminating trade barriers and expanding access to more markets, we create jobs, promote innovation, and build the foundation for sustainable prosperity. When America does trade the wrong way, with unnecessary and self-defeating restrictions, we raise costs and prices, depress demand, limit consumer choice, discourage new investment, and threaten jobs and opportunity.

Mr. Chairman and Members of the Committee, thank you again for the opportunity to speak to you today and for your work to promote American jobs, investment, and growth.

[The prepared statement of Mr. Bozzella follows:]

PREPARED STATEMENT OF JOHN BOZZELLA

Chairman Alexander and Ranking Member Murray, thank you for the opportunity this morning to testify before the Senate Committee on Health, Education, Labor and Pensions. My name is John Bozzella. I am the President and CEO of Global Automakers [3] and the spokesperson for Here For America [4].

The U.S. auto industry today comprises fourteen companies that build cars and trucks in the United States. A fifteenth is scheduled to begin production in 2021. These companies support a value chain of U.S. businesses all across the country conducting research and development, manufacture of vehicle components such as engines and transmissions, vehicle assembly, sales, service, logistics and aftermarket products and services, employing 7 million Americans. Add in indirect employment, and their ranks grow substantially.

Thirteen of those fifteen automotive manufacturers may be incorporated outside the U.S., but they have put down deep roots in the United States. Several have been building vehicles here for more than 30 years.

All of these 7 million employees work at jobs and live in communities that will be directly and quickly affected by tariffs on the goods they use and produce. These people are not tactical instruments in a game of international chess. Any discussion of tariffs should put them front and center in the discussion, and that is among the many reasons we appreciate your convening this hearing today.

Back in July, Here For America hosted the first ever "Drive-In". More than 100 autoworkers from U.S. facilities of international automakers came to Washington DC from all across the country—many for the first time in their lives—to express their concern over the effect that proposed punitively high automotive tariffs would have on their jobs, their families, and their communities. They drove to Capitol Hill in cars they built themselves to participate in a press conference at the U.S. Capitol,

[3] The Association of Global Automakers represents the U.S. operations of international motor vehicle manufacturers, original equipment suppliers, and other automotive-related trade associations. For more information, visit *www.globalautomakers.org*.

[4] Here For America is an initiative of the Association of Global Automakers to increase public awareness about the importance of international automakers to American job creation, economic growth, technological innovation and strong communities. Visit *www.hereforamerica.com*.

followed by meetings with Members of Congress from both parties, during which they delivered the message that tariffs are taxes, and that tariffs mean fewer jobs.

Many Senators on this Committee devoted time to hear from these workers directly. Chairman Alexander met with associates from Nissan and Toyota who were here from Tennessee. Senator Jones cohosted the press conference with a bipartisan group of House Members, in which they highlighted the economic opportunities that Hyundai, Honda, Daimler, and Toyota have created in Alabama and across the country. Senator Jones then took time to meet personally with auto workers who came to Washington from across his home state to further discuss concerns over potential tariffs. Senator Young energized a packed house at our welcome dinner, which included Hoosiers who work for Honda, Subaru, and Toyota. Senator Isakson's staff met with associates from Kia and Honda who came up from Georgia, and Senator Paul's staff met with associates from Toyota in Kentucky.

Here's what these people had to say.

John Hall, a maintenance worker at the Hyundai Motor Manufacturing plant in Montgomery, Alabama, said "new tariffs on automotive imports would have a devastating effect. I am one of thousands of American workers whose livelihoods would be put at risk by a substantial tariff on automotive goods. It would not be possible to change our supply chain overnight, and a 25 percent tariff on parts would raise production costs at our Alabama factory by about 10 percent annually."

Jennifer Adair, Team Leader in Quality at Toyota Indiana shared these thoughts: "My message is simple, I'm an American auto worker and these tariffs will hurt Toyota. Every day, I go to work at Toyota Motor Manufacturing in Indiana and ensure the vehicles we build are ready for our consumers. We produce vehicles that are built here, sold here and exported all over the world."

Stuart Countess, Chief Administrative Officer, Kia Motors Manufacturing Georgia said: "While we recognize free trade makes the United States competitive, broad restrictions such as tariffs on auto and auto part imports will raise costs for our customers and their families. We don't want to risk losing all of the gains our community and our team members have achieved, that is why we echo the plea, Don't Tax My Ride."

These workers are proud to work at companies providing high-value, high-tech jobs that continue to contribute significantly to the communities you represent and know very well.

The city of Chattanooga, Tennessee, became home to the Volkswagen's newest facility in 2011. Today, VW Chattanooga employs around 3,500 people who have built over 800,000 vehicles, paying out well over $250 million in annual payroll to its manufacturing employees.[5] These operations are responsible for supporting an additional 21,000 jobs through suppliers, port facilities, and transportation services, accounting for $1.5 billion in incomes for these residents of Tennessee and Georgia.[6] Tennessee Governor Haslam said in July,

> "*I want to thank all 3,500 employees at the plant. Your brand has become our brand, and while you are making world-class vehicles in Chattanooga, you might not know it, but you are actually helping build Tennessee, as well. We're grateful for that and the impact that you've made.*"

VW is not the only one making a difference in Tennessee. Nissan manufacturing facilities around Nashville employ over 12,000 people directly and pay over $800 million in payroll annually. International auto manufacturers account for over 16,000 jobs and 5 percent of Tennessee's Gross State Product. That's a $17 billion contribution to Tennessee's economy.

The city of West Point, Georgia, has benefited greatly from the manufacturing facility built by Kia in 2009. Prior to 2006, the residents of West Point believed that they would become casualties of the textile flight of the 1990's. That changed when Kia announced it was building a facility in the city. People were so overjoyed that they put "Thank You Jesus for Bringing KIA" signs in their front yards.[7] Since then, Kia has invested $1.6 billion in Georgia to date, employs over 2,700 people directly, and supports another 14,000 indirect jobs through its suppliers, some only a mile or two down the road from Kia's facility.[8] Along with these direct factory and indirect supplier jobs, Kia supports thousands more jobs in the local community through retail and restaurant sales. The mayor of West Point, Steve Tramell, said

[5] *https://media.vw.com/en-us/releases/1055.*
[6] *http://cber.haslam.utk.edu/pubs/bfox309.pdf.*
[7] *https://www.complaintsboard.com/messup/thank-you-jesus-for-bringing-kia-to-our-town.html.*
[8] *https://www.kmmgusa.com/about-kmmg/our-company/.*

to NPR in July of this year, "'We've been through that down time. . . We don't ever want to go through that again.'"[9]

In Lincoln, Alabama, Honda completed a massive production and management facility in 2001 that now employs over 4,500 workers and produces three popular vehicles, the Odyssey, the Pilot, and the Ridgeline, as well as V6 engines that power them. Since the start of Honda's production operations in Lincoln, Alabama, the entire area around the Honda facility saw growth in both employment and income. Talladega and Calhoun Counties, the two closest counties to Lincoln, gained over 3,000 jobs from Honda and Tier–1 suppliers, accounting for an additional $380 million of payroll in just these two counties. The total impact of Honda's facility in Alabama was 43,000 new jobs, $1.7 billion in payroll, and $170 million in state and local tax revenue going to fund schools and infrastructure projects.[10]

BMW in Greer, South Carolina, began production in 1994, and the Counties of Greenville and Spartanburg saw an immediate 2 percent drop in unemployment. Manufacturing is now the largest economic sector in both counties.[11] BMW has invested over $9.3 billion in the Upstate region of South Carolina and currently directly employs 10,000 people. BMW South Carolina is now the company's largest production facility in the world. This investment and commitment to South Carolina has allowed the city of Greer and surrounding counties to have a reliable pool of employment and tax revenue. Greer's population has grown by 22,000 since the year 2000, and the city plans to support a population of 100,000 by 2030 through community development projects that include a complete revitalization of Greer's downtown region, replacing a 100-year-old sewer system, building a new 100-room hotel, and repaving the roads and sidewalks.[12] These projects would not be possible without the investment in South Carolina that BMW has facilitated.

These are just a few of the hundreds of success stories that stem from the investment international automakers have made in the United States. And they are not done yet. Volvo Cars has just this week started production of its S60 model in an all new U.S. factory in South Carolina. Volvo Cars plans to expand to include production of the XC90 in the same facility for a total investment of $1.1 billion. Honda is going to invest another $55 million in Alabama, bringing its total investment in Alabama to more than $2.6 billion, and Mazda and Toyota have announced a joint venture that is set to open in Huntsville in 2021. Additionally, Toyota will invest another $10 billion over the next 5 years in its U.S. operations.[13], [14]

Overall, international automakers have invested nearly $82 billion in the United States, which, combined with the investment of U.S.-headquartered companies, supports a vibrant, highly competitive and innovative U.S. industry. This has occurred during a period of expanded trade that has yielded a thriving industry that produced almost 11 million vehicles last year, nearly twice the level during the Great Recession. Sales remained high at 17.2 million in 2017, while exports in 2017 exceeded 1.9 million vehicles.

Exports of U.S.-built cars and trucks worldwide have more than doubled since 1993, when NAFTA became effective, increasing from 978,155 vehicles to 1.981 million vehicles. The value of these same exports has nearly quadrupled, rising from $14.3 billion in 1993 to more than $57 billion in 2017.

These conditions have also driven an unprecedented era of innovation in the industry generally, and in the United States specifically. International automakers alone employ hundreds of highly skilled engineers and designers at 65 R&D facilities in 16 states. Additionally, the U.S. automotive industry includes not only original equipment manufacturers, but a broad ecosystem of suppliers that develop and produce highly advanced systems components. Their spending supports the development and deployment of critical automotive technologies, including artificial intelligence, radar and lidar camera systems, along with many others.

All of this has happened while the industry operated under the current system of trade rules, many of which were put in place under Presidents Clinton, Bush, and Obama, with bipartisan support in the Congress.

Today, however, the U.S. industry faces tremendous uncertainly as it assesses the risk of extremely high import tariffs.

---

[9] *https://www.npr.org/2018/07/27/631839199/trumps-proposed-auto-tariffs-threaten-kia-plant-in-georgia.*

[10] *https://www.edpa.org/wp-content/uploads/The-2014-Economic-Impacts-of-Honda-Manufacturing-of-Alabama-LLC-and-its-Tier-1-Suppliers.pdf*

[11] *https://fred.stlouisfed.org/series/SCGREE5URN.*

[12] *https://upstatebusinessjournal.com/downtown-greer-experiencing-dramatic-evolution/.*

[13] 13 *https://www.al.com/news/anniston-gadsden/index.ssf/2018/07/honda_announces_548_million_ex.html.*

[14] 14 *https://www.reuters.com/article/us-usa-autoshow-toyota/toyota-to-invest-10-billion-in-u-s-over-five-years-idUSKBN14T1NN.*

Steep tariffs recently placed on steel and aluminum, imposed pursuant to an investigation into whether imports of these metals are a threat to U.S. national security under section 232 of the Trade Expansion Act of 1962, are already rippling through the automotive supply chain. The costs of these goods, including steel and aluminum produced in the U.S. increased across the board.[15],[16] The price of steel has gone up almost 50 percent since tariffs were announced—that's announced, not imposed—and the 50-percent price increase is more than twice the amount of the tariffs that were imposed.

Rising input costs directly impact the cost of production for U.S. automakers. Toyota, which sources 90 percent of the steel for its U.S.-based facilities from American mills, stated,

> "*The (U.S.) administration's decision to impose substantial steel and aluminum tariffs will adversely impact automakers, the automotive supplier community and consumers.*"[17]

Ironically, the steel tariffs have created an opening for foreign producers. Bloomberg reported on July 5 that "So successful have tariffs been in pushing up American steel that foreign metal is becoming more appealing."

The U.S. Department of Commerce is conducting a similar investigation into whether imports of autos and auto parts are a threat to our Nation's security. This broad authority to impose these tariffs in the name of national security was granted to the President of the United States by Congress. Unlike other authorities to impose tariffs to respond to unfair trading practices or to provide temporary protection to a struggling industry facing import competition, this "232" authority is so broad, and the impacts of tariffs imposed under it are so widespread and of such indeterminate length, that Congress must ask whether this authority is being used for the purposes intended.

There is simply no support for the proposition that imports of cars, trucks, SUVs and auto parts threaten the national security of the United States. No automaker or auto parts supplier has requested protection under our trade laws. Auto sales, production and exports are in fact at or near all-time highs.

The Department of Commerce so far has been unable to outline any theory explaining how the commercial production of cars and trucks is connected to U.S. national security. Simply running a sectoral trade imbalance, which the Secretary suggested as a rationale during a recent appearance before Congress, seems insufficient because it does not distinguish the U.S. automobile industry from other industries where this is also the case.

In response to the Department's call for public comments on the 232 tariffs, only three substantive statements, out of more than 2,300 comments of all types, were filed supporting tariffs or other restrictions on auto or auto parts imports, and that support was often tepid at best. In addition to the absence of public support, associations representing the entire U.S. auto industry oppose the idea of tariffs and urge that this investigation be reconsidered. This unity is as remarkable as it is unprecedented.

Tariffs are Taxes. No ifs, ands or buts.

U.S. tariffs placed on imports are taxes paid by Americans. If punitive tariffs of 20–25 percent are imposed on auto-and auto-parts imports, as the U.S. Department of Commerce is now considering, new vehicle prices will increase. The Peterson Institute for International Economics estimates that vehicle prices will increase by $2,100, to up to $7,000 per vehicle.[18] Every vehicle sold in America would see price increases because a global supply chain supports high-value auto manufacturing in the U.S. This will reduce demand for new cars, creating excess manufacturing capacity across the country. The Peterson Institute estimates U.S. auto and parts production would fall by 4 percent. Used car prices would also rise as new cars become less affordable. And, the cost of servicing and maintaining vehicles would increase as imported parts are taxed. Adding additional injury, U.S. trading partners would retaliate with tariffs on our exports. As a result, 624,000 Americans could lose their jobs.[19]

---

[15] *https://www.wsj.com/articles/steel-aluminum-prices-rise-on-u-s-tariffs-1527792759*.

[16] *https://agmetalminer.com/2018/06/12/raw-steels-mmi-domestic-steel-price-momentum-continues-to-grow/*.

[17] *https://www.reuters.com/article/usa-trade-toyota/toyota-says-u-s-tariffs-on-steel-aluminum-will-substantially-raise-production-costs-idUST9N1N004M*.

[18] *https://piie.com/system/files/documents/pb18-16.pdf*.

[19] *https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and*.

The gains that the auto industry has achieved recently are jeopardized by the prospect of tariffs. Hakan Samuelsson, the CEO of Volvo Cars, stated recently at the facility opening in Charleston, South Carolina,

"If you have trade barriers and restrictions, we cannot create as many jobs as we are planning to. . . We want to export and if suddenly China and Europe have very high barriers, it would be impossible. . . then you have to build the cars there. And then all cars will be more expensive, you have to invest more tooling and have every model in every country. That's against all the logic of modern economies that trade with each other."

The Center for Automotive Research (CAR) calculated that the overall effects of these price increases could reduce sales by 2 million units and cost more than 700,000 jobs if tariffs were applied to all trading partners.

Retaliation by our trading partners is inevitable. China recently hit the U.S. with retaliatory tariffs on autos and other products in direct response to our tariff actions.[20] Last year, the U.S. exported over 267,000 new vehicles to China, totaling over $9 billion in value.[21] Retaliation hurts all American automakers.

For instance, BMW in South Carolina builds over 400,000 vehicles every year, all of them from their X-series line of SUV's. They make almost all SUV's in Spartanburg County, South Carolina and are America's largest auto exporter.[22] Of the almost 280,000 vehicles they export, around 85,000 go to China, which greatly lessens our trade deficit with the country. Mercedes-Benz manufactures vehicles in Alabama and South Carolina and exports around 50,000 U.S.-made vehicles to China.[23] Seven of the top ten vehicle models exported to China from the U.S. are manufactured by BMW and Mercedes-Benz, the two companies holding the top three spots.[24]

These companies need unimpeded access to Chinese markets to continue to sell American-made vehicles in the world's largest car market. The harder we make it to access that marketplace, through tariffs and retaliation, the greater the potential for production to move outside of the United States.

Trade and Investment Environment is Highly Uncertain, Adding to Industry Challenges

There is an enormous amount of uncertainty facing manufacturers who build cars and trucks in the United States: steel and aluminum tariffs, the future of NAFTA, the prospect of Section 232 tariffs on autos and auto parts, and so forth.

Uncertainty dampens investment, which crimps innovation and curtails jobs. The Congressional Budget Office (CBO) stated in its August 2018 economic report,

> " . . . *heightened uncertainty about trade policy could discourage businesses from making capital investments that they might otherwise have made, because changes to trade policy affect price competitiveness in foreign markets as well as the costs associated with global supply chains. Recent volatility in equity markets might indicate that such uncertainty is already taking a toll on the value of U.S. businesses."*[25]

Auto companies are already taking notice of this uncertainty. The auto industry requires long lead times to plan, develop and manufacture vehicles. Decisions made in the face of this uncertainly cannot be easily undone. A stable investment climate includes clear, fair, free and open trading rules. As the nature of the industry forces it to plan production, investment, and employment years in advance, trade turmoil is causing some to reconsider the status of their U.S. investment, just as the CBO is predicting.[26]

The auto industry is now in the midst of a transformation as it pursues electrification and automation, and as consumers consider new ways of accessing personal mobility, such as ride sharing and subscription services.

---

[20] *https://www.wsj.com/articles/u-s-car-makers-left-in-the-dust-as-chinas-tariff-cuts-boost-europe-japan-1533901068.*

[21] *https://www.trade.gov/td/otm/assets/auto/New__Passenger__Exports.pdf.*

[22] *https://www.nytimes.com/2018/07/19/business/economy/tariffs-south-carolina-bmw.html.*

[23] *https://www.cnbc.com/2018/04/05/chinas-trade-threat-could-hurt-german-carmakers-more-than-us-auto-giants.html.*

[24] *https://www.usatoday.com/story/money/cars/2018/04/10/chinese-auto-tariffs-xi-jinping/503470002/.*

[25] *https://www.cbo.gov/system/files?file=2018-08/54318-EconomicOutlook-Aug2018-update.pdf* pg 15.

[26] *https://www.bizjournals.com/columbus/news/2018/07/13/honda-ironic-if-tariffs-punish-foreign-automakers.html.*

The United States is today the world leader in the electrification of vehicles and in the development of automated transportation. Automakers and suppliers worldwide develop, test, and sell the latest technologies in our market because it is so open and friendly to innovation. Our research and academic institutions are the standard of the world for their expertise in sensors, robotics, artificial intelligence, and more.

Trade restrictions put that leadership at risk.

Free trade in goods, resources, intellectual content, materials, and production is the key to successfully addressing those challenges. Electrification of the vehicle fleet will require metals and minerals. Automation will require sensors and chips and AI capabilities. Countries that arbitrarily and indiscriminately restrict trade in any of these areas will soon be eclipsed. Future research and development activities—and the expertise and production capacities that are developed—will happen elsewhere.

Advanced Manufacturing in the US and American Workers

International automaker facilities already have a problem to solve without imposing harmful tariffs. It's a comparatively good problem to have: too many jobs. Deloitte estimates that there will be 2 million unfilled manufacturing positions by 2025 due to retirements and education gaps.[27] Many facilities face issues with finding a qualified workforce.

However, automakers are already getting ahead of some of these workforce issues by investing in their local communities and workforce. Much of this investment takes the form of educational programs, partnering with local high schools and colleges to train the next generation of manufacturers.

VW's Mechatronics Akademie, in tandem with the local government, is training future employees for its factory in Chattanooga, and recently saw its first 24 graduates of the program. This is just one of four educational programs VW is involved with, including a five-week pipeline program offered free to qualified candidates, and a $1 million donation to the State of Tennessee for manufacturing educational materials.

Honda of Ohio, which has five facilities in the state, operates a workforce development initiative named EPIC. This program focuses on introducing manufacturing technology to people earlier in life and includes Summer STEM camps, a work-study program with Columbus State Community College, and supporting the Marysville Early College STEM High School, among other initiatives. This is in addition to scholarships for students pursuing an associate degree in manufacturing or mechanical engineering technology from local college institutions.[28]

In Georgia, Kia has been able to partner with the state's Quick Start Program to train people for the facility in West Point. Together they collaborated to design and develop the building, a 70,000 square foot state-of-the-art training facility where all of Kia's 2,700 manufacturing employees received training, with some receiving more specialized training in robotics, welding, and electronics labs.[29] Thanks to this program, Kia was able to achieve 70 percent production efficiency at launch, well above industry standards. As Kia has continued to mature and grow, the company has renewed contracts to continue the beneficial partnership with Quick Start.[30]

Hyundai Motor Manufacturing Alabama (HMMA) in Montgomery partners with Trenholm State Community College to run a 6-month maintenance apprenticeship program for HMMA team members that includes both classroom and hands-on training. The Hyundai manufacturing plant also offers internship programs for undergraduate students who attend designated universities in a variety of disciplines, including accounting, human resources, legal, production control and engineering.

Many of these programs allow people to graduate from a vocational or associates program for little to no cost. People with associates/vocational degrees tended to earn $10,000 more annually than people with high school degrees. This is quite the investment to make in one's self, unless that person happens to work at Subaru in Lafayette, Indiana. Subaru has one of the most direct forms of workforce education we see, a branch campus of Purdue Polytechnic Institute, located directly on the facility grounds. Subaru pays for its associates to earn degrees at Purdue or the local community college, Ivy Tech. Considering the high-tech nature of the auto making industry, these programs spend a great deal of time equipping people with the skills

[27] *https://www2.deloitte.com/us/en/pages/manufacturing/articles/boiling-point-the-skills-gap-in-us-manufacturing.html.*

[28] *https://ohio.honda.com/article/building-the-manufacturing-workforce-of-the-future.*

[29] *https://www.industryweek.com/quick-start.*

[30] *http://www.georgia.org/wp-content/uploads/2014/08/KIA__Case__Study__Final.pdf.*

they need to be productive employees. These programs that are run and funded by these automakers are not just training a workforce, they are setting people up for lucrative and fulfilling careers in the manufacturing industry.

Conclusion

When America does trade the right way, eliminating trade barriers and expanding access to more markets, we create jobs, promote innovation, and build the foundation for sustainable prosperity. When America does trade the wrong way, with unnecessary and unwanted restrictions and intervention, we raise costs and prices, depress demand, limit consumer choice, discourage new investment, and thereby threaten jobs and opportunity. Our own experience should teach us the course we should take.

[SUMMARY STATEMENT OF JOHN BOZZELLA]

- The U.S. Auto Industry today comprises fourteen companies that build cars and trucks in the United States, with a fifteenth scheduled to begin production in 2021. This investment supports a value chain of U.S. businesses across the country providing components, sales, service, logistics and support employing 7 million Americans. Many of these workers could be harmed by potential tariffs on auto and auto parts imports.
- U.S. tariffs placed on imports are taxes paid by Americans. If punitive tariffs of 20–25 percent are imposed on auto-and auto-parts imports, as the U.S. Department of Commerce is now considering, new vehicle prices will increase by as much as $7,000.[1] Every vehicle sold in America would see price increases because a global supply chain supports high-value auto manufacturing in the U.S. This will reduce demand for new cars, creating excess manufacturing capacity across the country. Used car prices would also rise as new cars become less affordable. The cost of servicing and maintaining vehicles would increase as imported parts are taxed. U.S. trading partners would retaliate with tariffs on our exports. As a result, 624,000 Americans could lose their jobs.[2]
- Current trade policy has fostered a healthy and competitive auto industry in the United States and created robust markets for U.S.-built vehicles all around the world.
- This success at home and abroad has led to an unprecedented era of innovation in the auto industry. International automakers have invested significantly in R&D, employing hundreds of highly skilled engineers at 65 facilities in 16 states.
- Innovation has reshaped the workforce as well. Today's auto production jobs are high-tech, highly paid, career-building opportunities for which there is a shortage of talent. Therefore, auto manufacturers have invested heavily in workforce development initiatives such as apprenticeship programs, and partnerships with local high schools, colleges, and universities to train the next generation of manufacturers.
- When America does trade the right way, it creates more investment and more opportunities for American workers. The success of international automakers over the last several decades should inform policymakers as they reexamine trade policy and consider restrictive measures such as tariffs.

The CHAIRMAN. Well, thank you, Mr. Bozzella, and to each of you, we'll now begin a 5-minute round of questions, and I will start.

Mr. Bozzella, I mentioned in my opening statement that according to Benchmark Steel, the tariffs have caused an increase in the price of steel in the United States by about 40 percent since January 1. Nissan tells me that 70 percent of the weight of the vehicles it makes in Tennessee and Mississippi are steel. Now, you don't

---

[1] *https://piie.com/system/files/documents/pb18-16.pdf.*

[2] *https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and.*

have to be a math professor to figure out what that would do to price.

Are we beginning yet to see the effect on the price of automobiles sold in the United States of the steel tariffs?

Mr. BOZZELLA. Yes, we are. You're exactly right, Mr. Chairman. And, in fact, most of the steel that the U.S. auto industry uses in the United States is produced here in the United States, and it's the price of U.S. produced steel that is going up. So, for example, not only Nissan, but there's a company in Indiana that gets 90 percent of its steel from an Indiana mill. The price of that steel has gone up 30 percent.

The CHAIRMAN. The reason the price is up is because the price of imported steel went up and so——

Mr. BOZZELLA. That's right.

The CHAIRMAN.——The domestic manufacturer meets the price.

Mr. BOZZELLA. That's correct.

The CHAIRMAN. Our steel imports from China this past year, according to my figures, is about 2 percent. Is this beginning to have an effect on these increased prices? If I go to buy a Rogue or some car, is the price higher today? Or if it's not, when will it be higher?

Mr. BOZZELLA. Well, there's no question production costs are already higher from the steel and aluminum tariffs as well as from foreign retaliation, for example, between the United States and China. When it actually has an impact on prices is really going to be dependent on the competitiveness of a particular vehicle segment and how an individual company decides to act. A company could, frankly, just take less profit or take a loss on the vehicle, or they could pass on the price. I think we will see a price increase.

The CHAIRMAN. Well, that would be a pretty big loss, wouldn't it? I mean, if steel prices are up 40 percent, and the weight of steel in a vehicle 70 percent, that's several thousand dollars of vehicle.

Mr. BOZZELLA. Yes, I think that's right, and if you look at the analysis that has been done with regard to the auto tariffs and auto parts tariffs, a 25 percent tariff on a vehicle or on a part would result in a price increase of between $2,000 and $7,000 of vehicle. There is no question that these price increases would be significant.

The CHAIRMAN. Mr. Moore, let's talk about a zero tariff goal. The way I look at the North American Free Trade Agreement, it's essentially a zero tariff agreement with some important exceptions. Isn't that right? I mean, between 1994 and 2008, we got rid of most of the tariffs between Mexico, Canada, and the United States.

Mr. MOORE. That's right, Mr. Chairman, and, in fact, I'm old enough to have been here when that happened. I think it was 1994, '93–'94. It was a genuine bipartisan achievement. We had bipartisan laws that passed back then. It was a Democratic president, Bill Clinton, who signed that into law. Most of the Republicans——

The CHAIRMAN. Well, let me—without interrupting——

Mr. MOORE. Yes, sir.

The CHAIRMAN. I want to stay within my time. So it took a while to get to a zero tariff. I mean, it was 1994. I think it was nearly 2008 before most of the tariffs were removed. So let's talk about how we do that with other countries, for example, with the European Union.

Now, I know that agriculture and non-tariff barriers are also big issues that we have to deal with. But would it be possible to head toward zero tariffs by having a step toward equal tariffs on cars between the European Union and the United States? For example, today, I believe the EU has a 10 percent tariff on cars imported from the U.S., but we only have a 2.5 percent tariff on cars imported from the European Union. On the other hand, we have a 25 percent tariff on light trucks.

What if we each took a step toward lower tariffs in an equal way? Would that be a reasonable way to start toward a zero tariff policy on automobiles between our country and the European Union?

Mr. MOORE. Yes, it absolutely would, Senator, and you're exactly right that most countries—you said this in your opening statement, that most countries actually do impose higher tariffs than we do, and this is something that Donald Trump complains about, and he's right. We have a lot of these trade agreements with countries, and yet when you look at the actual facts, they do impose higher tariffs. And let's not forget the non-tariff trade barriers, which a lot of countries like Japan and China—that can be a bigger problem as such.

One of the pitches that we used to make to President Trump and still do is, look, if we can lower those tariffs on everything, relatively, the United States benefits from that. The United States worker benefits. The United States companies, whether they're in Tennessee or Washington state—because, we have to lower our tariffs more than these other countries do. Now, there are some cases, as you said, with respect to light trucks, where we may have to reduce our tariffs more than these other countries. But on balance, it's a good deal for the United States.

The CHAIRMAN. Thank you, Mr. Moore.

Senator Murray.

Senator MURRAY. Thank you all very much for your testimony.

Ms. Lee, let me start with you. You said it, and we all said it—President Trump has taken a reckless and haphazard approach to trade policy. It's really led to a lot of confusion and frustrated some of our key allies and has really not changed the behavior of our trading partners for the better. Even some of our staunch worker advocates that support doing more to achieve fair trade for U.S. workers, like the United Steel Workers and the AFL–CIO, have expressed concerns about the President's actions.

The AFL–CIO Executive Council recently said, and I quote, "We have serious concerns regarding the administration's seemingly haphazard approach to the implementation and design of the enforcement efforts and the backlash it has generated. Tariffs are most likely to be effective when they are appropriately targeted to specific trade practices, part of a well-developed strategic plan, and employed in coordination with allies, such as Canada, rather than aimed at them," end quote.

Can you talk to us about how President Trump's approach has been ineffective and even harmful and explain what a more targeted, strategic, and worker-focused trade policy would actually look like?

Ms. LEE. Thank you, Senator Murray. I think the Trump policies, because they've been so irregular and erratically announced and unexpected and sometimes driven by a news announcement or a tweet or something—I think they've created the maximum uncertainty, and that isn't ideal, because if you want people to change their behavior, you want businesses and governments to change their behavior, you want them to know what they need to do and when they need to expect it. I think that that's something we can focus on.

These policies need to be better targeted, identify the problem actors, the problem sectors, and the problem behaviors. That has not clearly been done, and they've been applied too broadly. If we've identified the unfair trade relationship with China and the very imbalanced trade relationship with China as one of our key economic problems—and I would agree that is our key economic problem—it would make much more sense to bring some of our allies in a coordinated way to take concerted action so that we could be more effective.

If Europe and Canada, for example, were working with the United States to address unfair practices or global excess capacity in steel in China, which is clearly a problem, then I think we'd be much more likely to be effective. The other thing is that these tariffs should be short-term with clear goals, and that is, I think, the other way that you can achieve the maximum with the minimum amount of pain as opposed to the opposite way.

I would say in terms of issues that there are two issues that I think are most important. I said currency misalignment earlier. You can do a lot of work to reduce tariffs, but if you haven't taken any action to address currency misalignment, all your good work in reducing tariffs and disciplining subsidies can be undermined by currency movements. I think that's some of the experience that the United States has had over the last 25 years with Mexico, with China, where we go to a lot of trouble to negotiate these deals, but we don't address currency, and the tariff reductions become ineffective.

The other piece is workers' rights, which you mentioned, Senator Murray, and I think that that's part of a longer-term picture of the kind of global economy we want to live in, where workers can exercise their basic rights, and American workers are not put at a competitive disadvantage by having to compete with workers who lack basic human rights at the workplace.

Senator MURRAY. Thank you. You know, the U.S. economy is becoming increasingly global. With the expansion of trade and the selling of more of our goods overseas, we are seeing new opportunities. We're also seeing new challenges. And I know Members of Congress have differing views on what a fair trade agenda should look like, but I think we can all agree that trade should not negatively impact working families here in our country.

Talk to us a little bit about the essential components that Congress should ensure are included in an international system so that we don't inadvertently create an economic situation that leads to depressed wages or working conditions or bargaining power for our workers.

Ms. LEE. Thank you, Senator. I think that's an excellent question, and it's part of how the U.S. sees its role in the global economy. It's a mistake, I think, for the U.S. to try to be—to win a low-road contest of getting the cheapest labor, the lowest taxes, and the most lax regulation. That's not even a good strategy for a developing country, but certainly not a wealthy industrialized country from the United States.

Our success will come from investing in our workers, our infrastructure, and in making sure that we're using technology to benefit workers and communities, not just profit. So we need to have both adjustment programs in place, re-training, skilling, but we also need to invest in our own infrastructure and our own skills, and we have failed to do that over the last couple of decades.

Senator MURRAY. Thank you.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Murray.

Senator Isakson.

Senator ISAKSON. Thank you, Mr. Chairman. I've tried to listen closely.

Mr. Moore, I've enjoyed meeting with you many times. Would you tell me what you think the policy of the United States is today regarding trade?

Mr. MOORE. Well, we've been kind of the leader in the free trade movement that Bryan Riley was just talking about for 30 years, and this has been something that almost all economists agree on, that a great period of prosperity all around the world that began in the early 1980's through around 2007, a 25-year period, moved literally a billion people out of abject poverty. So it's probably one of the great anti-poverty programs of all time—is free trade.

Trump has challenged the kind of orthodoxy that we've lived by here in the United States for the last 25 years, in some ways, I think, in a productive way, and in some ways in a nonproductive way. Trump believes that all these other countries are not playing by the rules, and in some ways, he's right about that, as I was telling the Chairman. As you look at the data, there's a very good analysis of this—by the way, I would recommend to all of you—in the President's Council of Economic Advisers Report on Trade that shows a lot of these countries just aren't playing by the rules, and the question is how do you get them to play by the rules.

I'll just summarize this by saying in the last 25 years, we've used the carrot of free trade agreements to try to reduce tariffs, and that, on balance, I would say has been a positive thing. Trump is using this kind of club of threatened tariffs to try to get countries to behave and play by the rules, and we will see. I mean, the jury is still out as to whether that will work.

I was saying in my statement that I think, so far, we're making some progress here. I think we've made some progress in Mexico. I think we've made some progress with the Europeans. And the big fight to come—I mean, this is the big fight of our time—will be whether or not Donald Trump can get China to start playing by the rules. They cheat, they steal. They steal $300 billion a year of our technology, our intellectual property.

Senator, you're from Washington State, where you have an incredible technology industry. A lot of that stuff that is being produced by our great minds and talents is being stolen by the Chinese. So we need to get China to behave, and he's going to use these threatened tariffs to try to make that a reality.

Senator ISAKSON. Not to cut you off, but to try and make it a shorter answer——

Mr. MOORE. Sorry.

Senator ISAKSON. I want you to respond to this kind of census I'm going to do. We've gone from having a clear and understandable trade policy to not having a clear and understandable trade policy. Is that fair to say? The U.S. trade policy used to be predictable and now is not?

Mr. MOORE. I think we are in a—I think that's absolutely right. I think we're in a period where people are still trying to figure out what the trade policy is in this administration, and I think Trump has to be clearer about what the goals are. But I know this, that he believes that workers in some of these states, like Michigan and Ohio and Pennsylvania and Iowa, those Midwestern states—I'm a Midwesterner—have been hurt by some of these trade policies.

Now, I don't always agree with them, but you talk to workers in those states—I guarantee you, I was on the campaign trail—a lot of those workers in those states believe their factories are not there because of China or because of Mexico or other countries, and we'd better figure out, and this is sort of your job, as the policymakers, to figure out how we have a trade policy where all Americans benefit.

Senator ISAKSON. Well, let me say this. I have been openly in opposition to the trade policy since the President announced it. I got concerned when they dropped TPP. That really knocked me for a loop. I was a big supporter of TPP. And then when you start talking about NAFTA, I'm from a 21 percent agricultural state, Georgia, and that's a big-time problem for us. The agricultural states are the ones that are really getting killed in competitive trade or tariff between countries.

It concerns me that we don't have a known commodity in terms of what is our trade policy. Two, we have an environment that is, at best, uncertain. And, three, it is beginning to show its evidence in the marketplace.

I am going to be quick, Mr. Chairman, but I want to make this point. I was with a friend of mine on Labor Day two days ago, and the family was going to buy a boat for next year. They bought a new lake house, and they were talking about the boat they were going to buy, and they found it last weekend and came back this weekend to the lake to make the deal.

They went to the dealership, and the boat was $500 more than it was the week before. It's not a big boat, but $500 is $500. And the guy told me—he said, "I asked the boat dealer why the price had gone up, and he said, 'Well, actually, the boat is on sale versus what it was two weeks ago. The problem is our cost has gone up so much that we're having to raise the price that much more because of the tariff situation in Washington.'" This is the aluminum and steel component on boats and yachts and things like that.

But my point is we are beginning to see the effects of a trade policy that is, at best, not clear and unsettling and uncertain, vis-a-vis, what American has been. I think that's a mistake for us, and

I think the quicker we get to a place where a panel like the five of you, before anybody, can say, "Well, U.S. trade policy today is X and it ought to be Y," then we'd be in a lot better shape than everybody speculating on what it really is or what it really should be.

I just wanted to make that point, and I think it's beginning to have an effect, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Isakson.

Senator Bennet.

Senator BENNET. Thank you. Thank you to all of you for being here, and thank you, Mr. Chairman, for holding this hearing.

Ms. Lee, you had mentioned in an answer to Senator Murray something that I think is the real problem, which is China. I wondered whether you could talk a little bit about—if we were serious about dealing with this—how we would deal with it and how we would use our allies strategically—you referenced that as well—if we were trying to counteract the problem that we really face.

Ms. LEE. Thank you so much, Senator Bennet. I do think if you look at the China trade relationship, it's a $375 billion deficit, and I do believe that the snapshot of a trade relationship between two countries gives you a lot of information. It's not the only thing you need to look at, but, in this case, it shows you that there's a tremendous imbalance there.

Particularly, if you look at the composition of our trade imbalance with China, you see that $100 billion of that is in advanced technology products. Those are areas where the United States, as a wealthy industrialized country, should have a comparative advantage, and we have a comparative advantage with other countries, but not with China because of a combination of the kinds of unfair trade practices that the Chinese government has engaged in. So I think we need to be very targeted.

But I would say, as I said before, I think currency misalignment is one of the key issues with respect to China, and workers' rights. When I was at the AFL–CIO, we brought two Section 301 cases against China on currency manipulation and violation of workers' rights, and we alleged that in both of those cases, those unfair trade practices were costing American workers and businesses hundreds of millions of dollars in terms of lost profits and good jobs.

I think those two issues are crucially important in terms of that imbalanced trade relationship, and that's where I'd like to see the energy of the U.S. Government go.

Senator BENNET. What could our allies do to help with that?

Ms. LEE. Well, I think in both of those areas, places like Europe and Canada have also been subject to some of the same unfair trade practices and some of the pressures around currency misalignment and workers' rights, and they ought to be our allies on that. So if we were to go in with a coordinated strategy and to put in place similar protections, we would have a stronger case, both if it came to the—we were challenged at the World Trade Organization, but also the impact on China. China would not be able to play us off against each other or to, give business to Europe or Canada to punish the U.S. for raising those issues. We would have a united front, and I think that would be much more effective than the approach that's being currently taken.

Senator BENNET. You mentioned the World Trade Organization. You know, one of the—Mr. Moore had said earlier that free trade had been one of the great anti-poverty programs because people in other countries had been lifted out of poverty. That's no doubt true.

Part of the challenge that we face in the United States is that wages for the bottom 90 percent of Americans have been flat for 50 years in America, and a lot of that has to do with letting China into the WTO, and then what? Not enforcing the rules of the WTO, not having the right rules? Can you talk a little bit about that, what our rational expectation should be? Because those flat wages are really decimating the hopes and dreams of really the vast majority of Americans at this point.

Ms. LEE. Thank you, Senator. That is exactly right, and the stagnation of wages for the vast majority of American workers over the last several decades should be, I think, the key policy concern of all lawmakers in the United States, both Republican and Democratic.

Globalization, the wrong kind of globalization, and the kind of trade policy we've had with China, in particular, has been an important factor, not the only factor, but an important factor in undermining the bargaining power of American workers, because when American workers go to organize a union or to ask for a raise or to ask for health benefits or a bathroom break or safety goggles, often they're told, "We don't need to give you that because we can go to China," and workers there do not have basic rights to demand those kinds of protections. They don't have basic democracy, either, in China. So that imbalance, I think, is at the core of what's wrong.

Also, the perceived unfairness of U.S. trade policy. American workers know that they are productive and that they can compete on equal terms with workers in the rest of the world. But they can't compete with workers who get thrown in jail for trying to organize a union or for asking for a raise.

Senator BENNET. Thank you, Ms. Lee.

I would say, Mr. Chairman, with my last 15 seconds, from Colorado's perspective, just from my state's perspective, the last thing we would do would be to punish our closest trading partners, Canada and Mexico. Certainly, from the perspective of the agricultural community in Colorado, it makes absolutely no sense when the problem is China.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Bennet.

Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman, and thank you to the panel for being here with us this morning.

When I think about the hearing this morning, about the impact of zero tariffs on U.S. autoworkers, I think of my home state of South Carolina. Perhaps unbeknownst to many, South Carolina is the No. 1 state in the export sales of both tires and completed vehicles, passenger vehicles. Sixty-six thousand people work in the automotive industry in South Carolina. Twenty thousand two hundred and twenty new jobs have been created in just the last six or seven years.

The question as it relates to tariffs and its impact on U.S. autoworkers is a question that is very important to South Carolina. I think the answer, really, is pretty clear as well, which is whether you're the Continental Tire employee in Sumter or the Engine Systems employee in Fountain Inn, the answer is not much.

It actually may be beneficial for those autoworkers in South Carolina, because of the fact that so many of the best-selling vehicles sold in America—maybe they're Japanese vehicles, Toyota or Nissan, or maybe they're European vehicles, but their production happens in the country.

The question, I think, is simple—doesn't have a negative impact, perhaps it has a positive impact.

The question I have, really, is the impact of using tariffs as a negotiating tool—what is the long-term impact on businesses? Having been a small business owner, when you tell me that there are headwinds in one direction, I typically head in the other direction. My concern is that, as my BMW folks in the upstate and the new Volvo plant in the Low Country, when we talk about tariffs, are we changing business systems today, whether or not those tariffs actually come to fruition?

Anyone on the panel.

Mr. BOZZELLA. If I may, Senator, I would say absolutely yes, and I think Ms. Lee made a very, very good point that, at the very least, we've created—and I think all of the panelists have—we've created a degree of uncertainty that is clearly affecting business decisions. There's no doubt about that.

I think if you take the examples of BMW in Spartanburg, Tennessee——

Senator SCOTT. South Carolina.

Mr. BOZZELLA. Excuse me, Spartanburg, South Carolina. I apologize. I got the city right, and I'm looking right at Senator Scott. My apologies.

Senator SCOTT. People get us confused all the time.

[Laughter.]

Mr. BOZZELLA. In Spartanburg, BMW is a major exporter.

Senator SCOTT. Yes.

Mr. BOZZELLA. They export over 80,000 vehicles to China. China is the second largest source of U.S. built vehicles in the world. We export a whole assembly plant of annual production to China. Those vehicles now have a 40 percent tariff on them. So, yes, there are critically important issues that need to be resolved between the U.S. and China. The trading relationship isn't right and needs to be rebalanced. But the impact of this retaliation is very real. There's no question about that. That will affect business decisions. It is increasing the cost of production. In Spartanburg, South Carolina, that's a problem.

Ms. LEE. If I may?

Senator SCOTT. If you could just have a short answer, because, unfortunately, I have a minute and 20 seconds.

Ms. LEE. Short answer. I would say both business and labor would agree that it can be useful to use tariffs strategically if you achieve your goal, if you change the behavior, if you end the unfair trade practices. So that can be useful. But if you're doing it with no clear goal in sight—and I think that the current tariffs are a little bit ill defined—then it's more problematic.

Senator SCOTT. Thank you, ma'am.

To that, I think, Mr. Moore, perhaps you are the person to answer the question. I think the President's objective has been to change behavior through the threat of tariffs. It is certainly an unorthodox approach. It seems to have worked, especially with economies like South Korea. The chorus agreement, I think, is a better agreement.

Mexico—I think we are in a better position going into NAFTA than we would have been without the unorthodox approach. Do you want to comment on the unorthodox approach? And then we'll have about 10 seconds left to make a point.

Mr. MOORE. Look, unorthodox is probably a good word to describe this trade strategy. I used this metaphor before. I'll use it again. We're in the fourth inning of this baseball game. I think in the end, Trump is going to prevail. I think he's going to get real concessions from especially nations like China. But as the Senator said, this is a high-risk strategy, but we can't live with the current—especially when it comes to China, I think almost all Americans agree we can't live with the status quo any longer.

One other quick point. Your point is so good about—what is an American car today? I mean, right?

Senator SCOTT. Excellent question.

Mr. MOORE. You know, you have BMWs that are more American, made with American labor, and Fords that are not made with American labor. So even this whole idea of what an American automobile is today—we're not living in the 1970's or 1980's any longer.

Senator SCOTT. Let me just, if I may, Mr. Chairman, end with this thought on the future of the American autoworker and the importance of what companies are doing to train and provide opportunities for folks who too often have been carved out of the workforce. BMW and their Scholars Program has provided an apprenticeship approach that has had a positive impact on folks who have been carved out of the workforce from an opportunity standpoint for far too long, and one of the goals we should have is to see more companies invest in workers and, frankly, future workers in a fashion that we're seeing at home in South Carolina.

Thank you for the extra time.

The CHAIRMAN. Thank you, Senator Scott, and I'll give Senator Warren a little extra time to make up for it.

Senator Warren.

Senator WARREN. Thank you very much. Thank you, Mr. Chairman, and thank you all for being here.

You know, for decades now, American trade agreements have hurt American workers. These trade deals have been written behind closed doors with corporate lobbyists whispering in the ears of our negotiators, and what has that meant for workers? It's meant flat wages and hundreds of thousands of jobs that are sent overseas. Meanwhile, we have undermined important environmental protections, we've let drug costs soar through the roof, and we've hung small businesses out to dry. So we need a new approach to trade, an approach that puts American workers and American interests first.

Let me start with you, Ms. Lee. You're an international trade economist who's been following the changes in our economy for a while now. Do you think that tariffs can play a role in making sure that our trade policy supports American interests?

Ms. LEE. I think tariffs can absolutely play a role. That's why we have an international trading system. That's why we lay out the rules to address unfair trade practices, global excess capacity, violations of workers' rights. So we need to be able to use tools in our toolbox, and tariffs are a key one.

Senator WARREN. Thank you. Tariffs are an important tool that we should be willing to use to make sure that American workers and American businesses can compete fairly with their counterparts in other countries. But tariffs alone won't solve the problem. They have to be part of a bigger strategy, a strategy for protecting American workers.

Ms. Lee, what do you think a real pro-worker agenda would look like? What should the government be doing to raise wages and give people some economic security?

Ms. LEE. I think that's an excellent question, Senator Warren. We need to rebuild the bargaining power of American workers. That's what I would say is the key economic problem in the U.S. economy today. You could do that by strengthening unions, by raising the minimum wage, but also by making sure that our trade policy is geared toward good jobs at home and not toward the profits of multinational corporations, which I would say if you look at the content of the trade agreements we've put in place over the last couple of decades, they have been more focused on corporate mobility and flexibility and power and profits than on good jobs in our communities and making sure that workers have that fair playing field.

But, also, all the kinds of social safety net things that have been undermined and underfunded recently—family medical leave, retirement security, job safety—those are the kinds of things that American workers need. They need fair scheduling. They need decent wages. They need leverage and bargaining power at the workplace. I think that is actually what makes a healthy and vibrant U.S. economy that can compete in the global economy on fair terms.

Senator WARREN. Okay. So you've identified strengthening unions, raise the minimum wage, family medical leave, protection for retirement, schedules that work. Have President Trump and the Republican Congress taken any of these steps?

Ms. LEE. They have not.

Senator WARREN. All right. Let's talk about what they've done instead. They delayed and weakened protections against workers' exposure to carcinogenic materials like silica and beryllium. Is that part of a pro-worker agenda?

Ms. LEE. It is not.

Senator WARREN. They've opened the door for taxpayer dollars to flow to Federal contractors that have stolen wages or injured or killed their workers. Does that help working families?

Ms. LEE. That does not help working families.

Senator WARREN. They've rolled back collective bargaining rights by putting corporate attorneys who've spent their careers trying to stop workers from organizing in important agencies like the NLRB. Does that help create good jobs?

Ms. LEE. That is the opposite of what's needed to create good jobs.

Senator WARREN. Thank you. You know, we absolutely need to fix our trade policy so that it puts the interests of American workers first, not the interests of giant multinational companies. But that is not enough. We should be standing up for American workers and their families in every area, their wages, their right to organize, workplace safety, retirement security, access to affordable healthcare. That's what workers in Massachusetts and around the country desire, and it's what all of us here in Washington should be focused on.

Ms. LEE. Thank you, Senator.

Senator WARREN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Warren.

Senator Young.

Senator YOUNG. Thank you, Mr. Chairman. I'm grateful we're holding this hearing.

As I think about the auto industry, I think about, of course, those autoworkers I represent, the communities that our auto industry helps keep vibrant, places like Princeton, Indiana; Greensburg, Indiana; Lafayette, Indiana, where Toyota and Honda and Subaru have made major investments over the years, and so many Hoosier families benefit from that economic impact, which in the State of Indiana is nearly $7 billion. On the employment side, we have approximately 123,000 Hoosiers who are supported by the international auto industry, and that's the equivalent to over $7.3 billion of total employee compensation. So this matters to the State of Indiana, and I know so many other states in our Nation, more broadly.

With that said, I'm really concerned about the administration's strategy, to the extent we understand it, as it pertains to trade. I've been vocalizing this for months and months and months. We've heard from, I think, every United States Senator here today that they're concerned about the uncertainty. Every panelist here does not know what our trade policy is.

I think there's one means by which we could insist on clarity, not just from this administration, but future administrations as well. That is by requiring each administration to develop a comprehensive, whole-of-government economic security strategy.

We have a national security strategy that deals with highly classified information, highly consequential issues, and they work across different departments of government. The National Security Advisor elicits information from the State Department, Department of Defense, Treasury, and beyond, and they put together an unclassified document with a classified annex.

We ought to be doing the same sort of thing, to my mind, with respect to our economic strategy. It could deal with such things as Ms. Lee has pointed out, like currency manipulation, although I think that's the most difficult of all of them, candidly, to deal with. It can deal with things like tariffs, intellectual property theft, joint forced technology transfer, state-owned enterprises and the dumping of their manufactured goods into places like Indiana, where you're effectively imposing 100 percent tax rate on those workers who lose their jobs on account of dumped commodities and products.

Why don't we have a written national economic security strategy? Would anyone like to speak to this issue?

Mr. MOORE. Well, let me just quickly address that. Look, we've got—I think we have a national economic strategy under this President. We have the strongest economy in 25 years. The growth rate in economy was 4 percent in the first quarter of——

Senator YOUNG. Let me interject respectfully. So you're rattling off a number of successes, but with respect to this issue, an economic security strategy, and we deal with predatory economic practices, you said earlier, Mr. Moore, we need to get more clarity from the administration. We can get more clarity through a written document that allows Members of Congress to critique that document, to embrace portions of it, just as we do with the national security strategy, and it will serve a signaling purpose to our allies, partners, and adversaries alike.

What say you, sir?

Mr. MOORE. Well, my point was maybe it started—even Senators on both sides of the aisle—it's about time we maybe start giving Donald Trump the benefit of the doubt here. I mean, the improvement in the economy over the last 20 months has—and I'm a big advocate of what——

Senator YOUNG. We should trust him on trade policy without clarity on the plan.

Mr. MOORE. On trade policy, look, I've made my—you quoted me correctly. I do think that there are problems with this strategy. I think it lacks a coherence. We'll see—I mean, six months from now, let's see where we're at. I'm an optimist. I do think we're going to see some greatly improved trade deals over the next six months. I may be wrong, but I think if that happens, the economic benefits to workers and American companies will be profound.

Senator YOUNG. I am most hopeful, and I'm cheering for this president. I actually credit this president for elevating these predatory practices to the highest level in China and, to a lesser extent, India, Brazil. These countries are the biggest, I think, violators of international trading norms and laws, and my sense is it's not my job to develop a strategy, per se, but I think if we did what some of the other panelists indicated, which is partner with the largest other economies of the world and apply our collected leverage, vis-a-vis, the worst actors, we could have even greater success.

I acknowledge that we are seeing some signs of brittleness within the Chinese economy and others, and I, too, share your hope, Mr. Moore.

Thank you all for being here.

The CHAIRMAN. Thank you, Senator Young.

Senator Casey.

Senator CASEY. Thank you, Mr. Chairman, and I want to thank the panel for being here and for your testimony.

I'm going to direct my questions to Ms. Lee for one purpose, and that's to focus for a couple of minutes on China. I was particularly impressed by the statement that you gave. I wasn't here when you presented it, but the written statement I've taken a look at.

When I consider—and I don't think this is just true for Pennsylvania, but I think it's true for the Nation. When China cheats, we lose lots of jobs in Pennsylvania, and when you consider who's the serial violator out there, it's China in every instance, it seems. I think the U.S. needs both a sustained and coordinated strategy to address these threats, but we've got to work with our allies to execute it.

I guess the real focus of not just my questions, but your statement was the impact of China's trade practices and the kind of unfair practices both our companies have faced and have been fighting against, and our workers. I think the worker part doesn't get nearly enough attention. It did in your statement, but maybe not in the course of our discussions.

Whether it's currency manipulation or illegal subsidies or intellectual property theft or actions by state-owned enterprises, all of them in one way or another and sometimes substantially—they all harm American workers.

There's a recent study focusing on the impact of China on American workers by MIT economist David Autor and his co-authors. They found that almost 40 percent of the decline in U.S. manufacturing just between the years 2000 and 2007, just that seven-year time period, was due to a surge in imports from China. So 40 percent attributable just in seven years only to China.

I guess the first question is can you discuss the impact of China as it relates to both jobs and wages on U.S. workers?

Ms. LEE. Thank you, Senator Casey, for the question. Because of the sheer size of China and because of the systematic unfair trade practices, China has an outsized impact on the United States, and you can measure the impact on both jobs, wages, and on businesses. I think that's something that we also don't give enough attention to, which is that American businesses that are trying to produce in the United States on American soil are put at a ridiculous disadvantage when trying to compete with China because of the illegal subsidies and the theft of property and the workers' violations, the environmental violations, and so on.

I think—we've looked at several million jobs that are impacted by unfair trade with China, and so this absolutely should be a top economic priority for the President and for the Congress. But in order to be effective, as I said before, I think it needs to be done in coordination with our allies, and it needs to be done in a very systematic way and identify the right problems.

I think the right problems are currency manipulation and workers' rights violations. Those are both things that have a systematic impact on—every single item that we import from China is underpriced because of currency misalignment and because of the fact that workers lack basic human rights in China. They don't have the Democratic right to go and change governments if they want to. They can't go to their manager and organize a union, an independent Democratic union, at their workplace if they want to, and that puts—every American business is at a disadvantage.

A lot of American business—when I was at the AFL–CIO, people used to come and say they were afraid to complain because they didn't want to bring the Chinese government down on them. But even businesses said they were facing such unfair trade conditions that they could not survive, but they didn't have the tools to act, and that's why it needs to be done overall in a very concerted way by the U.S. Government.

Senator CASEY. In the remaining time I have—I know we have less than a minute. But it's my belief—and I think there's a lot of data to validate my belief—that the decline of unions is one of the reasons why we've had a wage decline or at least stagnation over time.

Can you walk through just in a few—in the remaining time we have some of the causes of wage stagnation as you see it in your research?

Ms. LEE. Yes. The decline of unions is a key factor where workers don't have the countervailing power to go in to bargain effectively. The decline in the minimum wage also has lowered the floor so that people don't have that backstop that they used to have. And then a series—and the fact that we have not had full employment in the U.S. economy consistently over the last couple of decades means that workers don't have the bargaining power, the ability to go in on a regular basis, and then employers have come up with a bunch of different measures to undermine workers' bargaining power like forced arbitration, non-compete agreements, and other things that workers are pressured into signing as a condition of employment.

Senator CASEY. I'm out of time, but thank you very much.

Ms. LEE. Thank you, Senator.

Senator CASEY. Thanks to the panel.

The CHAIRMAN. Thank you, Senator Casey.

Senator Jones.

Senator JONES. Thank you, Mr. Chairman, and thank you for this hearing, and I also want to thank you, Mr. Chairman, for the work that we've been doing together on automobile tariffs. It is important to your State of Tennessee. It's important to my State of Alabama, where 57,000 people are now involved in some way with the automobile industry.

I have been—like so many expressed here—have been very concerned about the President's trade policy broadly. I, too, think it is totally incoherent and is hurting my businesses. It is hurting farmers.

With all due respect, Mr. Moore, I don't think you give the benefit of the doubt to an incoherent policy for a while, to just let it ride, that you need to work—and we have an obligation to work to change that incoherent policy or at least to try to do what we can, to do that as opposed to just following the Disney song, wishing upon a star. I think we need to be continuing to speak out, as Senator Young has and others have done.

My concern—because Alabama has grown so much economically because of the automobile industry, I've got a specific concern about that. I've got a concern about farmers who are being affected, and with regard to that, especially, it hits the farmers most obvious, because the farmers are going to lose markets with this trade policy. If we wait 6 months and hope for the best, we may get a good trade policy, but we may have also lost markets, and it hurt us in the long run.

Mr. Bozzella, I'd like to ask you—it's not quite as obvious to me about the markets for automobiles. We ship a lot of automobiles to China. We ship—Alabama, I think, is the third largest exporter of automobiles. But with supply chains and suppliers, do these tariffs also have the ability to affect markets for those automobiles that are produced in America overseas?

Mr. BOZZELLA. There's no question about it, Senator. As you noted, there's a huge number of vehicles that are built in Alabama that are exported to countries all around the world. What we're seeing as a result of these trade policies is we're seeing retaliation from our trading partners, and what that means is that it's more difficult for us to export cars that are built in Alabama, and the price of building those cars in Alabama, because of the tariffs on steel and aluminum, has gone up. It's a double whammy that hurts Alabama autoworkers.

Senator JONES. All right.

Mr. Riley, you've talked a little bit about how the tariffs here are a regressive tax. I don't think there's any question about that. Clearly, unlike what the President said early, that these other countries are going to pay for these tariffs, that is just a complete misunderstanding about tariffs, in general. It's a regressive tax on American consumers, on American businesses.

I was not here during the tax bill, when it was passed last December. I didn't take office until January. But it seems to me that these tax—that tariffs and the increase in the cost of these goods is not only going to undercut the benefits that American businesses have seen from those tax cuts. Also, these tax cuts that American consumers have seen, what we've given to them, we're about to take away with these tariffs. Is that a fair statement, or am I completely off base?

Mr. RILEY. It's a fair statement. If you look at all the tariffs or taxes that the administration has put in place or has proposed, you're looking at about $130 billion a year, up from about $33 billion. So that's a big tax increase. It would take away a lot of the benefits that we have seen from the tax reform, tax cutting legislation.

In my introductory remarks, I referred to the Declaration of Independence. I now refer to the Constitution, which is it's not the executive branch, but Congress that has the power to tax, and I'd sure like to see Congress take a more active role in overseeing and, actually, more active oversight before these taxes could go into effect in the future.

Senator JONES. Last question, and this is just for anyone on the panel. Senator Portman and Senator Ernst and I have a bill introduced that would take away the decision of what is a national security interest—which I find it just a little bit bizarre that the BMWs and Mercedes that I see around Alabama and different places are a national security concern. But be that as it may, this bill would take that out of the Commerce Department and put that over with national defense, where it appears to be the more obvious reason to determine whether it's national security.

Does anyone have any thoughts about that and if we can reform this process a little bit with that?

Mr. RILEY. Well, real quickly, if it's a defense issue, Section 232, it seems to me the Defense Department ought to be the key agency involved, and I think that Congress ought to have a chance to weigh in before these taxes go into effect in the future.

Mr. BOZZELLA. I would agree. I would agree with that. I think it's important that Congress look at—you have the authority over tariffs and taxes. You should make sure, I think, that the administration is conducting itself in the way in which you intended it, and I think that's part of what the bill does, and I think it's important.

Senator JONES. Right. Well, thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Jones.

Senator Kaine.

Senator KAINE. Thank you, Mr. Chairman, and thanks to the witnesses.

I apologize for walking in late, but I was at a Foreign Relations hearing about the future of NATO, and a lot of what we were talking about in that future of NATO is how it is perceived by NATO allies when we use trade against them, when we use national security waivers against Canada, against Europe, when we call the EU a foe—by we, I mean the President. So it's interesting to come to this hearing. It's connected.

I know you've talked about many of these issues with the other Senators. I want to talk to you about two things that concern me, and the two are uncertainty and then the place of Canada in the discussion about NAFTA right now.

Uncertainty—in Virginia, one of the best assets we have that has enabled our economy to be strong is the Port of Virginia, which is, by some measures, the second or third most active port on the East Coast of the United States. The CEO of the port talks about the tariffs as, quote, "significantly putting our infrastructure advancements at risk." This is an article from three or four days ago. And he can't quantify that, because it's an uncertainty, but it's an uncertainty that makes them very, very nervous.

When I was Governor, I encouraged Volkswagen to relocate their North American headquarters from Michigan to Virginia, which they did, and they have a global business, including the manufacture and sale of a lot of vehicles in China. They are very, very worried. I was speaking to VW execs within the last week. They're extremely worried about the tariffs and the uncertainty it creates, and especially uncertainty around disruption of global supply chains that they now require.

Then, finally, the only vehicles that are manufactured in Virginia are Volvo trucks. There's a Volvo truck plant in Dublin, Virginia, Pulaski County, far southwestern Virginia, the economically most challenged part of our state, and they are also dealing with the effect of tariffs on the aluminum and steel that they use, and they are very, very worried about this. And when I say they, it's interesting. I can talk to both management or I can talk to UAW workforce, and they express the same concerns. At the port, I can talk to management or I can talk to the 19 unions that do work as part of the port council. They are concerned, similarly with VW.

As a mayor and Governor, I love certainty. I feel like if we can give people certainty, they can figure out in the private sector, or our public planners, how to adjust around it. Even if they don't like the certainty that we're giving them, they can adjust around it. But it's really hard to adjust around an asterisk or a question mark.

I would like to ask you first about kind of the uncertainty effect of all this. What's the end game? What's the off-ramp? Where are we going? We've not really had the administration come here and brief us on where they think we're going to get with this. If you could share either—do you share my concern, or am I too worried about something I shouldn't be worried about?

Mr. BOZZELLA. Yes. Uncertainty is hugely problematic. Senator Alexander said earlier in the hearing that a lot of what happens in decisions that management is making about where to introduce a new product is really essentially a competition within the company between different regions of the world. We want to win that competition for American workers. Uncertainty is a killer in that competition.

Ms. LEE. I would just agree with that. Uncertainty is counterproductive for everybody, for all the players, because you can't get businesses to change their behavior in ways that you want them to and you can't get governments to change their behavior if we don't have clarity about the goals, the duration, the magnitude, and the targets of these tariffs, and that's what's missing in this current strategy.

Senator KAINE. Mr. Riley or Mr. Moore.

Mr. RILEY. Well, I agree with my prior two panelists. You mentioned the port, and if we're losing a trade, as some people think, it seems to me we ought to just close down all the ports and pave over them. Of course, nobody would think that's a good idea. The countries around the world that are going to prosper are the ones that are going to have an environment of certainty and are the ones that are going to work to attract international trade and international investment, and that includes getting to a zero tariff regime for all the inputs and parts, not just for car workers, but others across the United States.

The idea that, well, in the long run, this is going to work out, and we can just do our patriotic duty and suffer in the meantime—it's important to point out there's a lot of people around the country who are hurting right now because of the tariffs and the threat of new tariffs and the uncertainty.

Senator KAINE. Mr. Moore.

Mr. MOORE. I don't have any difference of opinion with my colleagues here. I would simply say that there is chaos right now in our trade policy, but I'm hopeful here that we're experiencing short-term pain for long-term gain if we can get to the kind of trade agreements that better benefit American companies and American workers.

I think there's universal agreement among the four of us that the steel tariffs just don't make a lot of sense. I mean, we're not really—we're not even adding to the jobs of manufacturing workers, because for every steel worker we're protecting—and, look, I care—we all care about our steel workers. But for every manufacturing job that we protect, we're likely to lose two or three or four workers.

It's so apropos to your industry, the auto industry. If you want to save auto jobs, you don't want to impose steel tariffs. I mean, that was the point that you were making, Mr. Chairman.

Ms. LEE. But I just want to, for the record, say that I don't agree with that, necessarily, that the steel tariffs are addressing a problem of global excess capacity that is an issue and has been an issue and causes inefficiency and distortions in the global steel trade. But whether they've been applied correctly is a different question.

Senator KAINE. Mr. Chairman, I'm over my time. I could ask my Canada question for the record, but seeing that I'm the last witness, I could also ask it right now.

The CHAIRMAN. Go ahead.

Senator KAINE. I appreciate your sufferance.

I am very nervous about the NAFTA renegotiation leaving out Canada. Now, I support the President—at 20-plus years into NAFTA, why wouldn't we get into it and see if we could make it better? I mean, we would be foolish not to. So that I completely agree with.

But I do know that even strong opponents of NAFTA 20-plus years ago are now saying that the supply chains are so integrated that to try to extract or sort of partially extract Canada in this case would be very devastating. Do you agree that Canada is one of our top two trading partners. We cannot leave—if we're going to do an update of NAFTA, it would be very foolish to not have them in.

Mr. BOZZELLA. Yes, I agree. NAFTA has been a winner for the U.S. auto industry. NAFTA should and needs to be modernized. There is no NAFTA without Canada. Even the framework agreement between the U.S. and Mexico is completely unworkable for the auto industry if Canada is not a party to the deal. So we do need Canada in NAFTA.

Ms. LEE. I would totally agree with that. Canada is obviously a valued trading partner with shared values, with high standards, good jobs, shared values, and, as you say, integrated supply chains. It makes no sense to go forward without Canada at the table.

Mr. RILEY. I agree.

The CHAIRMAN. Well, thanks to all of you.

Mr. Riley, you didn't get to answer as many questions. I'm going to ask you one before I wrap up.

Mr. RILEY. Thank you.

The CHAIRMAN. Would you restate what your National Taxpayer Union calculates the amount of new taxes are on the American people as a result of the tariffs on steel and aluminum?

Mr. RILEY. Thank you. It's about $133 billion, Mr. Chairman, and we'll provide that for the record. We have a formal report on that coming out just in the next few days. I should note that is the tax that Americans are paying due to U.S. tariffs. It doesn't include all the taxes that foreign governments have imposed on U.S. exporters, and it's important to consider those economic costs as well. So we'll be happy to provide the Committee with that exact number going forward, but it's a big cost.

The CHAIRMAN. I thank the four of you for coming. It's been a very useful hearing, and I think you can tell that from the Senators' participation.

The hearing record will remain open for 10 business days. Members may submit additional questions to our witnesses within that time.

Thank you for being here. The Committee will stand adjourned.

[Whereupon, at 11:36 a.m., the hearing was adjourned.]

○