PROMOTING ECONOMIC GROWTH: EXPLORING THE IMPACT OF RECENT TRADE POLICIES ON THE U.S. ECONOMY

HEARING

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SUBCOMMITTEE ON NATIONAL SECURITY, INTERNATIONAL DEVELOPMENT AND MONETARY POLICY

OF THE

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PROMOTING ECONOMIC GROWTH: EXPLORING THE IMPACT OF RECENT TRADE POLICIES ON THE U.S. ECONOMY

Wednesday, June 19, 2019

U.S. House of Representatives,
Subcommittee on National Security,
International Development
and Monetary Policy,
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Emanuel Cleaver [chairman of the subcommittee] presiding.

Members present: Representatives Cleaver, Perlmutter, Himes, Sherman, Vargas, Gottheimer, Wexton, Garcia of Illinois; Stivers, Williams, Hill, Gonzalez of Ohio, Rose, and Riggleman.

Ex officio present: Representatives Waters and McHenry.

Also present: Representative Axne.

Chairman Cleaver. The Subcommittee on National Security, International Development and Monetary Policy will come to order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Today's hearing is entitled, "Promoting Economic Growth: Exploring the Impact of Recent Trade Policies on the U.S. Economy."

I now recognize myself for a 5-minute opening statement.

Thank you for all being here today and for your shared focus on the crisis in which we find ourselves. Our country has entered day 512 of what can only be described as a trade war. The opening salvo came when the President's tariff-targeting solar panels and washing machines took place. As our witnesses will attest, it has cascaded into nearly $400 billion worth of traded goods and has triggered retaliation from countries including China, India, Canada, Mexico, and even members of the European Union.

The trade war has impacted nearly every facet of our economy, from agriculture to manufacturing. While I know, and have read, the works of many of you who are kind enough to lend your time to us today, I have one person who is not only a witness but a constituent. I have heard from Ronnie Russell and a number of other farmers in my Fifth District of Missouri, and I will ask him to explain the devastating toll this trade war has had on the lives of those farmers trying to make a living in Missouri.

I understand that in response to U.S. actions, American agricultural and food exports to China declined precipitously, largely due to a drop in exports from U.S. soybeans. China has levied retaliatory tariffs of 25 percent on soybeans, raising the total tariff rate to 27 percent, and effectively restricting access to what was the largest U.S. export market for that crop. About half of all soybeans produced in the United States were exported prior to the application of the tariffs.

As the farmers on this panel will attest, there was hardly a place in the world that could compete with us in terms of the exportation of soybeans. Many of the folks that Ronnie Russell and John Boyd are representing here today don't have another few months for the trade war to linger. Their farms are literally on the line. The cost of this trade war is not limited just to my rural communities. It traverses the length of Missouri's I-70 and across all rural and urban divides around this country.

Federal Reserve Chairman Jerome Powell, in his testimony before this committee earlier this year, told us that uncertainty is being injected into manufacturing sentiment due to the trade disputes adversely impacting the sector. This is costing American jobs. Trade Partnership Worldwide finds that, on net, my home State of Missouri stands to lose over 45,000 jobs as a result of the trade war and our country could lose over 2 million. There is no American who is insulated from this pain.

The Federal Reserve found that U.S. tariffs were almost completely passed through into U.S. domestic prices, so that the entire incidence of the tariffs fell on domestic consumers and importers up to now, with no impact so far on the prices received by foreign exporters. They said that, "Producers respond to reduced import competition by raising their prices", making it more expensive for Americans to buy the necessities of life.

Americans are already struggling with low wages and long hours. These tariffs are taxes that hamper American growth and threaten our future. Projections indicate that these taxes threaten to reduce U.S. GDP by nearly a percentage point, and as we have this morning's hearing, down the hall my colleagues in the Ways and Means Committee are receiving testimony from the President's leading lieutenant in this war, the U.S. Trade Representative. Down the street, the Commerce Department is entering their third day of testimony from industry groups suffering and crying out for an end to this war.

My time is running down.

The consequences of inaction compel us to have this important conversation and derive solutions to protect our economy and the country. I would ask my colleagues for unanimous consent to enter into the record a discussion draft of a bill that I am working on, and this bill would require the President to conduct thoughtful analysis of the cost to the very segments of the American economy and public before imposing any new tariffs. It would require him to seek advice from a council comprised of Cabinet officials to ensure that a decision that could impact every American is more thoughtful than a tweet.

With that, I would like to, again, thank you for lending your voices here this morning—we appreciate it very much—to this conversation.

I now yield to the ranking member of this subcommittee, the gentleman from Ohio, Mr. Stivers.

Mr. STIVERS. Thank you, Mr. Chairman. I appreciate you holding this hearing. It is a very important topic, and I look forward to hearing from our panelists today. Every member of this committee hears back home about how the trade disputes with China, the European Union, and our North American colleagues are affecting our constituents. We have all heard from constituents and businesses located in our districts about the impact of the trade war.

Just last week, I spoke to a gentleman who works for a company called Linden Lumber, and this company sells lumber products into China, which helps reduce our trade deficit with China and employs Americans. But the retaliatory tariffs now threaten the survival of their business and it is an example that demonstrates the seriousness of the topic that we are discussing today and our importance of finding solutions.

Like Mr. Russell, I have a lot of farmers in my district. They are watching their incomes decline. Their businesses have an impact on supply chains, and that further demonstrates the urgent need to solve these problems. But we also shouldn't oversimplify the issue.

I have another constituent company, RG Barry, which makes slippers, and their slippers can be found all throughout China. The problem is that they are not their slippers. They are stolen intellectual property. They steal the slipper, the design, the box, the logo. You wouldn't know it wasn't an RG Barry slipper if you bought it, but it is not. They see none of the profits.

The intellectual property is stolen from them, and other American companies who operate in China have to agree to share their technology, which potentially seeds their future Chinese competition, and that future Chinese competition can get unlimited backing from the Chinese government, giving it the ability to undercut the pricing of U.S. firms, steal market share, and destroy American jobs and industrial capacity. And, in particular, in the area of emerging technology, this lost industrial capacity can have significant implications on our military's edge over foreign adversaries. Both sides of the aisle have long recognized these problems with China, yet still they continue.

And I am a free-trade Republican. I believe tariffs hurt consumers and they stunt economic growth. So, that is why I think it is important we get to a negotiated agreement that puts an end to China's currency manipulation, forced technology transfers, subsidies by state enterprises, and other trade abuses. I also believe that it is in America's long-term national security interest that any trade debate highlights these issues now, because the longer we wait, the worse deal we are going to get.

My question I am looking forward to asking the panel is, if you think these abuses of currency manipulation, forced technology transfer, subsidized industry, and cyber theft are real problems, what are your proposed solutions, because I do believe we need to get to a negotiated settlement.

I look forward to the panel's testimony, particularly your thoughts on China and the United States-Mexico-Canada Agreement (USMCA).

With that, I would like to yield my remaining time to the ranking member of the full Financial Services Committee, the gentleman from North Carolina, Mr. McHenry.

Mr. MCHENRY. I thank my colleague, and I thank you for your leadership on trade and promoting American economic activity globally, and I want to thank Chairman Cleaver for organizing today's hearing.

When this hearing was first announced, committee Republicans were puzzled at the title. It was originally called, "Slowing Economic Growth: The Impact of Recent Trade and Tax Policies on the U.S. Economy." Well, they dropped the word "slowing" because that is actually inaccurate—we have quite robust growth, especially under this Administration—and they dropped the word "tax." Well, if you are going to talk about growth, I think we should talk about the tax bill that we passed and are now bearing the fruits of in the economy, and I think we have greater growth because of the regulatory relief of this Administration and the Tax Cuts and Jobs Act.

Nonetheless, I am encouraged that my Democratic colleagues are interested in trade. I would also encourage them to talk to the Speaker of the House, Nancy Pelosi, to expedite the consideration of the U.S.-Mexico-Canada Act so that NAFTA can be updated and improved for the 21st century.

I also think it is important to talk more broadly about the prosperity that the American people are feeling and how every sector in the economy is benefitting from the broad growth that we have, and, long-term, we will benefit from a renewed understanding between us and China in our trading relationship. Their economy has changed dramatically and I think it is really important that we update our relationship with global trading partners, and now is the time.

With that, I yield back the balance of my time.

Mr. STIVERS. I yield back.

Chairman CLEAVER. I thank the ranking member.

Without objection, I now yield to the Chair of the Full Committee, Chairwoman Waters, for such time as she may consume.

Chairwoman WATERS. Thank you, Mr. Chairman. The Federal Reserve, the International Monetary Fund, and the World Bank all have forecasted an economic slowdown, due primarily to the risk of the President's trade war. The Federal Reserve Bank of New York estimates that tariffs could cost the average household up to $831 this year, and the Trade Partnership estimates net job losses of 248,399 in California alone.

There are legitimate grievances regarding the employment practices in many foreign countries like China, but the President's tactics of provoking a global trade war on unrelated political issues such as immigration is reckless. The Congress needs to act to stop the President from further damaging our economy and harming our international relationships.

I yield back the balance of my time.

Chairman CLEAVER. The Chair of the Full Committee yields back the balance of her time.

Let me take this opportunity to welcome the testimony of our five witnesses. Our first witness is Laura Baughman. Ms. Baughman currently serves as the president of The Trade Partnership and Trade Partnership Worldwide.

Ms. Baughman, you have 5 minutes.

STATEMENT OF LAURA M. BAUGHMAN, PRESIDENT, THE TRADE PARTNERSHIP AND TRADE PARTNERSHIP WORLDWIDE

Ms. BAUGHMAN. Thank you, Mr. Chairman. Good morning. My name is Laura Baughman and I am the president of The Trade Partnership and Trade Partnership Worldwide. We prepare studies that assess the economic impacts of trade on U.S. and international economies. I have been asked to talk to you today about some of our research and about the economic impacts of the tariffs that we have been experiencing.

I will briefly summarize our research and then describe some ways in which the implementation of the current spate of tariffs and quotas has been affecting companies in the hope that that information will be helpful to the subcommittee's deliberations on the role that Congress could play in the process.

The briefing memo prepared for the subcommittee for this hearing did an excellent job of summarizing the various import restraints that have been imposed since 2018, or contemplated, and how they impact consumers and producers. As the memo notes, the impacts affect nearly every gear in the economic machine.

We took a comprehensive look at the potential impacts of various tariff and quota scenarios, assuming those tariffs have been in effect from 1 to 3 years. We used the same model the U.S. International Trade Commission uses to assess the impacts of trade agreements. We found that steel and aluminum Section 232 tariffs plus quotas, tariffs on imports from China on Lists 1, 2, and 3, and related retaliation will reduce U.S. GDP annually by 0.3 percent, raise costs to consumers such that the average family of 4 must shell out $767 more to buy goods, and result in a net loss of nearly 935,000 jobs.

Adding in tariffs on imports from China of products on List 4, plus retaliation, amplifies the costs. The steel and aluminum restraints and tariffs on all imports from China, plus retaliation, will reduce U.S. GDP annual by 1 percent, raise costs to consumers such that the average family of 4 must shell out $2,294 more to buy goods, and result in a net loss of nearly 2,160,000 jobs.

In each scenario, while some sectors gain jobs, more lose, so that on balance, the impact is a net negative for U.S. workers, nationally and in every State.

You have a copy of our study which was attached to my written testimony.

Our results are consistent with those of other researchers. While scenarios examined and modeling details differ, everyone, including the Administration, has concluded that the various tariffs will have a net negative impact on trade, economic growth, and employment.

I also thought it would be helpful to summarize some of the principles that have heretofore undergirded trade policymaking in the United States and complaints we are hearing, and likely you as well, about the ways the current tariffs are being rolled out in a manner that is inconsistent with those principles. I mentioned four in my written statement. I will focus on three, two if I run out of time.

Principle 1. Businesses and financial markets hate uncertainty. Companies universally tell me they can deal with the higher costs of tariffs or other U.S. Government actions if they just know about them well enough in advance and know how long those costs will be a problem for them. They will then take the steps needed to minimize the disruption to their businesses.

Yet, hovering over companies are the following uncertainties that have all of them in a state of limbo: Will the President impose tariffs of as much as 25 percent on imports from Mexico? Will the President impose tariffs on $300 billion in imports from China, and when? Will the President impose tariffs on imports of cars and parts from Europe and Japan? Will Congress pass the United States-Mexico-Canada Agreement (USMCA)? Will the President terminate NAFTA to motivate Congress to pass the USMCA? Will a company give an exemption from the tariffs for products it cares about, and when will it hear one way or the other?

Companies must guess on the answer to each of these questions to plan sourcing. A wrong guess will be expensive.

Principle 2. Informed policymaking should be the foundation of all government actions. This typically entails public notice and comment periods that are realistic and provide the opportunity for a full vetting of the various pros and cons of a proposed action or policy. It means that policymakers weigh the input and address concerns. It means an opportunity for independent assessments of the economic impacts of the tariffs by the U.S. International Trade Commission, for example, before the tariffs are imposed, not after.

This did not happen in the case of the steel and aluminum quotas and tariffs. Section 301 process has been deemed by many as pro forma, with the expectation that the President will impose tariffs notwithstanding the comments submitted.

Principle 3 is that companies need time to adjust to changes. It can take 6 months to 2 years to change suppliers. Sufficient advance notice is needed to preclude high costs, and that has not been the practice of the tariff implementation since 2018. They are announced and imposed less than a month later. The potential tariffs of 5 percent on imports from Mexico were threatened with an implementation date just 11 days later.

In conclusion, there is a role for Congress to play in helping to lessen some of the costs of import restraints on American companies, their workers, and the economy generally.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Baughman can be found on page 36 of the appendix.]

Chairman CLEAVER. Thank you very much. The next witness is Dr. Fred Bergsten, the director emeritus at the Peterson Institute for International Economics, who has previously served as Assistant Secretary for International Affairs at the Treasury, Under Secretary of Monetary Affairs, Assistant for International Economic Affairs at the National Security Council, and on the Advisory Committee for Trade Policy and Negotiation.

Having done all of that, here is the highlight. You are serving as a witness before this committee today.

Welcome. You have 5 minutes, Dr. Bergsten.

STATEMENT OF C. FRED BERGSTEN, SENIOR FELLOW AND DIRECTOR EMERITUS, PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. BERGSTEN. Mr. Chairman, thank you very much. As you know, I am also a native of Kansas City. My parents lived there for a long time, so we have a particularly close relationship.

Mr. Chairman, I want to support the economic analysis that Laura Baughman just gave you. I will refer to some similar numbers, but she has basically gotten it right. I have even bigger numbers.

But I want to stress, in addition to the economic effect, how the Trump Administration has clearly abused congressional intent and probably some of its legislative authorities in implementing his current trade policies. Those policies are levying heavy costs on the economy and foreign policy, and Congress should therefore take a series of urgent measures to rein in the excesses of the Executive Branch.

I want to support what Chairwoman Waters just said, and what you said a moment ago, Mr. Chairman, in your introductory comments. I believe Congress needs to act urgently to rein in the excesses of the Executive Branch.

Let me tick off the difficulties in terms of these abuses, as I term them.

First, there is no evidence that imports of steel and aluminum from some of our closest allies have damaged the national security of the United States. Hence, there is no justification for invoking the national security authorities of the Trade Expansion Act.

Second, there would be even less justification for invoking the national security provision to impose import restrictions on motor vehicles and auto parts. It is ludicrous to argue, as the Secretary of Commerce did in February, that research and development by American auto companies—there are only three of them, as he defines it—is essential for U.S. national security. It is also ludicrous to argue that R&D investment would be encouraged by restricting investment, by restricting competition in the U.S. auto market. Economics just don't work that way.

Third, an even more egregious stretch is the President's threat, clearly still in place, to apply tariffs against all imports from Mexico unless that country takes far-reaching steps to restrict immigration. The legal justification would be a declaration of national emergency under the International Economic Emergency Powers Act, a highly dubious proposition. And even if there were such an emergency, tariffs have never been used to pursue such a non-trade objective, and the Act has never been used to impose tariffs.

Fourth, the President has threatened to withdraw from NAFTA, including as a tactic to force Congress to support his renegotiated U.S.-Mexico-Canada Agreement. Withdrawal from NAFTA would disastrously disrupt supply chains in many sectors, including autos. The U.S. has never withdrawn from a free trade agreement and it is unclear whether the President has the legal authority to do so without congressional approval.

On a whole variety of counts, the President is abusing or threatening to abuse authority. This pattern, along with his extensive tariffs on China, this pattern of protectionism represents an unprecedented and massive reversal of U.S. trade policy. If fully implemented, all of these mooted tariffs would essentially apply a tax of 25 percent to over $1 trillion of U.S. imports. This would amount to a tax increase of more than $250 billion on the American public, which ultimately pays most, it not all of the cost of the tariffs, without congressional approval—massive tax increase without congressional approval, which more than offset the tax cuts of a year ago.

As Laura said, the uncertainty surrounding all of these actions and threats dampens confidence in the economic outlook and will deter investment, as indicated in many business surveys of late and by the Blue Chip Business Council just last week, including when they met at the White House. These three economic effects—the massive tax cuts, the foreign retaliation against them, that hits our exports, and doubles the cost of the tariffs, plus the uncertainty—

Chairman CLEAVER. I am going to give the gentleman another minute, because of the malfunction in the microphone.

Mr. BERGSTEN. —that could take a full percentage point or more, probably 2 percentage points on Laura Baughman's analysis, off U.S. growth, and even tilt the country into recession. The uncertainty also has a profound impact, around the world, on the credibility of the United States as a potential negotiating partner and as a faithful proponent of the rule of law.

So, in conclusion, the Administration is clearly violating congressional intent, and arguably, at least some of the laws that it is invoking. I believe that Congress, or what Chairwoman Waters was saying just a moment ago, I believe Congress should now take action to require the President to seek its approval, to seek congressional approval, or at least consult with us, regarding any proposed new tariffs on the basis of an analysis of their potential benefits and costs in both economic and foreign policy terms.

Congress should specify—just as the Congress must approve any new trade agreement, it must approve withdrawal from any trade agreement that it had previously adopted. The upcoming USMCA legislation might provide an opportunity to make such changes in U.S. trade law, and I hope you will take it.

Thank you very much.

[The prepared statement of Dr. Bergsten can be found on page 73 of the appendix.]

Chairman CLEAVER. Thank you. The next witness is Mr. John Boyd. Mr. Boyd is a Virginia farmer who produces soybeans, corn, and wheat, in addition to raising cattle, hogs, and other animals. He is president and founder of the National Black Farmers Association, and has served on the Clinton Administration's Tobacco Commission.

Mr. Boyd, you now have 5 minutes.

STATEMENT OF JOHN BOYD, FOUNDER AND PRESIDENT, NATIONAL BLACK FARMERS ASSOCIATION (NBFA)

Mr. BOYD. Thank you very much. I would like to thank the subcommittee and the chairman for inviting me, and for having the opportunity to speak to the subcommittee today. I would also like to recognize Chairwoman Waters. Thank you very much, Chairwoman Waters.

My name is John Boyd, and I am founder and president of the National Black Farmers Association. I am a fourth-generation grain farmer and beef farmer from South Hill, Virginia, and, quite frankly, Mr. Chairman, we are struggling. Because of the President's tariffs, farmers are in a national crisis. I want to say it again: a national crisis. And it seems as though many have turned a deaf ear to America's small farmers and black farmers alike.

I have been farming since 1983, and I can tell you, Mr. Chairman, I wouldn't be farming since 1983 if I was not a good farmer. We are faced with acts of Mother Nature. We have to have a great relationship with Mother Nature and the weather, and my heart goes out to those Midwestern farmers today who are facing all of the rain that we can't control.

But we should not be forced with a tariff. A tariff should come as a last-ditch effort. We need more diplomacy.

A few years ago I was selling soybeans, my major crop, for $16.80 a bushel. This past season was a disaster for my family farm, where I sold soybeans at $8 a bushel. And for those who don't understand the math, if you make $100,000, you are now making $50,000. And I have the same debts that I had last year. I have the high cost of seed per bag for these soybeans, $60 a bag, Mr. Chairman, that I am paying for Roundup Ready soybeans, that I really don't want to use anyway. That is another hearing. Sixty dollars a bag for soybeans.

I am faced now, with the President's tariffs, with the high cost of machinery, and my family was recently featured on a reality series called "American Farm", and you could see some of the conditions of my equipment. I need a new combine but I can't pay $400,000. And now, because of these tariffs, prices for that equipment are steadily rising.

Something needs to be done to help small-scale farmers and black farmers like myself. The President recently had a meeting with farmers and invited them to the White House. I have asked the President and the Agriculture Secretary for a meeting for a very long time, in a public way—on CNN, on MSNBC, even on Fox News. I have requested to meet with the Agriculture Secretary. That request has fallen upon deaf ears. We are shuffled around from person to person. I have asked to meet with the President about this. We have 109,000 members in 42 States. We have some real issues that we would like to speak to this Administration about. We reached out to the Trade Representative and asked for a meeting there.

How can you close the largest market for soybeans in America, which is China, and not open up other avenues for farmers? That is the reason why you have $8 a bushel. These things should have been thought about before you imposed the tariffs.

And, quite frankly, the President is affecting his base. The people who elected him, the people who elected the President are the American farmers out in the red States. Quite frankly, I didn't vote for this President. I didn't vote for him. But I believe in treating every person, regardless of party, with dignity and respect. And I can tell you right now, my financial situation on my farm isn't Republican. My financial situation on the farm isn't Democratic. My financial situation on the farm is real. We are facing a financial crisis.

And this thing with the payout to the farmers, the President announced a swift payout to farmers, said, oh, it will come quickly. I am just now getting a $5,000 or $6,000 payment on the first of June. How can a farmer expect to make it on that? And then, we are helping companies that are in Brazil, and Smithfield Foods. Smithfield Foods was the company that, when I rolled my truck up, Mr. Chairman, they said, "We are not taking any grain right now because of the President's tariffs."

My testimony here today is we need to set aside some of this $16 billion that the President is proposing to help America's farmers and make sure that farmers like myself, who look like me, can get a check too. Any time the government gets involved, when they say there is going to be a speedy payout to farmers, it is always last for African American farmers. It is also last for Latino farmers, and small-scale farmers, and women farmers. And it is just a call. All you do is call and call and call.

So, Mr. Chairman, I am requesting that this committee come up with some bipartisan legislation to help farmers like us and set aside at least $5 billion of this $16 billion that the President is proposing to help farmers.

Thank you.

[The prepared statement of Mr. Boyd can be found on page 76 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Boyd.

Our next witness is Mr. Ronnie Russell. Mr. Russell is a Missouri farmer and a constituent of mine. He produces corn, soybeans, wheat, hay, and alfalfa, and he serves on the American Soybean Association Governing Committee, the Missouri Soybean Association Board of Directors, and as chairman of the Missouri Fertilizer Control Board.

Mr. Russell, you now have 5 minutes.

STATEMENT OF RONNIE RUSSELL, MISSOURI FARMER, AND MEMBER, BOARD OF DIRECTORS, AMERICAN SOYBEAN ASSOCIATION (ASA)

Mr. RUSSELL. Good morning, Chairman Cleaver, Ranking Member Stivers, and members of the subcommittee. Thank you for inviting me to testify.

I am Ronnie Russell, a soybean farmer from Missouri, where I farm in Ray County. I am a member of the American Soybean Association Board of Directors and serve on the ASA Governing Committee. My written testimony has been submitted on behalf of ASA. However, I would like to give you a first-hand account of how the current trade and tariff uncertainties have impacted my family and the long-term health of our farm.

Things are bad in farm country right now, Mr. Chairman. If I were back on my farm in Missouri today, I would be planting my spring crops. However, the concerning reality of the farm economy and our rural communities has led me to speak today to give you an idea of what farmers in my rural community, and many other communities across the heartland of America are experiencing.

As a farmer producing soybeans, corn, wheat, hay, and alfalfa, I am no stranger to the perils and unpredictability of farming. I have been farming for 43 years and have seen my share of low prices and crop losses due to weather. This season has been one of the most challenging I have ever experienced, but as a farmer who has always had to deal with the possibility of inclement weather, I have tools at my disposal to mitigate a year with poor planting, flooding, or even drought.

However, over the past year I have endured threats to my farm that I cannot control or predict. The use of tariffs by the U.S. Government has resulted in punitive retaliatory tariffs on U.S. exports, particularly agriculture products. The most detrimental of these is the 25 percent retaliatory tariff on U.S. soybeans imposed by China on July 6, 2018. These retaliatory tariffs have all but halted the shipment of U.S. soybeans to China, which up until last year was by far our largest export destination. In 2017, China purchased $14 billion worth of soybeans. This is no drop in the bucket. It represented 31 percent of our total soybean production that year and 60 percent of our annual exports.

The imposition of retaliatory tariffs by China has caused immediate and severe damage to the prices of U.S. soybeans, which fell from $10.89 cents a bushel to $8.68 a bushel last summer. These low prices have continued, and, in some cases, have dropped even further. Farmers are losing money on every acre of beans that we plant.

The impact on my farm has been significant, and because this drop was driven not by weather or increased competition but instead as a result of the government's use of tariffs, it is hard to determine the exact damage to my business.

Soy farmers like me feel the impacts of the tariff war and they are not sure if they will be able to make it through another growing season. Older farmers are considering retiring early to protect the equity that they have built up in their farms, while younger producers are looking at finding other employment. We may also see the shuttering of more businesses in our rural communities whose livelihoods depend on the health of the farm economy.

As late as April of this year, U.S. farmers were hopeful that an end to the ongoing tariff war with China was at hand. However, the recent increase in tariffs and the potential for future escalation is unacceptable. Our finances are suffering, and stress from months of living with the consequences of tariffs is mounting.

Soybean growers need Chinese tariffs removed now. Long-term, what farmers and rural communities need is predictability and certainty, which only comes through maintaining and opening new markets where we can sell our products. For decades, the U.S. soybean farmer check-off dollars went into developing Chinese markets for soybeans. Our investments grew the Chinese market from $414 million in 1996 to $14 billion in 2017. While we are working hard to diversify and expand other market opportunities, the loss of the Chinese market cannot be fully replaced.

I ask Congress and urge the Administration to conclude negotiations with China that immediately lift the Section 301 tariffs by the U.S. in exchange for China removing its 25 percent tariffs on U.S. soybeans.

Thank you for inviting me to testify, and I am happy to answer any questions from the committee. Thank you.

[The prepared statement of Mr. Russell can be found on page 90 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Russell.

Our final witness is Mr. Gordon Gray. Mr. Gray is director of fiscal policy for the American Action Forum. Mr. Gray previously served in a series of congressional and campaign positions, most recently as Senior Policy Advisor to Senator Rob Portman, and he was also Deputy Director of Domestic and Economic Policy for Senator John McCain's presidential campaign.

Welcome, Mr. Gray. You have 5 minutes.

STATEMENT OF GORDON GRAY, DIRECTOR OF FISCAL POLICY, AMERICAN ACTION FORUM

Mr. GRAY. Thank you. Chairman Cleaver, Chairwoman Waters, Ranking Member Stivers, and members of the subcommittee, I am honored to be here before you and among my fellow witnesses today to discuss the outlook for the U.S. economy, and to discuss that outlook in the context of developments in trade policy.

In my testimony, I wish to make three basic observations. First, recent economic growth outperformed the trend that prevailed throughout the recovery, underscoring the significance of pro-growth policy. Second, public policy has a meaningful effect on this outlook and can be instrumental in sustaining the recovery. Third, in the context of trade, reducing global trade barriers in expanding markets are pro-growth trade policies and should be pursued, where possible.

Let me discuss each of these in turn.

According to the National Bureau of Economic Research, the U.S. economy began to recover from the Great Recession in June of 2009. Ten years on, the recovery continues. But the pace and character of the recovery matters deeply for American workers and households. For 7 years after the start of the recovery, the pace of national income, employment, and wage growth was positive but disappointing. Real GDP growth averaged 1.9 percent per year. That sluggish pace of growth equates to an average 1 percent per capita income growth. At that rate, it would take 70 years for an individual to double their standard of living, an achievement that used to take just 35 years, or about one working career.

But more recently, the pace of growth has accelerated, and has averaged somewhat above the sub-2-percent pace that prevailed during the most recent recovery. Indeed, over the past 9 quarters, GDP growth has averaged 2.7 percent.

Reflecting this acceleration in growth, productivity has also strengthened. The most recent productivity data reflects the strongest annual growth since 2010. With higher growth and productivity, unemployment has continued to fall as payroll and wage growth have accelerated. Wage growth has improved overall, including for non-supervisory workers.

The upshot of recent economic performance is that past need not be prologue—moribund economic growth is not preordained. Ascribing the recent improvement in economic policy to any single policy would be dubious, but certainly public policy has had an effect on economic output. To the extent that the economy has improved, one could reasonably conclude that recent policy developments have contributed to more robust economic growth.

The combined effects of the regulatory policy changes of the TCJA and recent spending measures contributed to the recent improvement in economic growth and the related uptick in hiring and wage growth. These measures do not present unalloyed growth opportunities, however. Tradeoffs and future risks attend to each of these and other policy changes, particularly with respect to trade, that have been pursued by the current Administration.

The current trade policy outlook is challenging. The United States is the most robust trading partner in the world, with combined trade volume in 2017 of goods and services valued at over $5.2 trillion. Among nations, the United States was the second-largest exporter of goods and the largest exporter of commercial services. Trade is vital to the United States, the largest economy in the world, and the trade policy landscape is unsettled.

Congress has an opportunity to contribute to improving the trade outlook by considering the USMCA. The USMCA modernizes the existing NAFTA by adding protections for intellectual property and updating rules on digital trade. The agreement also updates prevailing trade rules related to the agriculture, manufacturing, and automotive industries. While the economic implications for the USMCA should not be overstated, demonstrating the capacity to ratify trade agreements would send a meaningful signal to global trading partners and remove some policy uncertainty from the economic horizon.

The Executive Branch's approach to trade is also uncertain. The tariffs threatened and imposed by the President and related retaliatory actions by U.S. trading partners is irreducibly costly. According to estimates by my colleague, Jackie Varas, the Administration has imposed tariffs costing $69.3 billion on a combined $283.1 billion worth of imports. In response, the EU, China, Russia, Turkey, and India have imposed tariffs on $110 billion of U.S. goods. The Administration has threatened additional tariff actions that could substantially raise costs to U.S. consumers.

Ultimately, the cost of these tariffs must be weighed against the degree to which they are successful in achieving other beneficial trade policy aims. To the extent that the Administration can use tariffs as a negotiating tool that secures more beneficial trade terms, particularly with respect to China's practices, the tariffs could be justified. If the tariffs do not produce an improvement in trading terms, however, they will simply remain a new tax on U.S. households.

Thank you for the opportunity to speak to this important topic, and I look forward to answering your questions.

[The prepared statement of Mr. Gray can be found on page 80 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Gray. I would like to express appreciation on behalf of the committee to all of the witnesses. Thank you very much.

I will now recognize myself for 5 minutes for questions. And without objection, the written statements of all of the witnesses will be made a part of the record.

I am trying to get something straight. The Treasury Secretary has appeared before our committee twice this year, the Full Committee, and at both appearances I focused my questions on the impact of the trade war on our country, but in particular the agricultural component of our economy. And during his first appearance the Secretary, in response to my question, said that the Chinese, "have committed to significant orders in the soybean markets."

So, I go home, and I meet with the Missouri Governor, and a number of farmers, including Mr. Russell. We met with farmers, and I am talking with people who are soybean farmers, and they know nothing about this significant order. And so he said that they are in the markets executing those orders.

Then, he returned. I was a little frustrated but I always try to control my emotions, and so I did explain to him that he answered the question but I had no evidence that what he said was accurate. And so he sent a letter, on May 28th, after the committee had that hearing, and in this letter he highlights that when looking at a snapshot of orders in a band of time, more orders were made. But it overlooks the point of where those orders were executed and whether they provided any real relief to farmers.

I need for at least those of you, the two farmers, to help me understand if you are feeling or seeing or know of any farmers who have been uplifted as a result of the Chinese issuing new purchasing orders?

Mr. Russell or Mr. Boyd, or both of you?

Mr. RUSSELL. Mr. Chairman, I would be happy to address that question. In my particular area, which is your district, we have seen no benefits from that. There maybe had been a little bit of movement within the price of soybeans from the Chicago Board of Trade, based upon rumors. It is my understanding that the Chinese have verbally committed up to 20 million metric tons in purchases. However, the information that the American Soybean Association, through our partner and soy family member, the United States Soybean Export Council, the information that we have is that they only really have imported 6.5 million metric tons, from those commitments.

Chairman CLEAVER. Mr. Boyd?

Mr. BOYD. Mr. Chairman, we haven't seen any results from that, and the farmers, especially the African-American farmers, mostly in the southeastern corridor of the United States and also in your district as well, the Bootheel, we are hurting. We are hurting. We have lost our largest market, which is our soybeans, and like I said earlier, we are selling our soybeans for $8 a bushel. And there is no way that—I have heard some experts say, "Well, why don't you guys just sit it out?" We are not in the financial condition to sit it out, because we have equipment loans, we have mortgages.

And for the first time in a very long time, I don't have a farm operating loan. I am at home planting right now on our grain operation off of credit cards and things of this nature. The top 10 banks, Mr. Chairman, haven't been favorable to African-American farmers. They greet us with a sense of arrogance.

Chairman CLEAVER. I have heard my farmers say—because I had a century farmer at our meeting complain that his son may not be able to carry on and that they are having difficulty borrowing.

Mr. BOYD. Can I say something about that?

Chairman CLEAVER. Sure. Absolutely.

Mr. BOYD. My son, who, for the first time, was involved—our sons, excuse me—were involved in our farming operation, and because of what they experienced after these tariffs, I don't believe I am going to have a son who is going to be interested in farming, because we are selling soybeans at $8 a bushel. It is a hard sell to sell to the next generation of farmers.

Chairman CLEAVER. My time has expired. I now yield to the ranking member of the subcommitte, Mr. Stivers, for 5 minutes.

Mr. STIVERS. Thank you, Mr. Chairman. Again, I want to thank you for holding this hearing. I think it is really important.

My first question is for Mr. Gray. Mr. Gray, many of us are concerned that the House is kind of dragging its feet with consideration of the USMCA, and I am curious if you could talk about the importance of the need for expedited approval so we can reduce some of the uncertainty that was talked about by these colleagues, witnesses.

Mr. GRAY. I would be happy to address that, and I believe my fellow witnesses have also spoken to this.

The uncertainty relating to trade, in general, has a chilling effect on business investment, which is one of the key channels through which we expect to see productivity growth, wage improvement from the Tax Cuts and Jobs Act. That law was structured to improve the incentives to invest. The uncertainty relating to trade policy acts as a counterweight to that policy. So we have sort of two conflicting policy aims here that should be reconciled, in my view.

And so I believe that consideration of the UCMCA—and as I said in my statement, I don't believe that the economic effects of that agreement should be overstated. There is quite a bit to like in there but there are also some downsides as well. And so I would just encourage the Congress to consider that, and also consider it in the context of removing that policy uncertainty.

Mr. STIVERS. Mr. Russell and Mr. Boyd, as farmers, do you want to speak to what you think USMCA would mean to the American farmer, either one of you, or both?

Mr. Russell?

Mr. RUSSELL. Obviously, for American agriculture, and, in particular, soybeans, having a working agreement and adopting the USMCA is extremely important for the American soybean farmers. Mexico is the number two importer of American soybeans, so obviously it is very important. Canada and Mexico represent our two largest trade partners in agriculture products as a whole. And I know that I, personally, and also speaking on behalf of the American Soybean Association, we would certainly encourage the passage of the USMCA.

Mr. STIVERS. Mr. Boyd?

Mr. BOYD. I would like to say this: Farmers want free trade. We want free trade. I would much rather have a good fair market price for my commodity than have anything to do with getting in line, signing up for a program, and do the waiting game and the paper shuffle. Any time those two things are in combination it is always bad for farmers like me. So, any way that this committee could work with the Administration and lean into their ear, and let the Administration know that farmers—I am really not interested in a $16 billion bailout. We need creative ways to open up new markets so that we can get the prices back up, so that I could go on and farm. Because I am what is called a cash-and-carry farmer. I am not storing any grain or my farming operations, and we farm on numerous tracts of land.

Mr. STIVERS. Thank you. And you stated it earlier very well when you said your farm is not a Republican farm or a Democratic farm. It is a farm.

Mr. BOYD. It is a farm.

Mr. STIVERS. And you have to open markets to make money.

Mr. BOYD. Yes, sir.

Mr. STIVERS. I appreciate that, and I hope all of my colleagues will take note of that.

I would like to switch to China and I would like to enter, for the record, a paper that Dr. Bergsten produced in October of 2018, entitled, "China and the United States: Trade Conflict and Systematic Competition."

Chairman CLEAVER. Without objection, it is so ordered.

Mr. STIVERS. Thank you. Dr. Bergsten, I think this paper provides a really insightful context of some of the issues that we are discussing today. In your testimony today you stated that there is widespread agreement that China's trade and industrial policies have to be reformed. How do you think we can convince China to come to the negotiating table and make changes, and are there ways to do that, either without inflicting pain on the United States economy through tariffs or with inflicting as little pain as possible on the United States economy? And I know that I am only giving you 36 seconds.

Mr. BERGSTEN. I appreciate your kind comments on my paper. I think the main thing we need to do to get those needed reforms in China—and they are needed—is to forge an effective, multilateral coalition of all the world's major trading countries, which I think would join us in that effort, to focus on the main issue.

The problem is, the Administration, I think, has correct goals in its effort with China, but its methods have been wrong, and it has compounded that error by waging war against its own allies with the steel tariffs, the aluminum tariffs, and other trade actions, disrupting the World Trade Organization. We need to rally around the traditional U.S. coalition of free-trading countries who want to get rid of barriers, to approach China to do it. China never wants to be isolated internationally.

Mr. STIVERS. Dr. Bergsten, I am out of time.

Mr. BERGSTEN. But we have isolated ourselves internationally, and we need to reverse that.

Mr. STIVERS. Would you be willing to submit, for the record, a fuller explanation? You did a great job, but since I am out of time

I yield back, and if you could give that to us in writing, that was a good start, but thank you for that.

Mr. BERGSTEN. I would be happy to do so.

Mr. STIVERS. Thank you. I yield back.

Chairman CLEAVER. Thank you, Mr. Stivers. The gentlewoman from California, Chairwoman Waters, the Chair of the Full Committee, is now recognized for such time as she may consume.

Chairwoman WATERS. Thank you very much, Mr. Chairman. First, let me welcome all of our witnesses here today, and let me say a special welcome to Mr. Boyd. He has been in this struggle for so many years now. He was at the very first hearing that was ever held about the plight of black farmers, that I conducted as Chair of the Black Caucus, and I want you to know he has been a strong advocate who helped us get rid of discrimination in the USDA. And I want to tell you, I see him here today, but I don't know if he brought his horse and buggy with him, the way he used to do. He used to bring along a parade of farmers advocating for justice, particularly for minority farmers.

Having said that, I understand very thoroughly the negative impact that these tariffs are having on all of our States, but let me tell you, California stands to lose a lot. In terms of sheer volume, California conducts more trade with China than any other State in the country. Total trade with China tops $175 billion. That, along with the flow of China's investment into the State, can seriously impact California's GDP growth and crush its $2.7 trillion economy. I am quoting from an article by Mr. Scott Cohen, who wrote extensively about how the trade war with China could crush California's $2.7 trillion economy and hurt other States.

Having taken a look at what this President is doing—and I am so pleased that I am hearing from this panel and other panels about the fact that the President is creating harm to his so-called base. And some of that base is saying, "We don't want charity. We don't want a bailout. We want to do business," as you have described here, and I think others have described.

But I want to know what the President is doing bailing out plants that are operated by something called JBS. Is anybody familiar with this, what JBS is, the largest meatpacker in the world with a program designed to help domestic companies and producers under economic stress? This is a Brazilian firm.

Would you please respond to that, Mr. Boyd?

Mr. BOYD. Yes. I would like to, and thank you very much for your comments. And that hearing was September 22, 1997. I will never forget that date—

Chairwoman WATERS. Wow. Thank you for reminding me what date it was.

Mr. BOYD. —in my life.

Farmers like myself receive a miniscule amount from the President's relief package. Hopefully, when I was going to receive some $40,000-plus, by the time they do the deductions on the dollar, it is 67 cents per bushel, is what the Administration said each farmer would be able to get per bushel for their losses.

From that, Congresswoman, I actually received a little, believe somewhere around $6,000, and I just received that this month, and I applied way back in the last year.

But to answer your question, companies like that should not be benefitting from America's tax dollars. And you have farmers like myself out here struggling, who can't make ends meet. And the Administration isn't acting swiftly enough to make sure farmers like myself and other small-scale farmers around the country receive their payments as well. And there seems to be no accountability at the Department of Agriculture, and as you heard me express in my testimony, I have reached out to meet with Agriculture Secretary Sonny Perdue. Well, I don't think that was the same gentleman who was lobbying years ago in Georgia. Something has happened there, Congresswoman. But this Administration has turned a deaf ear.

My point is, foreign-owned companies—

Chairwoman WATERS. Brazilian companies—

Mr. BOYD. —should not be benefitting—

Chairwoman WATERS. —this Brazilian company—

Mr. BOYD. —while farmers like me are suffering.

Chairwoman WATERS. —has gotten part of the first bailout money. USDA signed a contract to purchase $22.3 million of that pork from JBS USA, and that is the American arm of this gigantic Brazil-based meat company that owns massive shares of U.S. beef, chicken, and pork markets. And I understand that there is some fraud involved. We are looking at that in my office. And we are hoping to unveil that.

But if I may just say that I wish we could get some money back from him, of the $16 billion that he is getting from USDA. We are not going to be able to do that. And he is going to keep on with this tariff, this trade war that he has created. So you are going to have to get back on the street again. We are going to have to organize again. We are going to have to go up against this President who does not care about the harm that he is causing.

And having said that, the final answer is, we have to get rid of the President. I know the other side of the aisle won't like this, but he is a problem, and he is a problem in more ways than one, and he is hurting the farmers of this country.

I yield back.

Chairman CLEAVER. Hello. Thank you for bringing that up, Madam Chairwoman.

The gentleman from Texas, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman. I might be somewhat of a unique person here today as I am a car dealer and I am a rancher, and we do have elections coming up in 2020, so you can do what you want to do with that.

President Trump has made renegotiating NAFTA one of the top priorities in his office. His Administration has come up with a new free trade agreement, which we have been talking about, with our two most reliable trade partners, Mexico and Canada, called USMCA. After reviewing the specifics of the deal it seems as if he has done a really good job of negotiating for the American people.

Of all the partisan issues that we deal with on Capitol Hill, I am hopeful this trade agreement will be something that my colleagues on both sides of the aisle can rally behind to show the American people that we can still get important things accomplished in these polarized times.

And I would like to say to you, Mr. Russell and Mr. Boyd, I want to thank you for expressing to us the importance of Congress acting on this deal and I appreciate your support of it. That is a big deal to have that happen.

The Tax Cuts and Jobs Act is working. Businesses are spending more money on inventories, employment, and capital goods that are revitalizing Main Street America. Capitalism is working and it is showing it more than ever, and we need to continue this momentum.

Mr. Gray, my first question to you is, are you a capitalist or are you a socialist?

Mr. GRAY. I am a capitalist.

Mr. WILLIAMS. Thank you. We seem to be winning that battle. Thank you very much.

In your testimony, you expressed a similar sentiment on the benefits the tax bill is having on the economy. However, you also state that major forecasters predict that the U.S. economy will slow over the next few years. But this is not inevitable. Sound pro-growth policy can meaningfully improve the economic outlook.

My question is, what pro-growth policy would you recommend we focus on in this committee so we can assure that there is no economic slowdown in the next several years?

Mr. GRAY. I think one of the key decisions that the Congress can consider is, first, do no harm, and that includes the very hard work of removing some risks from the economic outlook. Those risks include long-understood risks. We know that the society is aging, and so we can't count on a growing labor force. That means that we have to really think about and focus on sort of the other half of the long-term economic growth equation, and that is productivity, and that is where public policy can really matter. That is where business investment can really matter. That is where sound tax policy can really matter. That is why introducing more certainty in the trade outlook can matter. That is also why removing the risk of a future fiscal crisis can really matter.

I would encourage the Congress to turn to the structural challenges that we have long understood and try to remove some of those risks.

Mr. WILLIAMS. Thank you. I am not a fan of tariffs—I will tell you that right now—and I have spoken with the White House about our differences on this issue. As a small business owner, I have seen how tariffs turn into indirect taxes on consumers and increase the cost of doing business.

With that being said, many countries around the world levy tariffs on our exports so we import goods with far fewer restrictions. A study from the World Economic Forum states that the average tariff the U.S. faces in foreign markets is 5.9 percent, which is 4 times higher than the average tariffs imposed on goods coming into our country.

Now, I know these numbers have changed somewhat because of the Administration's trade actions, but it leaves me with a question. Ms. Baughman, what tools are at our disposal to ensure that other countries are treating United States exports fairly, other than retaliatory tariffs?

Ms. BAUGHMAN. We have a host of trade remedies in this country that address unfair import competition—anti-dumping rules, countervailing duty rules, Section 201 rules. We have lots of ways to address unfairness in foreign markets.

With respect to our exports and retaliation against our exports, the best thing we can do is adhere to our WTO commitments and not do things that trigger retaliation, if I am understanding your question correctly.

Mr. WILLIAMS. We want to be on a fair playing field. My question is, what would you do?

Ms. BAUGHMAN. To get a fair playing field with China, for example?

Mr. WILLIAMS. What would you do that would help the U.S. exports be fairly treated, other than tariffs?

Ms. BAUGHMAN. Oh. Trade agreements, number one. Number one, two, and three. Negotiate good, strong trade agreements, bilateral, regional, and multilateral through the WTO. Strengthen the rules of the WTO to apply to more trade practices, including some of the trade practices that issue in China. Strengthen those rules and make them enforceable in some way. There are a number of things that we can do in that regard.

Mr. WILLIAMS. Okay. Thank you. My time is up. Tax cuts work.

Chairman CLEAVER. The gentleman from Colorado, Mr. Perlmutter, is recognized for 5 minutes.

Mr. PERLMUTTER. I thank the chairman and I thank the panel for its testimony today. My friend, Mr. Williams, and I disagree on the tax cuts and the benefits to everyday Americans, and the fact that this year we are going to have a $896 billion deficit because of those tax cuts that cost us a couple trillion dollars.

But I don't want to talk about that. I want to talk about tariffs, and I want to talk about the corrupting effect these tariffs have on capitalism. And so, Dr. Bergsten, I was interested in your testimony. I feel like we have an imperial presidency. These tariffs that the President—one day we are going to raise tariffs on China and the next day we are going to lower them, and the next day we are going to raise them. The stock market goes up and down and up and down. And if we can find some insider trading based on that, it is going to be interesting.

But you were talking about the fact—you know, this is the National Security Subcommittee, and the President is using national security to raise and lower and raise and lower and jawboning on the tariffs. Talk to me a little bit about how you think the Congress should be involved in establishing any kind of protectionism that these tariffs might introduce into the system.

Mr. BERGSTEN. I think there are at least two things the Congress should do. One is to define national security much more sharply than is the case in current statute. The phrase, "national security", is used broadly in the Trade Expansion Act, and it is used broadly in the International Emergency Economic Powers Act. Internationally, it is used very broadly in the World Trade Organization. And it provides a gigantic loophole for anybody who wants to abuse the concept, as I would argue the President is now doing. So, point one.

Mr. PERLMUTTER. I would say when we challenge Canada, and we claim we need to raise tariffs on Canada, one of our best friends, if not our best friend in the world, in the name of national security, is ridiculous. And that is what I am talking about, an imperial presidency, that there are checks and balances and responsibilities, and this President has run amok in the name of national security.

So, your second point?

Mr. BERGSTEN. Just to amplify what you say, to think about doing it for autos against NATO allies like Germany and France and the UK and others would be equally ludicrous. But that has also been put on the table and still is out there and could happen. So, that is point one.

Point two, as I emphasized in my statement, is to require that any future tariff increases be approved by the Congress.

Mr. PERLMUTTER. Thank you very much, and I agree with that. And I want to say to Mr. Russell, Mr. Boyd, and to you, you all are free traders, and, let's talk about capitalism, talk about free trade. Let's win because of competition and the ability to be a good farmer, or a good salesman, or produce a good product.

Ms. Baughman, I want to turn my attention to you. In my district, just outside of Denver, we have a major can company. I have lots of craft breweries. I have Coors Brewing. I have the outdoors industry. So when the President says we are winning on these tariffs, how would you respond to that?

Ms. BAUGHMAN. Well, we are definitely not. Those companies that you have mentioned are all facing, or are about to face, in the Outdoor Industry Association, huge increases in their costs. They are becoming less productive, less competitive in producing goods here in the United States because their inputs to production have gone up in price. Consumers and families in your districts are going to start screaming pretty soon if the tariffs go into effect on all of those products on List 4, many of which are produced by the Outdoor Industry Association and others, members of that association.

So, yes, we are going to start seeing, in the next year or so, if not by this fall, some substantial increases in inflation, and reductions. We are already starting now to see reductions in manufacturing indexes.

Mr. PERLMUTTER. Thank you. I guess just to conclude my tirade up here, Dr. Bergsten, you wanted to say something?

Mr. BERGSTEN. Just to add, some Americans do win from the tariffs. They do protect some jobs and some firms, but at an enormous price. The steel tariffs save about 12,000 U.S. Steel jobs at a cost of almost $1 million per job.

Mr. PERLMUTTER. And the aluminum tariffs hurt my district substantially, because of the craft brewers and the canning companies that I have.

And with that I yield back to the Chair.

Chairman CLEAVER. Thank you, Mr. Perlmutter. The gentleman from Arkansas, Mr. Hill, is now recognized for 5 minutes.

Mr. HILL. I thank the chairman, and thank the panel for being here, and I want to echo my thanks to Mr. Russell and Mr. Boyd for talking about USMCA and the importance of getting that agreement through the Congress promptly. In fact, I think that would be a much better use of our time today, is for our panelists to all be over in the Capitol advocating for that, in Mrs. Pelosi's office. I am pleased that she has continued her due diligence on this, but this is the single most important thing I think we can do for employment, sales in our agriculture industry and in America, in the near term, is get USMCA through the Congress successfully.

I share Dr. Bergsten's concerns about across-the-board use of tariffs as a weapon and not a distinct targeted approach. I certainly share that I have written the President many times about Section 232 as not well used in this instance. I agree with my friend from Colorado that applying it to Canada and Mexico might be a good short-term negotiating tactic but it is certainly not in keeping with the intent of the Act on national security purposes.

And we do have other ways to deal with dumping, in terms of—if we think China, which is the largest dumper of steel and aluminum in the world, and impacting the EU and the United States, and Canada, for that matter, then we ought to put those penalties on China as a part of our negotiation and not do it as we have done it across the board.

I will say, though, that all Presidents deal in trying to protect American industry. Every Administration does that, and I think we are here today because the majority control of this panel, they don't support this President, so we are picking on Donald Trump's trade policy. But we could have—I think the Democratic House did the same thing during the Reagan Administration, and I am sure the Republican House did the same thing in the Clinton Administration. So, let's be clear that this is, for the most part, a lot about politics.

On soybeans in Arkansas, we are obviously not in the top 10 producers but we produce a lot of soybeans. A third of my career was lending money to people like Mr. Russell and Mr. Boyd in agriculture, and I know what a bad 3 years it has been. But I also recall that when I started that lending, soybeans were $5 a bushel in 1999, and we always joked that a pack of cigarettes cost more than a bushel of soybeans then, but somehow we made it through those very, very low prices in 1999 and 2000, and yields are certainly somewhat improved over that period.

My question, Mr. Gray, is this macro impact of tariffs. People are projecting forward and using the most pessimistic case about it. But in my review of the economic literature, it looks like two-tenths to three-tenths of GDP growth is what is being projected as the most GDP impact of fully implemented tariffs that are contemplated with China. Do you agree with something in that range?

Mr. GRAY. That is broadly consistent with some of the estimates I have seen, but there is certainly a range.

Mr. HILL. There is, and I just want to be on the record that it could potentially be a fairly modest GDP hit if fully implemented. I am not supportive of it. I am just simply describing that not everybody agrees that it is a major, major downturn in American business.

I am more concerned about the inflationary aspect of it, if it were fully implemented, when we go from intermediate goods, where I think producers are eating a lot of that cost currently, versus directly on consumer goods. Do you share my concern about inflation impacts?

Mr. GRAY. Certainly to the extent that that translates into general welfare loss, and that is one of the more pernicious aspects. It is a risk.

Mr. HILL. And this is why I think it is also bizarre how people are suggesting that the Federal Reserve and monetary policy is supposed to have something to do with trade. I would submit that if it doesn't have major macro-economic growth factors and yet it is inflationary, then the Fed ought to be concerned about raising rates, not cutting rates. What is your view on that, Mr. Gray?

Mr. GRAY. My own view is that the Federal Reserve has their dual mandate and I think they are charged with exercising that mandate with respect to sort of the circumstances in front of them.

Mr. HILL. I thank you for that. This is a complex area. I think we need to be targeting our work and focus on China and get results from that. I know on behalf of the agriculture community, we want a prompt success to that negotiation with China, to benefit America and the EU in Japan. But the most important thing we can do is get the USMCA promptly approved in the Congress.

Thank you. I yield back.

Chairman CLEAVER. The gentlewoman from Virginia, Ms. Wexton, is now recognized for 5 minutes.

Ms. WEXTON. Thank you, Mr. Chairman, and thank you to the witnesses for appearing before us today and providing this interesting testimony.

I represent a very economically diverse district in northern Virginia. Mr. Boyd, I am proud to have you here as a fellow Virginian, and while you are down all the way on the south side, I represent the northernmost part of Virginia, from just outside of Washington, D.C., out to the Shenandoah Valley. And so it is very economically diverse. It includes a vibrant tech sector in the eastern part of the district through to, as it becomes more and more rural, we have wineries, distilleries, and a whole lot of apple growers out in Frederick County. But one thing that is happening is that the impacts of the tariffs are being felt across economic sectors, even in places where you wouldn't expect it.

Just yesterday, in fact, I received an email from a constituent, which I want to read to you,—"HELP!!!—in all caps with 3 exclamation points—We own a small, local, large-format printing business, based in Sterling.—in my district—"We are getting swamped by increases from our vendors since many of our products use hardware made from aluminum, often from China, i.e., banner stands. The Chinese trade war is bad for our business. Today, I just received notice from my largest hardware vendor that pricing on our most popular banner stand base jumped 26 percent. I will have to pass this along to customers but I can see that this may reduce demand for many of our products. This could be super painful. It is already difficult enough to run a small business."

These are the things that we are hearing every day from producers, from agricultural producers to small businesses to high-tech businesses. And a couple of questions that I have for some of the panelists, a recent report from the Peterson Institute shows that while China is raising tariffs on U.S. imports, they are actually lowering tariffs on other nations that compete with the U.S., and they are trying to limit their economic damage in that way.

I would ask Ms. Baughman and Dr. Bergsten, can you elaborate on what we can expect to see, in terms of long-term consequences, changing the supply chains, and are other countries taking them up on this and filling the void left by the lack of American imports?

Mr. BERGSTEN. On that specific analysis, you are absolutely right. The U.S. has hit itself doubly with the trade war. It has prompted retaliation against the U.S., like the high China tariffs that we are all talking about, but it has also prompted other countries to liberalize to their trading partners other than the United States.

As you said, China actually—many people don't realize this—reduces its barriers, its import tariffs across-the-board in autos and many other sectors, except to the United States because of the trade war. Now, the average Chinese tariff against the United States is 20, and the average tariff against the rest of the world is 6. That is against a base of 8, where they started—8 to 20 against us, 8 down to 6 against everybody else. So, that is a double whammy.

In addition, lots of other countries have been forming free trade agreements among themselves. President Trump erroneously dropped out of the Trans-Pacific Partnership, which would have been a huge boon to U.S. agriculture. But it didn't stop the Trans-Pacific Partnership. It went ahead without us. So the other countries, who represent a third of the world economy, are now giving each other duty-free treatment into each other's markets while maintaining their barriers against us. So, we now are discriminated against in the markets of other countries because of our own trade policy. It is exactly what you say, in spades.

Ms. WEXTON. Thank you. I am going to reclaim my time at this point because I am running out.

Also, in my district, the tech industry supports more than 100,000 jobs. Mexico is the number one export market for our U.S. consumer technology sector. The industry estimates that it has lost about $1 billion per month since October. If the plan to impose tariffs on Mexico goes forward, what should we expect to see in this consumer technology sector, and what do you think will happen? Ms. Baughman, do you have an estimate of that?

Ms. BAUGHMAN. People are terrified about that. A lot of the folks who have been moving out of China in response to the tariffs on China have been moving to Mexico, among other countries, but Mexico, of course, is at the top of their list because of the potential for USMCA. So, they will get slammed pretty badly, and they are very, very concerned about it.

Ms. WEXTON. Okay. Thank you very much. I will yield back my time at this point.

Chairman CLEAVER. The gentlewoman yields back. The gentleman from Ohio, Mr. Gonzalez, is now recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Mr. Chairman. And thank you, everybody, for being here. My questions will be fairly quick. I want to focus on USMCA and how critical its consideration is for my home State of Ohio and the rest of our country.

Ohio exports rely on trade with Canada and Mexico. They are 2 of our largest markets, with $28 billion exported to these two countries from our State last year. Canada and Mexico buy more U.S.-made goods than the United States' next 11 trading partners combined. To me,this is a no-brainer. We should be acting swiftly to kick-start the TPA process and begin consideration of USMCA. The USITC report came back, and it said, I believe, over a quarter of a percent in GDP, over 170,000 jobs added to the economy will lift all boats, in particular, manufacturing and agriculture.

I have yet to hear a single argument, not one, anywhere, from my colleagues on the other side of the aisle, as to why they would not be willing to support this and why they do not want to see it on the House Floor. I would love to hear somebody argue that. I have heard a lot about how we don't like President Trump from the other side. I understand that. But I have not heard any economic case whatsoever that we shouldn't be considering USMCA. It is a no-brainer and I would love to hear somebody make that case.

Let me ask a quick question to everybody on the panel. Yes or no, is USMCA an improvement of NAFTA? I'll start with Mr. Gray.

Mr. GRAY. I think all in on that incrementally. That would be my judgement.

Mr. RUSSELL. I would say yes, especially for the agriculture sector, yes.

Mr. GONZALEZ OF OHIO. Mr. Boyd?

Mr. BOYD. I don't think so.

Mr. GONZALEZ OF OHIO. You don't think so?

Mr. BOYD. I think it is a very modest improvement but it should be voted, because the alternative could be a withdrawal from USMCA, and, therefore, it should go ahead.

Mr. GONZALEZ OF OHIO. Thank you.

Ms. BAUGHMAN. Yes, because it really updates NAFTA in very significant ways.

Mr. GONZALEZ OF OHIO. Thank you very much.

And sort of a second point, obviously it has been a brutal year for farmers, absolutely brutal. In Ohio, we have had horrible weather, as you highlighted earlier, and the tariffs have hurt our farmers, absolutely. No argument from me on that. It is my belief—again, back to USMCA—this makes us stronger in the negotiation against China. This gives certainty to our markets.

Mr. Gray, would you agree with that assessment?

Mr. GRAY. Yes. I think in substance and in the overall, in terms of processes, it is worthwhile.

Mr. GONZALEZ OF OHIO. Thank you. And in closing, I want to go back to where I started. Somebody please, on the other side of the aisle, make the argument against USMCA. This won't cost us a thing to vote on this bill. It is a massively important trade deal. Everybody on the panel, with the exception of Mr. Boyd, has suggested that it is a good idea that we go forward with it. I haven't met a single person in my district who is against the USMCA—Republican, Democrat, Independent. This is good for business. This is great for American jobs. It is great for manufacturing. It is great for agriculture.

And I yield back.

Chairman CLEAVER. The gentleman yields back. Just for the record, I don't know of anybody who has made a statement that they are opposed to the USMCA. So, just for the record.

The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. Let me ask three of our witnesses to focus on economic and trade issues, but I will also ask the whole panel.

Raise your hand if you were actively working against NAFTA back in the 1990s? I see no hands going up. And raise your hand if you were actively opposing permanent MFN for China, back roughly around the year 2000? No hands go up.

If I lead an unworthy life and the Almighty decides to send me somewhere where I would pay for my sins, I will be sent to a place where I am surrounded by Wall Street Democrats and Wall Street Republicans, and told that both sides are represented. I will use my 5 minutes here not in defense of Donald Trump but in defense of the traditional Democratic view.

Democrats voted no on NAFTA, CAFTA, and SHAFTA. Democrats, by two-thirds, voted no on MFN for China, and yet we have a panel where we don't have anybody who took those positions. Someone has to speak for the traditional Democratic view, and that is that trade deficits matter, that every billion dollars of trade deficit is another 10,000 jobs lost, and that while our unemployment rate is low, if we don't two or three more million jobs we will not create the labor shortage necessary to see the increase in wages that the working class of this country has been denied for the last 2 decades. Unless we can raise real wages by 10, 20, or 30 percent, we will not redeem what has been over 2 lost decades.

People say, "How can you oppose USMCA?" It is obvious the country has some questions or they would call it what it is. If you support it, be honest enough to say it is NAFTA 2.0.

And so the question is, do we want NAFTA 2.0? Well, if the choice is between NAFTA 2.0 and NAFTA 1.0, we can lay the two agreements next to each other. They are incredibly similar. We will notice a few changes and we can decide. But if the choice is whether to pull out of NAFTA altogether or to go with NAFTA 2.0, that is a very complicated issue, especially when, over the objections of the Democratic Party in this House, we have knitted together these three economies in a way that would be difficult to respond to.

I Chair the Asia Subcommittee. Trump didn't start the trade war. China started the trade war 20 years ago, and the wreckage of America exceeds anything done to us at Pearl Harbor. And yet, for 20 years, we did nothing. For 20 years, we were told tariffs are bad, so we will go through legal processes and trade dumping disputes. How has that worked out for us? We have the largest trade deficit in the history of a million life on this planet and we keep saying, let's go back to giant trade deficits. Let's go back to just checking the boxes and not looking at the non-tariff barriers that China is able to put up. Let's just say, well, if we can just get them to reduce their tariffs—that is not a market economy. That is an economy where any major corporation that imports any major American product in contravention of the policies of the Communist Party of China will be sent to a re-education camp. They know that, and that is why they don't buy American planes, unless we move the plane factories. That is why you can't make something in the United States and sell it in China, until they force you to make it in China and then transfer the technology. And we are told, "Let's go back to the good old days." Those days were so bad that they elected Donald Trump as a scream of pain from western Pennsylvania, from Michigan, and from Wisconsin, and that pain has not been forgotten.

If the Democratic Party abandons the Democratic Party, we will get, in 2020, what we got in 2016.

I yield back.

Chairman CLEAVER. The gentleman does not yield back. Oh, the gentleman is out of time.

Mr. SHERMAN. The gentleman is out of time.

Chairman CLEAVER. Thank you. The gentleman from Tennessee, Mr. Rose, is recognized for 5 minutes.

Mr. ROSE. Thank you, Chairman Cleaver. In simple terms, economic growth is a function of an increase in the number of hours worked times an increase in labor productivity of those hours. It follows, then, that in order to increase economic output the focus should be on increasing the amount of hours worked and the productivity of those hours. Allowing capital to flow where it is most productive should enable these two things to occur.

Mr. Gray, can you talk a little bit about how the Tax Cut and Jobs Act has helped increase labor productivity in our country?

Mr. GRAY. Certainly. I would be delighted. In particular, the business portions of the Tax Cuts and Jobs Act, the reduction in the statutory rate, the 5-year expensing provision were designed to improve the incentive to invest in the United States. That was to reverse what the previous Administration's Economic Report to the President noted as a problem in terms of productivity, which was the slowing of capital deepening, essentially the accumulation of capital for workers, which is central to productivity growth.

That was what the business elements of the Tax Cuts and Jobs Act was designed to incentivize. The evidence is that there has been an investment response. However, there are some other risks in the economy that have possibly muted that, and that is something that we are going to want to keep our eye on.

Mr. ROSE. And what about on the employment side?

Mr. GRAY. I think we have observed, particularly for this late stage in the recovery—we are about to hit the 10-year anniversary—we saw an acceleration in payroll growth. We saw the labor market draw in workers who were not in the labor force for the balance of the Great Recession. That was remarkable, particularly in the 10th year of the recovery, to see the pace of employment growth actually accelerate. I think these are important accomplishments for the economy.

Mr. ROSE. Thank you. We have a record-low unemployment rate in this country. Unemployment incredibly low at 3.6 percent, the lowest rate in my lifetime, and for those of you who can see me, that has been quite a while. So I applaud the President and I applaud the initiative of the prior Congress for helping to extend and expand the current expansion.

In my home State of Tennessee, we have an incredibly low unemployment rate, historically low there as well, of 3.2 percent, and I might add record low unemployment for minorities and for women and for other typically or historically disadvantaged groups. So, the great fruits of the economic policies that President Trump and his Administration and the prior Congress put in place.

But as a country, we can and must improve our labor participation rate. The most recent numbers from the Bureau of Labor and Statistics have the labor force participation rate at 62.8 percent. There are still a lot of potential workers sitting on the sidelines, not actively seeking employment. Can you talk, Mr. Gray, a little bit about how the TCJA will help facilitate getting people off the sidelines and back in the game?

Mr. GRAY. I think you have kind of two primary channels that we can sort of identify. One is just specific provisions. The CBO mentioned this in their recent baseline, which is that the reductions in labor taxes, all else being equal, incentivize the supply of labor, so people will tend to work more than they otherwise would, given the reduction in labor taxes. So, that is one element.

The second is to the extent that the TCJA improves the economy, then that improving economic environment will draw workers into the labor force as they see wages grow. That incentivizes them to work as well.

Mr. ROSE. Thank you. While some of my colleagues on the other side of the aisle may wish to denigrate the tax reform passed into law last year, I do think it is in all Americans' interest to be supportive of policies that help increase the amount of workers and the productivity of their work. That is where capital should flow, to the places it can be most productive. We should avoid picking winners and losers here in Washington, and, after all, we don't have to because a rising tide truly does lift all boats.

A simpler Tax Code and lower effective rates will help American businesses compete on merits, and I believe American workers. Small business owners and shareholders under these new conditions are only poised to succeed.

And with that, I yield back.

Chairman CLEAVER. The gentleman yields back.

You know, this partisan polarization grows almost without bounds, so I don't think we need to fight any fights that don't exist. So I want to enter into the record, without objection, where the Trade Representative is saying, "We won't rush the USMCA in Congress.", And I will repeat again, I don't know of anybody trying to fight against it from here. And this is today, June 19, 2019, at 11:13 Eastern Standard Time. So, I would like to enter this into the record. And without objection, it is so ordered.

I now recognize the gentleman from Illinois, Mr. Garcia, for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Mr. Chairman, and I would like to thank all of the witnesses who have testified this morning. I would like to begin with Dr. Bergsten. In an online Peterson Institute post on March 11th of this year, entitled, "A Courtesy Deal With China?" you stated that, "Trump has long been upset about the U.S. bilateral trade deficit with China, which actually rose to a record $419 billion in 2018, despite his imposing tariffs of $250 billion worth of imports from China."

According to economist Robert Scott, the IMF predicts that the U.S. current account deficit will nearly double between 2016 and 2022. Scott writes that, "Unless these trends are offset by a rapid decline in the value of the U.S. dollar, rapidly rising trade deficits could be devastating for U.S. manufacturing, likely giving rise to massive job loss on the scale experienced in the 2000–2007 period, when 3.5 million U.S. manufacturing jobs were lost."

In March, President Trump said, "I want a strong dollar but I want a dollar that does great for our country, not a dollar that is too strong to make it prohibitive for us to do business with other nations."

Dr. Bergsten, can you talk about the impact of a strong dollar on this trade deficit?

Mr. BERGSTEN. That is a crucial point, Congressman Garcia, because the single most important price for U.S. international competitiveness is the exchange rate of the dollar, because that is what prices all of our products, in both export markets and import competing markets, vis-a-vis the competition in the rest of the world.

By most people's estimates, including those at the Peterson Institute but also the IMF, the dollar is now overvalued by probably 10 to 15 percent, and that does translate into a much larger U.S. trade deficit than if the dollar was not overvalued.

I have always been in favor of a competitive dollar. Secretaries of the Treasury have talked over the years about a strong dollar without ever defining it, but it implies a dollar that maybe responds primarily to financial flows, capital movements, and does not accurately reflect the underlying competitive position of the United States and other countries.

But the trick is how to achieve an equilibrium exchange rate for the dollar. Over the years, we have done it in different ways. In the Reagan Administration, Secretary of the Treasury Jim Baker negotiated the Plaza Agreement with our major trading partners who cooperatively agreed to bring down an overvalued dollar, cut the U.S. trade deficit at the time in half. We saw an equilibrium.

Now the situation is very tricky, because, as various Members, particularly on the Republican side have said today, the U.S. economy is very strong, and that attracts capital from around the world. It strengthens our investment, and that is a good thing. But is also pushes up the exchange rate of the dollar.

In the current environment, when we have full employment, when we have rapid growth, when we have a strong economy, it is hard to argue, as Scott does, that we need a better trade balance or a weaker dollar. At the same time, he is right that over time, if the dollar remained overvalued, it would weaken our manufacturing sector and other tradable goods industries, including, incidentally, agriculture.

So what the Administration should be doing is trying to work toward a gradually depreciating dollar that will reduce the U.S. trade deficit over time without disrupting the world economy and adding more uncertainty to the current situation which, because of the trade war, is already very uncertain.

Mr. GARCIA OF ILLINOIS. So, "gradual" is the key word there, I believe.

And finally, before my time runs out, how might tariffs further impact the strengths of the dollar, and what policy proposals are you aware of that might correct the strong dollar's impact on our trade deficit?

Mr. BERGSTEN. The tariffs have a paradoxical effect. The tariffs aim to reduce U.S. imports, and they do, and that would strengthen our trade balance, but that would lead to a stronger dollar in the exchange markets. And, in fact, empirical studies show that countries that put on lots of trade barriers do not—repeat, do not—improve their trade balances, in part, because there is an offsetting effect in the exchange markets.

So anybody, including the current Administration, who thinks that tariffs strengthen the trade balance are simply incorrect, both theoretically and empirically.

Now, what to do about it. It's a big problem, and I mentioned it in that article—

Chairman CLEAVER. The gentleman's time has expired.

Mr. BERGSTEN. —that other countries have manipulated the currency. The answer to that, frankly, is for us to counter it directly. I have supported, for many years, countervailing currency intervention. If China buys a billion dollars' worth of dollars to keep our currency overvalued, we buy a billion dollar of their currency—

Chairman CLEAVER. The gentleman's time has expired.

Mr. BERGSTEN. —to offset it, neutralize its impact on the currency markets, and believe me, if we commit to do that, they won't do it—

Chairman CLEAVER. Thank you very much.

Mr. BERGSTEN. —the manipulation will disappear, and that part of the dollar overvaluation will be avoided.

Mr. GARCIA OF ILLINOIS. Thank you.

Chairman CLEAVER. I now recognize the gentleman from Virginia, Mr. Riggleman, for 5 minutes.

Mr. RIGGLEMAN. Thank you very much, Mr. Chairman. I appreciate it. And Mr. Boyd, I am happy to be your Congressman. I love Mecklenburg County, yes, sir, and I don't think people realize the size of our district, before I get started. We go from Fauquier County down to the North Carolina border, and if you talk about Mecklenburg County, it actually borders four counties and North Carolina, so it is huge.

Number two, I almost laughed when somebody said "NAFTA 2.0", because Mr. Boyd knows if we say "NAFTA" down in South Hill, or we say "NAFTA" in Lunenburg County, or we say "NAFTA" in Pennsylvania County or Halifax County, or Franklin County, or Bedford County, or Campbell County, you will get run out of town. That is why I don't want to call it "NAFTA 2.0", and you know that, sir. So, I am glad you are here.

I also have my aide here, and he is going to give you a card, so if you have any issues getting a meeting with anybody in the Administration or with me, I will go ahead and we will try to make that happen, and I will come see you on your farm. How does that sound?

As we get started, I find it a little bit interesting because I know a little bit about farming in the Fifth District of Virginia. After I was a CEO of a DoD company, as a lot of people, know I ran a distillery. So, I deal with wheat, corn, barley, rye. We deal with everything you could possibly imagine when it comes to agricultural produce, spent mash. So, I have a little bit of an interest in that, and plus I grow some of that on my own farm.

I think the second thing that we have is that when I looked at the comparison between NAFTA and USMCA, and I looked at what it would create, I think it is pretty spectacular. And for me, when you look at Southside, and I think where me and Mr. Boyd probably are of like minds, we talk about a 3.6 percent sort of unemployment rate in the United States.

The Fifth District is around 3 percent, but there is actually a 2 to 2.5 percent delta between the northern part of my district and the southern part of my district. Last year, there was 2.4 percent unemployment in Fauquier County, which you know is 4 hours from you, and down around—you are talking about Danville and Brunswick County, it was as high as 4.7 to 5.2 percent. So, there is a huge delta. Why? Because we have had problems with agriculture.

The reason the USMCA is so important to me—and I want to go into something that I know a little bit about—number one, here just are some of the USITC's stats on this. USMCA would raise the US real GDP by $68 billion, would create approximately 176,000 new jobs, directly related to 12 million jobs in the United States, it would increase exports to Canada and Mexico by $33.3 billion, and it would actually increase total U.S. agriculture and food exports by $2.2 billion. And in Denver, why is that so darn important? It is because my district is 65 percent rural—65 percent. And, by the way, it is over 10,000 square miles.

Some of the other issues—I had questions written out, and as you can see, I am not looking at my questions too much right now because I know a little bit about this. And that is why I think right now, when we talk about this, the same questions that everybody asks, they were going to ask you, I was going to ask you—how do we level the playing field against China, and how do we continue the economic boom that we have experienced over the last 2½ years? Well, that is fantastic. It is fantastic for the first part of my district. For the bottom part of my district, it is not so fantastic. There isn't an economic boom. And that is why the USMCA is so important to the Fifth District.

I usually like to ask a lot of questions, as people know, and I try to take a lot of time. But there is one thing I want to talk about, and that is why I am so happy everybody is here. We have talked about soybeans, which are big in my district, right? We have talked about all kinds of issues. But in my district, do you know what the big three are? Not soybeans, not corn, not wheat, not rye. The big three are timber—believe it or not—dairy, and tobacco. So, that is my issue.

Let's talk about dairy and what the USMCA does for dairy. Fluid milk—50,000 metric tons by year 6 of the agreement. And some of the other things, and I want to skip the 47 things I have here, but there is something that is very, very important to my dairy farmers and the USMCA and everything that we are talking about, and it is actually Class 6 and Class 7, when you are talking about the amount of milk and processed milk that we can actually bring into Canada.

My question here is this, and it is probably a pretty simple one. I don't want the perfect to be the enemy of the good, and if we are looking at farmers in my district, not only do we have to deal with China as soon as possible, we have to get the USMCA passed. And a lot of that comes from me not being in politics very long. See, I see the rising prices. And also, when you talk about tariffs, you talk about steel and aluminum, I have to get aluminum totes.

So, really, I don't even want to ask you yes or no, because you have already answered the question, but if anybody wants any of this last 30 seconds of their time to talk about the importance of USMCA or the perfect for the good, I would like to hear it. And if not, I am the last. As you can tell, I am probably the last. Am I the last one? Is Cindy the last one? Am I the last one?

I just wanted to end easy for you all. I want the USMCA. I want it to pass. I think you guys—Mr. Boyd, I am going to be in touch with you and we will make sure it happens, whatever you need, because I represent you.

Thank you, sir, and I yield back the whole 4 seconds of my time, Mr. Chairman.

Chairman CLEAVER. The gentleman yields back. The gentlewoman from Iowa, Mrs. Axne, is recognized for 5 minutes.

Mrs. AXNE. Thank you, Mr. Chairman, for saving the best for last, I appreciate that, and I thank the witnesses for being here, and a special thank you to Mr. Boyd and Mr. Russell. I am Cindy Axne from Iowa's Third District, the flooded area, which is, of course, filled with agriculture and farming, and I know how difficult this is for all of you right now.

I appreciate everything you are doing for our country and what you do to feed the world, and I appreciate all the hard work. I come from 5 generations of Iowans. My mom grew up on a farm in my district. I know how hard it is to stay viable in these circumstances, so thank you.

But I did want to talk today about tariffs and the impact on America's pocketbook. As you know, the President has repeatedly said China is paying for these tariffs, and I questioned Secretary Mnuchin here last month, and he seemed to agree with that.

Mr. Bergsten, in your expertise, what research or theory could the Secretary or the President be referring to, to support these claims, because I am at a loss and I would like to hear from an expert?

Mr. BERGSTEN. There is no theory that says that China can pay the tariffs. One does have to make a distinction how you break down the payments of the tariff. In the first instance they are clearly paid by the importer, the American importer. It is he or she who pays the tariff into the Treasury that the President keeps talking about. That clearly comes 100 percent from the American importer.

The economic analysis then says, how does that change in the price of the product get disaggregated among the buyers and the sellers? Most of the theories suggest, and most of the empirical work suggests that the great bulk of the increased tariff is paid by the consumers of the product. It will go through several intermediate stages. It may be a direct consumer product, but most of it is paid by the consumer.

That higher price reduces demand for the product, so the exporter in China, or wherever, may, down the road, have to take a somewhat lower price for his or her product, and may, therefore, in that indirect sense, pay some of the cost.

Mrs. AXNE. Okay.

Mr. BERGSTEN. The great bulk comes on the import side and the consumer side.

Mrs. AXNE. I appreciate that. But what you are saying is that what we are experiencing right now is that the expectation is that the tariffs are passed on through additional expenses to the consumer for the price of goods.

Mr. BERGSTEN. Either higher prices for the consumer or reduction in the profits of the importer, the retailer, somebody on the import side, right.

Mrs. AXNE. Thank you. And then I asked the Secretary about the impact of tariffs on consumers and he told me that he didn't believe American consumers would pay a significant price. I would like to ask you, Ms. Baughman, and Dr. Bergsten, both of your groups have estimated the impact of these tariffs on American consumers, is that correct?

Ms. Baughman, you said the cost to the average family of 4 was around $750, is that correct?

Ms. BAUGHMAN. Yes, $767.

Mrs. AXNE. $767? I personally think that that is a significant price for people in my district, and for Iowans to pay.

I was then told by Secretary Mnuchin that his research about the cost consisted of speaking to executives of major companies, and I find that to be completely insufficient. So I sent him a letter to follow up and asked his Department if they had done any analysis on the actual cost, the impact on the existing tariffs on consumers. And although the deadline for this response was now 12 days ago, we have not received an answer, so I will be sending a letter today to follow up.

Since your group has modeled this, my question is, do you believe the Treasury Department actually conducted analysis focused on the impact of American consumers before imposing these tariffs?

Ms. BAUGHMAN. No, I do not think that they looked at that. Two-thirds of the products that are on List 1, 2, and 3, when imported from China, those are things used to make things here in the United States—raw material, parts, components. So, not a lot of consumer goods. So, you are not going to actually see too much impact on the price of something that you buy at Walmart from Lists 1, 2, and 3. List 4, which is pending right now, three-quarters of that is consumer goods. You are going to see it when the 25 percent tariffs get put onto those goods.

We took a look, for the National Retail Federation, at what the impact would be on apparel, footwear, household appliances, and toys, and in every single case we found significant increases in consumer prices and reductions in purchase.

Mrs. AXNE. Thank you. I appreciate that. And so to confirm, you believe that this Administration did not conduct an analysis to see what the impact would be on the American consumer.

Ms. BAUGHMAN. If they did, it is not evident.
Mrs. AXNE. You haven't received it either?
Ms. BAUGHMAN. No.
Mrs. AXNE. Okay. Thank you.
Chairman CLEAVER. The Chair would like to thank all of our witnesses today, and also thank Ranking Member Hill for sitting in admirably and powerfully. He just really stood in today when the ranking member had to leave.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

Unless there are any objections, this hearing is now adjourned.
[Whereupon, at 11:57 a.m. the hearing was adjourned.]

APPENDIX

June 19, 2019

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON NATIONAL SECURITY, INTERNATIONAL DEVELOPMENT AND MONETARY POLICY

HEARING ON
"PROMOTING ECONOMIC GROWTH: EXPLORING THE IMPACT OF RECENT TRADE POLICIES ON THE U.S. ECONOMY"

WRITTEN STATEMENT OF
LAURA M. BAUGHMAN
PRESIDENT
THE TRADE PARTNERSHIP/TRADE PARTNERSHIP WORLDWIDE LLC

June 19, 2019

My name is Laura Baughman and I am president of The Trade Partnership and Trade Partnership Worldwide, Washington-based international trade research firms. We prepare studies that assess the economic impacts of trade on U.S. and international economies, frequently breaking the results down by state and even congressional district. We prepare these studies for clients that include U.S. businesses, trade associations and coalitions. Sometimes we produce them on our own initiative. I have been asked to talk to you today about some of our recent research about the economic impacts of tariffs and other trade restrictions, proposed and implemented on U.S. imports from several U.S. trading partners beginning in 2018.

I will very briefly review various ways that import restrictions affect economies and summarize our research. I will then describe some of the ways in which the implementation of the current spate of tariffs has been affecting consumers and companies in the hope that information will be helpful to the Committee's deliberations about the role Congress could or should play in the process.

Who Wins, Who Loses from Tariffs

The briefing memo prepared for the Subcommittee did an excellent job of summarizing the various tariffs and other import restrictions that have been imposed or are contemplated since 2018, and how they impact consumers and producers. I would like to add just a few additional points.

Consumers – households, families – are typically ambivalent about import restrictions. Until the spate of recent tariffs emanating from the Administration, most consumers did not understand that these restrictions raise the costs of products they buy. The massive amount of media attention devoted to the various tariffs proposed and imposed by the

President has changed that. There is now a general awareness that tariffs cost families additional money. But you are likely not hearing much yet from families among your constituents because so far the bulk of the products that have been hit with tariffs and in some cases, quotas, are not consumer goods. They are raw materials, parts and components and machinery. That likely will change if the President imposes new tariffs on a long list of products, dubbed "List 4", imported from China. Three quarters of the products on that list are consumer goods, like child car seats, apparel, footwear, household appliances, and toys. Price increases on those goods will likely start showing up in retail prices this fall.

Then as you know there are farmers, manufacturers and services providers. They are affected by tariffs and quotas in a host of different ways:

- Farmers see higher costs for inputs to farming production that are subject to tariffs, whether they are imported or US-produced, including in the current instances fertilizer or farming equipment for example. These are all affected by the higher costs of chemicals and steel resulting from Section 301 and Section 232 tariffs and quotas. Farmers have also been hard hit from retaliation, which has reduced their export sales significantly. So farmers are all-around losers from the various Trump import restraints imposed or threatened to date.

- Manufacturers include "winners" and "losers". The winners are those who make goods that compete with imports, like steel, footwear, and furniture – and, it should be added, are not heavily dependent on global supply chains. Which is why I did not also list automobile manufacturers. Manufacturing losers are those who use imported inputs to produce other goods in the United States – steel-consumers, for example, making beer kegs, nails, automobile stampings. Their production costs go up, making them less competitive in U.S. and international markets.

- We cannot forget services providers. You might not think they are impacted by tariffs or quotas on goods, but they are. When consumers have less money to spend, either because the costs of goods they buy has gone up and they have less cash to spend or because someone lost a job and they need to cut back spending, a range of services sectors are impacted: arts and entertainment as people spend less on movies, for example; health care as optional medical care is postponed; restaurants as people go out to eat less.

Impact of Import Restraints

So what does all of this mean, on balance, for the U.S. economy? We took a comprehensive look at the potential impacts of various tariff and quota scenarios assuming those restraints have been in effect from one to three years. We used the same model the International Trade Commission uses to assess the impacts of trade agreements, like the U.S.-Mexico-Canada Agreement, on the U.S. economy. This model captures all the ways I just described that import restraints affect the various players, from producers to consumers, as well as how trade moves around internationally to find alternative sources of supply. We found:

- Steel and aluminum Section 232 tariffs and quotas plus retaliation, plus tariffs on imports from China on Lists 1-3, plus retaliation, will reduce U.S. GDP every year they are in effect by 0.37 percent, raise costs to consumers such that the average family of four must shell out $767 more to buy goods, and result in a net loss of nearly 935,000 jobs.

- Adding in tariffs on imports from China of products on List 4, plus retaliation, amplifies the costs. The full of steel and aluminum tariffs and quotas and tariffs on all imports from China, plus retaliation, will reduce U.S. GDP every year the tariffs are in effect by 1 percent, raise costs to consumers such that the average family of four must shell out $2,294 more to buy goods, and result in a net loss of nearly 2,160,000 jobs.

In each case we broke the jobs results down by sector and by state. While some sectors gain jobs, more lose so that on balance the impact is a net negative for U.S. workers, nationally and in every state. A copy of our study is attached to my written statement.

Our results are consistent with those of other researchers. While scenarios examined and modeling details differ, everyone has concluded that the various tariffs will have a net negative impact on trade, economic growth and employment.[1] Even supporters of the steel and aluminum tariffs and quotas came to the same employment impact conclusion (it is on balance negative), although they differ with us about the size of the negative impact.[2] Some Administration officials have even acknowledged the net negative impact on the economy.[3] The import restraints are also factoring into to lower estimates for global GDP growth.[4]

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1 An excellent review can be found in Table 2 of Congressional Research Service, "Trump Administration Tariff Actions: Frequently Asked Questions," February 22, 2019, https://www.nytimes.com/2018/06/07/us/politics/white-house-tariffs-growth.html.

2 A net negative 411 jobs lost from steel and aluminum Section 232 tariffs, Jeff Ferry, "Steel & Aluminum Tariffs Produce Minimal Impact on Jobs, GDP: CPA Economic Model Refute Alarmist Trade Partnership Study," Coalition for a Prosperous America, March 20, 2018, https://d3n8a8pro7vhmx.cloudfront.net/prosperousamerica/pages/4216/attachments/original/1521555989/180320_study_Ferry_232_tariffs1.pdf?1521555989; a net negative 5,000 jobs lost from steel/aluminum tariffs from Robert E. Scott, Estimates of jobs lost and economic harm done by steel and aluminum tariffs are wildly exaggerated," Economic Policy Institute, March 21, 2018, https://www.epi.org/publication/estimates-of-jobs-lost-and-economic-harm-done-by-steel-and-aluminum-tariffs-are-wildly-exaggerated/.

3 Larry Kudlow said on "Fox News Sunday" that the White House estimates that increased tariffs on all Chinese goods would amount to a negative impact of "about two tents of 1 percent of GDP." Robert Farley, "Economists: Tariffs Not Boosting GDP," FactCheck.org, May 14, 2019, https://www.factcheck.org/2019/05/economists-tariffs-not-boosting-gdp/; see also Jim Tankersley and Alan Rappeport, "White House Analysis Finds Tariffs Will Hurt Growth, as Officials Insist Otherwise," *The*

So the conclusion is the same for nearly everyone you ask: import restraints are a net negative for the U.S. economy and U.S. workers.

Speed Bumps

I also thought it would be helpful to summarize some of the lessons we are learning from the ways in which the current tariffs are being rolled out, lessons that might help to inform your discussions about what Congress might do, if anything, about the current approach to using tariffs to motivate trade and non-trade actions by our trading partners. So here are some "basic principles" that have tended to inform policy making in the past, but have been upended of late:

Principle #1: Above all else, businesses and financial markets hate uncertainty. Companies universally tell me they can deal with the higher costs of tariffs or other U.S. government actions that restrict imports if they just know about them well enough in advance and know how long those costs will be a problem for them. They will then shift sources of supply for example, if they know the reason for the higher costs will be long-term; they will hang in there if they know the reason for the higher costs is short term. Every company I have talked to has said the massive amount of uncertainty surrounding the current imposition of tariffs has been highly disruptive to their businesses. Yet, hovering over companies are the following tariff-related uncertainties:

- Will the President impose tariffs of as much as 25 percent on imports from Mexico?
- Will the President impose tariffs on $300 billion in imports from China and when?
- Will the President impose tariffs on imports of cars and parts from Europe and Japan?
- Will Congress pass USMCA? Will the President terminate NAFTA?
- Will a given company get an exemption from the tariffs for products it cares about, and when will it hear one way or the other?

If companies base plans on a guess of a "wrong answer" to these questions, it could be a mistake costing millions of dollars.

New York Times, June 7, 2018, https://www.nytimes.com/2018/06/07/us/politics/white-house-tariffs-growth.html,

[4] For example, the World Bank in its most recent economic report noted that the tariff escalations are projected to weaken global trade growth form 4.1 percent in 2018 to 2.6 percent in 2019, "the weakest since the global financial crisis." If the tariff wars escalate, global trade could decline by 9 percent, according to the Bank. World Bank Group, *Global Economic Prospects: Heightened Tensions, Subdued Investment*, June 2019, file:///Users/apple_owner/Desktop/9781464813986.pdf.

Principle #2: Informed policy making should be the foundation for all government actions. This typically entails public notice and comment periods that are realistic and provide the opportunity for a full vetting of the various "pros" and "cons" of a proposed action or policy. It means in the case of tariffs and quotas, an opportunity for independent assessments of the economic impacts of tariffs, by the U.S. International Trade Commission for example, *before* the tariffs are imposed, not after.

- The Commerce Department apparently did some economic analysis of the likely impact of steel tariffs and quotas as part of its Section 232 analysis, but it did not provide all of the information that study would generate in its final report to the president. As such, he only learned about the positive impact the proposed policy actions in the report would have on the steel industry. He was not informed about the likely impacts on steel-consuming industries or the economy generally.

- A notice and comment period process has been followed by the Office of the U.S. Trade Representative with respect to the Section 301 investigation of China's trade policies and practices, and hundreds of companies have weighed in with thousands of comments. Many have trekked to Washington to make their cases in person for relief from tariffs. Indeed, hundreds will be in Washington this week and next to testify on the potential impacts of "List 4" China 301 tariffs. Yet the President is threatening to impose duties on List 4 products immediately if China's president does not meet with him at the G20 summit in Japan at the end of June. Clearly, by then it will have been impossible for Administration officials to have absorbed and analyzed that much information in so short a time to make informed recommendations to the President on the merits of the arguments presented. To the extent that individuals feel their testimony will not change a pre-ordained choice, they may be less likely to spend the time and effort required to present their case, further limiting the ability to make informed policy decisions.

Principle #3: Companies need time to adjust to changes, and typically commercially meaningful implementation dates for major changes in policy or practices are provided. Companies tell us it can take between six months, even five years for some products, for them to change suppliers. But sufficient advance notice to preclude high cost increases has not been the practice for most of the tariffs implemented since 2018.

- The president announced on March 1 that he would impose tariffs on imports of steel and aluminum, effective March 23.

- The president announced June 20, 2018 he would impose duties on imports from China on "List 1," and those duties went into effect on July 6; List 2 products from China were announced on August 16 and tariffs went into effect on August 23. List 3 products were announced on September 21, everyone expected tariffs of 25 percent to go into effect on September 24, but instead tariffs of 10 percent were imposed. But then on May 10, 2019, those 10 percent tariffs went to 25 percent with a June 1 implementation date. In this last instance, the effective date changed three times, finally settling out at June 15, because not only did the Administration finally see that it would be hardship for many companies that had goods "on the water," but also CBP needed more time to implement the tariff changes. I heard stories about company officials spending weeks with their logistics staff monitoring the progress of cargo vessels carrying their goods to West Coast – or worse, East Coast – ports, trying to figure out if incurring the cost of speeding up the ship would get it to port in time to clear the goods before the tariffs hit, for example.

- Finally, potential tariffs of 5 percent on all imports from Mexico were threatened, with an implementation date of just 11 days later. Hundreds of companies spent the week scrambling to figure out how they could continue to import goods from Mexico and pay the tariffs. The problem? Thanks to NAFTA, the lack of duties on U.S.-Mexico trade meant that companies importing from Mexico no longer needed to have accounts with Customs and Border Protection that would enable them to pay duties. So companies and CBP spent the week frantically trying to get accounts set up so that pending imports could be processed in the event the tariffs went into effect.[5] A letter from customs brokers said "CBP has warned of growing backlogs of up to three weeks for new applicants." Countless hours were devoted trying to set up accounts – or determine what would happen if tariffs could not be paid.

Principle #4: Negative impacts of public policy actions should be mitigated as much as possible. In the case of the instant tariffs, this would mean a tariff exclusion process that is transparent, speedy, and fair.

- Companies are finding that the Commerce Department exclusion process for steel and aluminum tariff exemption requests is time-consuming, difficult for small businesses to use, and too deferential to objections by U.S. steel or aluminum producers, among other complaints. The odds of a successful result are at best 50-50. According to data from the Mercatus Center, as of June 15, 48 percent of steel requests had been approved, and 51 percent of aluminum requests had been approved,[6]

5 Haley Byrd and Holmes Lybrand, "Logistical nightmare looms if Mexico tariffs go ahead," CNN, June 7, 2019, https://www.cnn.com/2019/06/07/politics/mexico-tariffs-compliance-confusion/index.html .

6 Christine McDaniel and Danielle Parks, Mercatus Center, George Mason University. All section 232 tariff exclusion request data is publicly available at quantgov.org. The section 301 data is forthcoming.

- The exclusion process for Section 301 tariffs applied to imports from China and run out of the Office of the U.S. Trade Representative, which is slightly different than that of the Commerce Department, has few company fans as well. And the "success rate" for companies getting products removed from tariff coverage is low. Again, according to the Mercatus Center, as of June 15, only 22 percent of List 1 requests had been approved (58 percent denied) and non of List 2 requests (43 percent denied).

Conclusion

In short, import restraints have net negative impacts on the U.S. economy. If U.S. policymakers believe they are necessary, policymakers should insist they be implemented in ways that: (1) minimize the uncertainty businesses will face, (2) maximize input about their potential economic impacts to fully inform the decision to impose the tariffs, (3) give companies meaningful time to adjust, and (4) strengthen the ways in which economic damage can be mitigated.

Estimated Impacts of Tariffs on the U.S. Economy and Workers

Prepared by

TRADE PARTNERSHIP WORLDWIDE, LLC

for

Tariffs Hurt the Heartland

February 2019

About Trade Partnership Worldwide, LLC

Trade Partnership Worldwide was formed in 2001 by Laura M. Baughman, President, and Drs. Joseph Francois and Dean Spinanger. The firm produces clear, highly-readable assessments of trade issues that are widely used by U.S. policy makers, trade associations, businesses and business coalitions, and foreign organizations.

This study was principally prepared by Dr. Joseph Francois and Laura M. Baughman. Dr. Francois is Managing Director of Trade Partnership Worldwide, LLC, and Professor of Economics, University of Bern, Department of Economics and Managing Director, World Trade Institute. He also holds numerous research fellowships and professorships at think tanks and universities around the world. Dr. Francois formerly was the head of the Office of Economics at the U.S. International Trade Commission, and a research economist at the World Trade Organization. Dr. Francois holds a PhD in economics from the University of Maryland, and economics degrees from the University of Virginia. Baughman is President of Trade Partnership Worldwide, LLC. She holds degrees in economics from Columbia and Georgetown Universities.

Access to the firm's research and brief bios as well as detailed resumes of its key staff can be found at www.tradepartnership.com. For questions about this research, contact:

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Estimated Impacts of Tariffs on the U.S. Economy and Workers

Executive Summary

Beginning in March 2018, the United States began to impose a series of tariffs and then quotas on imports of selected steel and aluminum products from all countries except Australia. Those countries retaliated in kind. The United States also imposed tariffs on a large share of U.S. imports from China, and China retaliated in kind. The United States has threated to impose additional tariffs on U.S. imports of motor vehicles and parts from selected countries, as well as on the remainder of U.S. imports from China.

This study examines the economic effects of these actual and threatened tariffs on the U.S. economy and U.S. workers one to three years after they have been in effect. We look at four scenarios and find:

- Base Scenario: As of November 1, steel and aluminum tariffs of and quotas in effect, tariffs of 25 percent on U.S. imports of selected goods from China (Lists 1, 2 and 3), plus retaliation:

Annual impact on dollar value of U.S. GDP (percent)	-0.37
Annual impact on family of four	$767
One-time net impact on U.S. jobs	-934,700
Every state experiences net job losses	

- Base Scenario plus U.S. tariffs of 25 percent on motor vehicles and parts imported from countries *other than* Canada, Mexico, the European Union, Korea, and Japan, plus retaliation:

Annual impact on dollar value of U.S. GDP (percent)	-0.43
Annual impact on family of four	$902
One-time net impact on U.S. jobs	-1,040,200

- Base Scenario plus U.S. tariffs of 25 percent on all remaining imports from China, plus Chinese retaliation:

Annual impact on dollar value of U.S. GDP (percent)	-1.01
Annual impact on family of four	$2,294
One-time net impact on U.S. jobs	-2,159,500

- All three scenarios combined:

Annual impact on dollar value of U.S. GDP (percent)	-1.04
Annual impact on family of four	$2,389
One-time net impact on U.S. jobs	-2,235,400
Every state experiences net job losses	

Estimated Impacts of Tariffs on the U.S. Economy and Workers

I. Introduction

Beginning in March 2018, President Trump began to impose a series of tariffs and, later, quotas on selected U.S. steel and aluminum imports from a number of countries, under Section 232 of the Trade Expansion Act of 1962. In addition, on July 6, 2018 President Trump applied the first in a series of tariffs on imports of selected products imported from China, in retaliation for China's refusal to change intellectual property rights-related acts, policies and practices that the Office of the U.S. Trade Representative (USTR) had determined were adversely affecting U.S. companies. In each instance, U.S. trading partners retaliated with tariffs of their own, applied to a range of U.S. exports. As of November 1, 2018, U.S. tariffs affected $255 billion in U.S. imports and foreign retaliatory tariffs were being applied to $124 billion in U.S. exports.[1]

The President has also threatened to impose additional tariffs on imports of motor vehicles and parts, but has agreed to remove certain suppliers from coverage, at least for now. The total value of potentially affected motor vehicle and parts trade is $28 billion, with commensurate retaliation to U.S. exports.

The President has threatened to impose tariffs on the balance of U.S. imports from China if China continues to fail to implement a long list of changes to its intellectual property rights policies and practices, and narrow its trade surplus with the United States. China has again threatened to retaliate in kind. These threatened tariffs would affect an additional $290 billion in U.S. imports, with commensurate retaliation to U.S. exports.

The escalation of tariffs, both by the United States and by U.S. trading partners, has an impact on U.S. producers and consumers and, as a consequence, U.S. workers. Some of those effects are positive (increased production and output in sectors protected by the tariffs); others are negative (higher costs to consumers – both U.S. manufacturers and households – who must pay the tariffs, for example). This study estimates the comprehensive impacts of announced tariffs and quotas on the U.S. economy and U.S. workers. Section II describes in more detail our tariff scenarios. Section III briefly describes our methodology; a more detailed description is found in Appendix A. Section IV presents our results. Section V concludes.

1[1] The value of trade affected by U.S. import and foreign retaliatory tariffs reported here may differ significantly from published accounts of the amount of trade affected by tariffs. One cause is difference in import classification codes for the same product that are different for 2017 and 2018. A product may be on a U.S. tariff list for 2018, but no data show up for it for 2017 because that tariff code did not exist in 2017. . Our data reflects the 2018 tariff codes that are missing from 2017 data. For U.S. exports, the value of trade in 2017 may be higher *or* lower than figures cited in official announcements. The need to use less-detailed categories (6-digit HTS codes) than those used by foreign governments to select retaliatory tariffs may overstate about value of trade covered for certain products, but larger variations (higher or lower) result from foreign governments' use of trade data for periods other than 2017 to select retaliation lists.

II. Scope of Tariffs to Date, Threatened and Actual

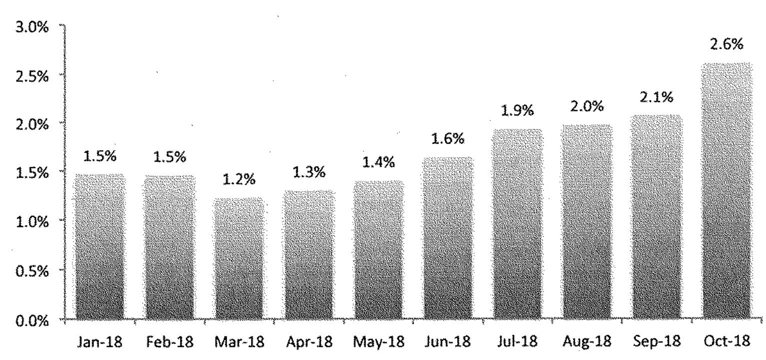
Effective March 8, 2018, President Trump instructed his Administration to impose tariffs and, later, quotas on selected U.S. steel and aluminum imports from a number of countries, under Section 232 of the Trade Expansion Act of 1962. Seven countries and the European Union announced and then imposed retaliatory tariffs on lists of various U.S. exports to their respective markets.

In addition, on July 6 President Trump applied the first in a series of tariffs on imports of selected products (grouped by the Administration as "List 1," "List 2," and "List 3") imported from China, in retaliation for China's refusal to change intellectual property rights-related acts, policies and practices that the Office of the U.S. Trade Representative (USTR) had determined were adversely affecting U.S. companies. After each new set of tariffs was imposed, China announced its own list of U.S. products that would be subject to retaliatory Chinese duties when imported into China.

As of November 1, 2018, U.S. tariffs affected $255 billion in U.S. imports and foreign retaliatory tariffs were being applied to $124 billion in U.S. exports; tariffs affecting $165 billion in U.S. imports from China are set to increase from 10 percent to 25 percent on March 2, 2019 (see Table 1).

The new tariffs have increased average U.S. tariff rates since they started to take effect in March (Chart 1). The trade-weighted average U.S. tariff paid by U.S. companies – reflecting tariffs paid on goods subject to the new tariffs as well as regular tariffs – rose from 1.5 percent or less in the first five months of 2018 to 2.6 percent by October 2018, the latest month for which data are available. Given U.S. goods imports of $2.0 trillion to $2.5 trillion annually, a 1-percentage point increase in average tariffs paid equates to $20 billion to $25 billion in additional tariff costs for U.S. importers.

Chart 1
Average Tariffs Paid on All U.S. Goods Imports, January – October 2018



Sources: Rates weighted by trade value. Derived from U.S. Census Bureau data.

Table 1
Summary of Tariffs in Effect or Announced as of November 1, 2018

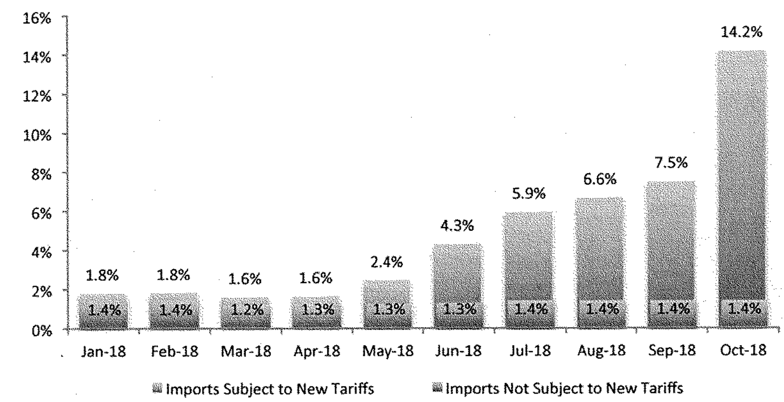
			Value of 2017 Trade Affected (Millions)
	Imports		
U.S. Aluminum Tariffs			
All countries *except* Australia, Argentina	10%		$16,984
U.S. Aluminum Quotas			
Argentina	Imports capped at average of 2015-2017 volumes		$167
U.S. Steel Tariffs			
Turkey	50%		$1,192
All others *except* Australia, Argentina, Brazil, Korea	25%		$22,888
U.S. Steel Quotas			
Argentina	Volume capped at 135 percent of 2015-2017 average		$56
Brazil	Semi-finished volume fixed at 2015-2017 average; Finished, 30% cut in import volume from 2015-2017 ave.		$592
Korea	30% cut in import volume from 2015-2017 average		$1,129
U.S. Tariffs on Imports from China			
List 1 (818 products)	25%		31,936
List 2 (279 products)	25%		13,712
List 3 (6,031 products)	10%-25%		165,334
Total Imports Affected	$254,990		
Share of Total U.S. Imports from All Countries	10.9%		
	Exports		
Steel/Aluminum Retaliation			
Canada	10-25%		$17,818
China	15-25%		2,441
Mexico	7-25%		6,744
EU	10-25%		4,230
Turkey	4-140%		1,563
India	5-100%		(not in effect yet)
Japan	TBD		(not in effect yet)
Russia	25-40%		268
Chinese Tariffs on Imports from the United States			
Retaliation for List 1 (545 products)	25%		29,172
Retaliation for List 2 (333 products)	25%		21,878
Retaliation for List 3 (5,207 products)	5-25%		51,956
Total Exports Affected*	$124,035		
Share of Total U.S. Exports to All Countries	8.0%		

* The sum of export values reported for individual countries and actions is higher than value of total exports affected due to double counting of products that are on multiple Chinese retaliation lists. In some cases, a single product is on both the Chinese Section 232 steel/aluminum and Section 301 retaliation lists. In others, it is because multiple products under the same 6-digit HTS code appear on different China Section 301 retaliation lists. The total value affected figure in this Table eliminates such double-counting issues.

Sources: Imports: Steel/aluminum and China import value data from U.S. Census for affected products; for quotas, estimated on the basis of volume impacts of quotas relative to 2017 import values from U.S. Census data. Exports: Country retaliation values from U.S. Census for products included on U.S. Department of Commerce's Current Foreign Retaliatory Actions page, https://www.trade.gov/mas/ian/tradedisputes-enforcement/retaliations/tg_ian_002094.asp#P4_161 (accessed November 2, 2018).

Breaking out average tariff rates for products subject to new tariffs from those unaffected by the new tariffs shows that the bulk of the increase in average tariffs paid shown in Chart 1 was in fact driven by the new tariffs (Chart 2). Average tariffs on imports *not* subject to new remedies have remained steady: between 1.2 percent and 1.4 percent all year. In contrast, average tariffs on products subject to new tariffs increased from 1.6 percent in April to 14.2 percent in October. Average tariffs on affected products have increased every month since March, and nearly doubled from September to October, the first full month that "List 3" tariffs on China were in effect.

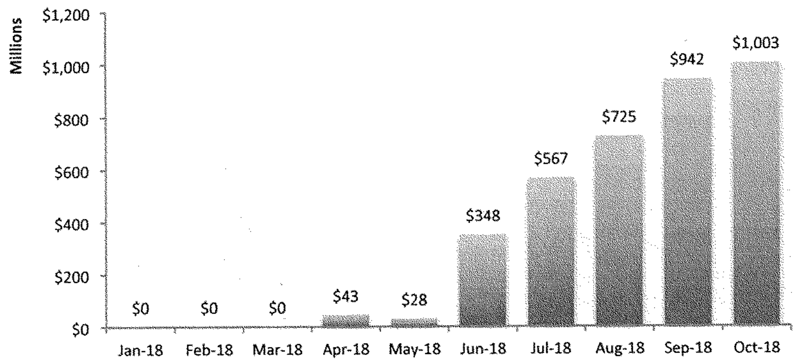
Chart 2
Average Tariffs Paid on U.S. Goods Imports by Type, January – October 2018



Sources: Rates weighted by trade value. Derived from U.S. Census Bureau data.

The negative impacts of rising tariffs are evident on U.S. exports trends as well. New retaliatory tariffs on U.S. exports have been announced nearly every month: in response to U.S. Section 232 steel and aluminum tariffs, China implemented new tariffs on U.S. exports in April. Mexico, Turkey and the EU similarly imposed new tariffs in June, followed by Canada in July and Russia in August. Additionally, China imposed new (or even higher) tariffs on U.S. exports in July, August, and September in response to Section 301 tariffs. As a result of the rolling implementation, the value of retaliatory tariffs assessed on U.S. exports has continued to climb (Chart 3).

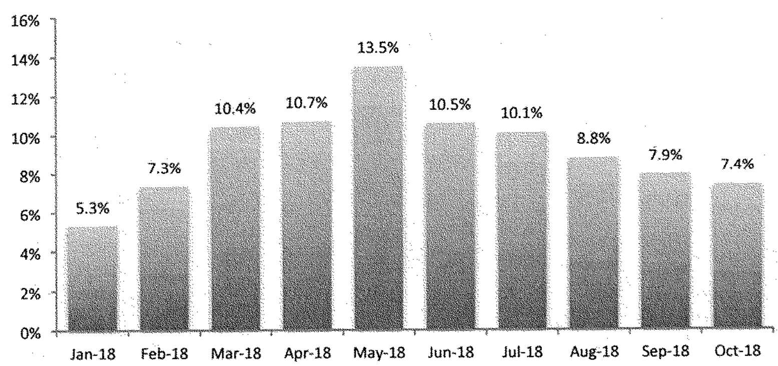
Chart 3
Estimated Retaliatory Tariffs Assessed on U.S. Goods Exports, January – October 2018



Sources: Derived from U.S. Census Bureau data.

Limited retaliation by China to Section 232 steel aluminum remedies in April/May ballooned to an estimated $1 billion in extra tariffs on U.S. exports in October 2018. Increasing retaliatory tariffs have corresponded with a significant slowdown in U.S. goods exports growth (see Chart 4).

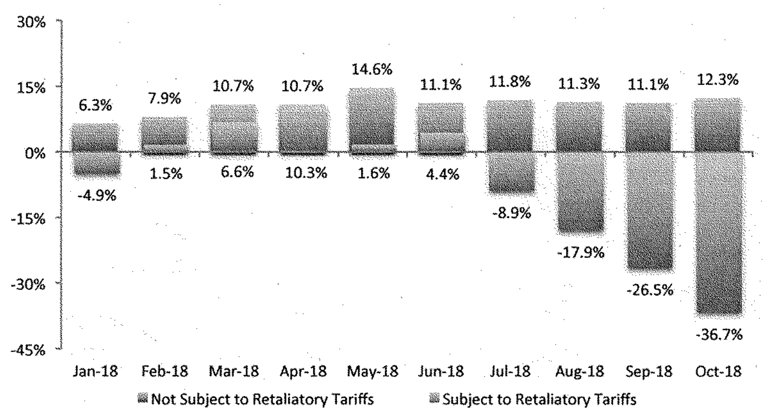
Chart 4
Year-Over-Year Change in U.S. Goods Exports, January – October 2018



Sources: Derived from U.S. Census Bureau data.

After rising steadily in the beginning of 2018, growth in U.S. exports peaked at 13.5 percent in May and has fallen every month since then. Breaking out U.S. export growth for products subject to retaliation – as opposed to those unaffected by it – shows a particularly stark difference in the negative impact on export growth of retaliatory tariffs (see Chart 5). Growth trends for U.S. goods exports *not* subject to retaliatory tariffs have remained remarkably consistent: generally increasing by 11 percent to 12 percent in each month from March to October. Conversely, exports subject to retaliation have declined each month since July. Declines have accelerated as tariffs have remained in place, including a 37 percent decline in October.

Chart 5
Year-Over-Year Change in U.S. Goods Exports by Type, January – October 2018



Sources: Derived from U.S. Census Bureau data.

Clearly, retaliatory tariffs likely are behind slowing growth of U.S. goods exports. If the primary cause were general factors, such as a strong dollar or weakening global growth, one would expect to see slowing growth for non-affected products as well. Estimating the actual extent of this impact is one of the aims of this research.

The stories told in the succession of Charts above could get worse. The President has also threatened to impose additional tariffs on imports of motor vehicles and parts,[2] but has also agreed to remove certain suppliers from coverage, at least for now. Mexico and Canada negotiated, in the pending U.S.-Mexico-Canada Agreement (USMCA) large quotas for autos

[2] At the President's instruction, the Commerce Department has begun a Section 232 investigation focused on motor vehicles and parts. The President has suggested he could impose tariffs of up to 25 percent on U.S. imports of these products at the conclusion of that investigation. U.S. trading partners have said they will retaliate if those tariffs are imposed.

and parts that are designed to have little or no impact on their exports of those products to the United States if Section 232 tariffs are ultimately imposed; the President has also agreed to not subject the European Union and Japan to Section 232 tariffs as long as those parties continue to negotiate trade agreements with the United States. Finally, Korea believes it has an understanding that Section 232 tariffs on autos or parts will not affect U.S. imports of those products from Korea (Korean legislators have promised to not approve the revise U.S.-Korea free trade agreement if such tariffs ultimately do impact Korea's autos and parts). This means that possible Section 232 tariffs would affect a relatively small share of U.S. motor vehicle and parts imports, and commensurate retaliation.

The President has also threatened to impose tariffs on the balance of U.S. imports from China if China continues to fail to implement a long list of changes to its intellectual property rights policies and practices, and narrow its trade surplus with the United States. China has again threatened to retaliate in kind. These threatened tariffs could affect an additional $291 billion in U.S. imports and $145 billion in U.S. goods and services exports (see Table 2).

Table 2
Summary of Potential Additional Tariffs

	Tariff Rate	**Value of 2017 Trade (Million)**
	Imports	
U.S. Motor Vehicles & Parts		
All suppliers *other than* Canada, Mexico, EU, Japan, Korea	25%	$28,020
U.S. Tariffs on Imports from China		
List 4	25%	$291,180
	Exports	
Retaliation by suppliers affected by motor vehicles and parts tariffs	0.7%	$297,704
Chinese retaliation for tariffs on List 4 products		
Goods*	25%	$87,103
Services	10-25%	$57,628

* Includes products not subject to any current Section 301 retaliation as well as products on List 3 whose current retaliatory tariffs are less than 25 percent.

Sources: U.S. Department of Commerce, Census Bureau and Bureau of Economic Analysis.

To examine the actual and potential economic effects of these tariffs on the U.S. economy, we have grouped them into four scenarios.

(1) **Base Scenario: Announced Tariffs and Quotas**. This scenario examines the impacts of all tariffs (U.S. and retaliatory) and quotas in effect or announced as of November 1, 2018. This scenario groups together U.S. steel and aluminum tariffs of 25 percent and quotas, with retaliation on selected U.S. exports at the tariffs indicated by trading partners; U.S. tariffs of 25 percent on imports of China included on Lists 1, 2 and 3, and China's announced retaliation on U.S. exports at the tariff rates announced.

(2) **Possible Motor Vehicle and Parts Section 232 tariffs**. This scenario adds to the Base Scenario additional U.S. tariffs of 25 percent on U.S. imports of motor vehicles and parts, *except* Canada, Mexico, Korea, the European Union and Japan, with reciprocal retaliation based on the dollar value of tariffs imposed on U.S. motor vehicle imports (for top remaining supplier countries to the U.S.), divided by the dollar value of U.S. exports to those same markets.

(3) **All Goods Trade with China**. This scenario adds to the Base Scenario additional U.S. tariffs of 25 percent on U.S. imports of all remaining products imported from China (dubbed "List 4"), plus expected retaliation by China. As China has already raised duties on virtually all its goods imports from the United States, Its new options include raising duties on all U.S. imports to 25 percent where they are currently lower than that, and/or taking non-tariff actions that have the effect of restricting trade (e.g., slowing import processing or making the purchase of U.S. services more expensive). We assume here that China imposes the equivalent of a 25 percent tariff on U.S. services transactions with China (in the form of increased costs for operating in the Chinese market), as well as border and customs nuisance costs equal to an additional 2 percent of the value U.S. goods exports.[3]

(4) **Trade War**. This scenario combines all of the scenarios into one: steel/aluminum tariffs/quotas plus retaliation; tariffs on all U.S. imports from China plus retaliation, and tariffs plus retaliation on U.S. motor vehicles and parts from foreign suppliers other than Canada, Mexico, Korea, the European Union and Japan.

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[3] Caroline Freund, Michael Farrantino, Maryla Maliszewska, and Michele Ruta, "Impacts on Global Trade and Income of Current Trade Disputes," Macroecnomics, Trade and Investment MTI Practice Notes, World Bank Group, No. 2, July 2018, http://documents.worldbank.org/curated/en/685941532023153019/pdf/128644-MTI-Practice-Note-2-Final-3.pdf.

III. Methodology

Tariffs have both positive and negative effects on the U.S. economy. Their first impact is to raise the costs of imports, forcing purchasers to either bear the higher costs or shift sourcing to unaffected suppliers. Their options are U.S. producers, where available, or producers in other countries, where available. So tariffs have a positive impact on U.S. producers by shifting some foreign sourcing to the United States, and a positive impact on third country suppliers by shifting other sourcing from the countries subject to tariffs to those that are not subject to tariffs.

But tariffs have a negative impact on U.S. buyers who must pay higher prices. The cost of foreign products that are subject to tariffs rises, and if the U.S. buyer must continue to source from those suppliers, the U.S. buyer must pay the tariffs. If the U.S. buyer can shift supply to another foreign – or U.S. – producer, the cost of that alternative source of supply will be higher, as well, and shifting supply also costs time and money. These higher costs get passed on to other buyers in the supply chain and, eventually to the final consumer.

These impacts ripple through the U.S. economy. U.S. producers who win new sales need to purchase more inputs to production, which sends new business to their suppliers. Companies along the U.S. producer supply chain may need to hire more workers. This additional U.S. spending ripples further through the economy in positive ways – all the way to such sectors as education (workers increase their use of day care services, for example) or entertainment (workers go out to dinner more).

But the higher costs of imports also have impacts on U.S. companies who need to continue to import because U.S. producers are not available or otherwise are not a viable option for them. The final purchaser of goods that now cost more will buy less of them. Sales declines eventually lead to employment cuts. Employment cuts result in lower consumer spending on a range of goods and services: instead of a new car, the family buys a used car; workers go out to dinner less often, and unemployed workers cut out even more discretionary purchases. Optional health care expenses are postponed. Each of these decisions in turn has employment impacts on workers in the affected sectors.

We use a methodology, which is detailed in Appendix B, that enables us to capture all of these impacts. Briefly stated, it explores the direct and indirect effects of tariffs on U.S. imports, the direct and indirect effects of retaliatory tariffs on U.S. exports, and the effects of trade-induced spending increases and decreases on U.S. output and consumption and, consequently, jobs. It reflects the differences in price, quantity and quality between imported goods and U.S.-produced goods. It also captures the jobs directly and indirectly related to the process of importing goods and services into the United States (e.g., jobs associated with transporting imports from the ports to warehouses, jobs at the warehouses, or retail jobs that sell the imported goods if they are finished consumer products). Finally, our methodology also considers the positive and negative effects of trade on jobs, and results reported are therefore "net" job impacts.

Our results focus on the short-term (one to three years) impacts of the tariffs. We assume the available pool of labor is tight.

IV. Results

Our ability to capture the economy-wide impacts of the various tariff scenarios shows that they have some positive impacts on some sectors, and negative impacts on others. In every instance examined, the negative impacts outweigh the positive impacts.

A. Base Scenario: Announced Tariffs and Quotas

We find that U.S. tariffs and quotas (referred to for ease here as simply "tariffs") coupled with foreign retaliatory tariffs now affecting U.S. exports have net negative impacts on the U.S. economy and U.S. workers. Tariffs reduce the dollar value of U.S. GDP by 0.37 percent, a reduction that will occur each year the tariffs are in effect (Table 3). The average America family of four will have to find an extra $767 to pay for higher costs for goods and services resulting from the tariffs, for every year they are in effect.

U.S. exports of goods and services overall decline by 5.6 percent, or $131.7 billion annually based on 2017 levels, as a result of the tariffs. This is due primarily to the impact of the U.S. duties on imports rather than retaliation by U.S. exporters. The largest declines to the world (not just the retaliating countries, in terms of percentage reductions) are felt by U.S. exporters of iron and steel (-42.7 percent, heavily retaliation-related), oilseeds (-15.7 percent, largely retaliation-related), footwear and other leather products (-18.6 percent, largely due to U.S. tariff effects making U.S. output less competitive internationally), wood products (-13.3 percent, split between U.S. tariff and retaliation impacts), and nonferrous metals (aluminum, -12.8 percent, largely due to the impacts of the U.S. tariffs).

Net U.S. jobs decline by 934,700. Table 4 shows that some workers in some sectors find new jobs thanks to the tariffs. These include workers in the steel industry, as expected. Workers in steel-consuming sectors are hurt by higher costs associated with steel and aluminum tariffs, but benefit more from protection received from tariffs that cut imports from China of the products they make. Overall, 126,900 workers gain jobs as a result of the tariffs; however, 1,061,400 lose jobs – more than eight for every job gained. In short, the tariffs cost the U.S. economy $490,900 for every job gained.

Table 3
Announced Tariffs and Quotas: National Impacts, 1-3 Years After Tariffs Imposed

Annual change in dollar value of real U.S. GDP (percent)	-0.37
Annual change in real U.S. national income (billions)	-$62.3
Annual change in U.S. exports to the world (percent)	-5.6
Annual change in U.S. imports from the world (percent)	-6.5
Annual cost per U.S. family of four	$767
One-time net impact on U.S. jobs	-934,700

Table 4
Announced Tariffs and Quotas: Net National Employment Impacts by Sector, 1-3 years After Tariffs Imposed
(Thousands)

Total	**-934.7**
Agriculture	-59.3
Forestry	-1.8
Fishing	-1.0
Oil and gas	-2.9
Other mining	-3.6
Manufacturing	**+83.8**
Processed foods	-5.3
Beverages and tobacco	-4.9
Textiles	+3.9
Apparel	-1.5
Leather products	+1.9
Wood products	-2.6
Paper products and publishing	+0.6
Petroleum, coal products	-0.1
Chemicals, rubber, plastic products	+0.5
Other mineral products	+5.8
Iron and steel	+22.0
Nonferrous metals (including aluminum)	-0.7
Fabricated metal products	+22.0
Motor vehicles and parts	-16.9
Other transportation equipment	-11.1
Electronic equipment	+20.6
Machinery	+33.4
Other manufactures	+16.2
Services	**-949.7**
Construction	-209.5
Wholesale and retail trade	-216.4
Transportation	-27.4
Finance	-31.7
Insurance	-14.7
Communications	-23.8
Business and professional services	-154.9
Personal and recreational services	-38.6
Other services (e.g. utilities, educ., health, gov't, etc.)	-232.7

See Appendix Table A.1 for sector descriptions

Table 5
Announced Tariffs and Quotas: Net Employment Impacts by State

Alabama	-12,400	Montana	-4,000
Alaska	-2,400	Nebraska	-7,000
Arizona	-18,500	Nevada	-9,100
Arkansas	-7,800	New Hampshire	-3,600
California	-112,900	New Jersey	-25,500
Colorado	-19,200	New Mexico	-5,900
Connecticut	-10,600	New York	-58,800
Delaware	-2,900	North Carolina	-27,300
District of Columbia	-4,200	North Dakota	-3,300
Florida	-61,000	Ohio	-29,100
Georgia	-29,600	Oklahoma	-11,200
Hawaii	-5,000	Oregon	-11,900
Idaho	-5,500	Pennsylvania	-32,900
Illinois	-33,500	Rhode Island	-2,800
Indiana	-15,100	South Carolina	-12,700
Iowa	-9,900	South Dakota	-3,200
Kansas	-9,700	Tennessee	-19,300
Kentucky	-12,900	Texas	-85,100
Louisiana	-14,100	Utah	-9,600
Maine	-4,400	Vermont	-2,200
Maryland	-18,800	Virginia	-26,300
Massachusetts	-21,700	Washington	-24,000
Michigan	-25,100	West Virginia	-4,500
Minnesota	-16,100	Wisconsin	-14,100
Mississippi	-7,700	Wyoming	-2,300
Missouri	-18,700	TOTAL*	-943,700

* The sum of the states does not add precisely to the total because of rounding.

B. Announced Tariffs and Quotas Plus Possible Motor Vehicle and Parts Section 232 Tariffs

Not surprisingly, the net impacts on the U.S. economy and workers worsen if the United States imposes tariffs under Section 232 on imports of motor vehicles and parts, and exporting countries retaliate in kind against U.S. exports – even if the scope of those tariffs is limited to countries that are not major suppliers of motor vehicles and parts to the United States. [Again, we have excluded from tariffs imports from and retaliation by Canada, Mexico, the European Union, Japan and Korea.]

Tariffs on steel, aluminum, and Lists 1-3 of goods imported from China, plus retaliation, plus tariffs on selected motor vehicle and parts imports and retaliation annually reduce the dollar value of U.S. GDP by 0.43 percent (Table 6). The average America family of four will pay over $900 more for higher costs for goods and services resulting from the tariffs, for every year they are in effect.

U.S. exports of goods and services overall decline by 5.8 percent, or $136.4 billion annually based on 2017 levels, as a result of the tariffs. The same sectors as in the base scenario continue to be the leading "losers" of exports to the world, and for the same reasons: iron and steel (-42.9 percent), oilseeds (-15.7 percent), footwear and other leather products (-18.8 percent), wood products (-13.3 percent), and nonferrous metals (aluminum, -13.2 percent).

Net U.S. jobs decline by 1,040,200. Table 7 shows that fewer workers in some sectors (3,000 less) find new jobs thanks to the additional motor vehicle and parts tariffs (workers in the chemicals, rubber and plastics sectors become net lowers from the additional tariffs). Overall, 123,600 workers gain jobs as a result of the tariffs. But 1,163,600 lose jobs – more than nine for every job gained. The tariffs now cost the U.S. economy $592,136 for every job gained.

Table 6
Announced Tariffs and Quotas Plus Motor Vehicle and Parts Section 232 Tariffs: National Impacts, 1-3 Years After Tariffs Imposed

Annual change in dollar value of real U.S. GDP (percent)	-0.43
Annual change in real U.S. national income (billions)	-$73.2
Annual change in U.S. exports to the world (percent)	-5.8
Annual change in U.S. imports from the world (percent)	-6.9
Annual cost per U.S. family of four	$902
One-time net impact on U.S. jobs	-1,040.2

Table 7

Announced Tariffs and Quotas Plus Motor Vehicle and Parts Section 232 Tariffs: Net National Employment Impacts by Sector, 1-3 Years After Tariffs Imposed

(Thousands)

Total	**-1,040.2**
Agriculture	-60.0
Forestry	-2.0
Fishing	-1.0
Oil and gas	-3.1
Other mining	-3.7
Manufacturing	**+89.1**
Processed foods	-6.1
Beverages and tobacco	-5.1
Textiles	+4.0
Apparel	-1.4
Leather products	+1.9
Wood products	-3.2
Paper products and publishing	+0.1
Petroleum, coal products	-0.2
Chemicals, rubber, plastic products	-0.3
Other mineral products	+5.5
Iron and steel	+22.3
Nonferrous metals (including aluminum)	-0.6
Fabricated metal products	+23.0
Motor vehicles and parts	-5.7
Other transportation equipment	-11.9
Electronic equipment	+19.6
Machinery	+31.9
Other manufactures	+15.3
Services	**-1,059.5**
Construction	-230.1
Wholesale and retail trade	-242.2
Transportation	-28.7
Finance	-35.1
Insurance	-16.0
Communications	-26.5
Business and professional services	-165.2
Personal and recreational services	-45.2
Other services (e.g. utilities, educ., health, gov't, etc.)	-270.3

See Appendix Table A.1 for sector descriptions

C. Announced Tariffs and Quotas Plus All Other Goods Trade with China

Imposing tariffs on the balance of U.S. imports from China (the so-called "List 4" items), with retaliation by China really amplifies the costs to the U.S. economy and U.S. workers of currently-announced tariffs and quotas on steel and aluminum, imports from China on Lists 1-3, and retaliation (our base scenario).

The annual reduction in the dollar value of U.S. GDP more than doubles from the base scenario, to -1 percent (Table 8). To put this in perspective: the impact of the duties erases the estimated gains to U.S. GDP from tax reform in its first years.[4] The average America family of four will pay nearly $2,300 more for higher costs for goods and services resulting from the tariffs, for every year they are in effect. This more than consumes the estimated gains from tax reform of $1,336 per taxpayer.[5]

U.S. exports of goods and services overall decline by 8.4 percent, or $197.5 billion annually based on 2017 levels, as a result of the tariffs. The impacts of U.S. duties on exports to the world outweigh the negative impacts of retaliatory tariffs. In short: U.S. policy has a greater negative impact on U.S. exports than reactions by foreign trading partners. Sectors experiencing the largest declines in exports to the world include those primarily feeling the brunt of retaliation (forestry product, -20.5 percent; oilseeds, -17.1 percent; non-bovine animal products, -20.5 percent; iron and steel, -43.4 percent, wood products, -19.5 percent), but also many other sectors that are now less competitive internationally due to U.S. tariffs (electronic equipment, -22.9 percent; metals, -12.9 percent; textiles, -12.6 percent; clothing, -20.4 percent; and, again, footwear and leather products, -35.9 percent).

Net U.S. jobs decline by more than double the losses in the base scenario, by 2,159,500. Table 9 shows that more manufacturing workers benefit from the additional tariffs as they force more production back to the United States. Overall, 334,900 workers gain jobs as a result of the tariffs. But higher costs, especially for consumers, multiplies the jobs lost in other sectors, primarily services. A total of 2,494,500 workers lose jobs, seven for every job gained. The tariffs cost the U.S. economy $555,584 for every job gained.

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[4] The Tax Foundation estimated that Tax Cut and Jobs Act would increase U.S. GDP by an average of 0.8 percent over its first three years. See Table 2 of Huaqun Li and Kyle Pomerleau, "the Distributional Impact of the Tax Cuts and Jobs Act Over the Next Decade," The Tax Foundation, June 28, 2018, https://taxfoundation.org/the-distributional-impact-of-the-tax-cuts-and-jobs-act-over-the-next-decade/.

[5] Huaqun and Pomerleau estimate (Ibid.) that by 2022 after-tax income for all taxpayers will increase by 2.1 percent (Table 3). Applying that percentage to 2017 after-tax income published in the Consumer Expenditure Survey by the Bureau of Labor Statistics yields a savings from tax reform of $1,336.

Table 8
Announced Tariffs and Quotas Plus Tariffs on All Goods Trade with China: National Impacts, 1-3 Years After Tariffs Imposed

Annual change in dollar value of real U.S. GDP (percent)	-1.01
Annual change in real U.S. national income (billions)	-$186.1
Annual change in U.S. exports to the world (percent)	-8.4
Annual change in U.S. imports from the world (percent)	-11.1
Annual cost per U.S. family of four	$2,294
One-time net impact on U.S. jobs	-2,159.5

Table 9

Announced Tariffs and Quotas Plus Tariffs on All Goods Trade with China: Net National Employment Impacts by Sector, 1-3 Years After Tariffs Imposed

(Thousands)

Total	**-2,159.5**
Agriculture	-70.3
Forestry	-6.9
Fishing	-1.2
Oil and gas	-3.7
Other mining	-5.0
Manufacturing	**+235.5**
Processed foods	-14.6
Beverages and tobacco	-8.0
Textiles	+17.1
Apparel	+13.6
Leather products	+6.0
Wood products	-9.8
Paper products and publishing	-1.5
Petroleum, coal products	-0.5
Chemicals, rubber, plastic products	+4.4
Other mineral products	+3.9
Iron and steel	+23.3
Nonferrous metals (including aluminum)	+0.4
Fabricated metal products	+24.1
Motor vehicles and parts	-31.4
Other transportation equipment	-33.6
Electronic equipment	+145.4
Machinery	+24.7
Other manufactures	+72.0
Services	**-2,307.9**
Construction	-412.8
Wholesale and retail trade	-482.1
Transportation	-28.7
Finance	-75.9
Insurance	-42.2
Communications	-64.0
Business and professional services	-324.5
Personal and recreational services	-126.8
Other services (e.g. utilities, educ., health, gov't, etc.)	-703.5

See Appendix Table A.1 for sector descriptions

D. Trade War

Now suppose U.S. policy makers impose all tariffs and quotas contemplated, and U.S. trading partners retaliate as promised or as likely to retaliate. This scenario adds motor vehicle and parts tariffs to the previous scenario, and the results show increases the net negative impacts, as expected, but not by a lot, also as expected.

The annual reduction in the dollar value of U.S. GDP declines by just over -1 percent (Table 10). The average America family of four will pay nearly $2,400 more for higher costs for goods and services resulting from the tariffs, for every year they are in effect, wiping out gains from tax reform.

U.S. exports of goods and services overall decline by 8.7 percent, or $204.5 billion annually based on 2017 levels, as a result of the tariffs. The impacts of U.S. duties on exports to the world outweigh the negative impacts of retaliatory tariffs. Sectors experiencing the largest declines in exports to the world include those primarily feeling the brunt of retaliation (forestry product, -20.4 percent; oilseeds, -17.0 percent; non-bovine animal products, -20.4 percent; iron and steel, -43.6 percent; wood products, -19.6 percent), but also many other sectors that are now less competitive internationally due to U.S. tariffs (electronic equipment, -23.4 percent; metals, -13.3 percent; textiles, -12.7 percent; clothing, -20.6 percent; and, again, footwear and leather products, -36.0 percent).

Net U.S. jobs decline by more than double the losses in the base scenario, by 2,235,400. Table 11 shows that more manufacturing workers benefit from the additional tariffs as they force more production back to the United States. Overall, 332,000 workers gain jobs as a result of the tariffs. But higher costs, especially for consumers, multiplies the jobs lost in other sectors, primarily services. A total of 2,567,500 workers lose jobs, nearly eight for every job gained. The tariffs cost the U.S. economy $583,693 for every job gained. Table 12 shows that every state experiences net job losses.

Table 10
Trade War: National Impacts 1-3 Years After Tariffs Imposed

Annual change in dollar value of real U.S. GDP (percent)	-1.04
Annual change in real U.S. national income (billions)	-$193.8
Annual change in U.S. exports to the world (percent)	-8.7
Annual change in U.S. imports from the world (percent)	-11.5
Annual cost per U.S. family of four	$2,389
One-time net impact on U.S. jobs	-2,235.4

Table 11
Trade War:
Net National Employment Impacts by Sector
(Thousands)

Total	**-2,235.4**
Agriculture	-70.8
Forestry	-6.9
Fishing	-1.2
Oil and gas	-4.0
Other mining	-5.2
Manufacturing	**+236.4**
Processed foods	-14.1
Beverages and tobacco	-8.2
Textiles	+17.2
Apparel	+13.7
Leather products	+6.0
Wood products	-10.3
Paper products and publishing	-2.0
Petroleum, coal products	-0.6
Chemicals, rubber, plastic products	+3.5
Other mineral products	+3.7
Iron and steel	+23.4
Nonferrous metals (including aluminum)	+0.4
Fabricated metal products	+24.5
Motor vehicles and parts	-25.3
Other transportation equipment	-34.1
Electronic equipment	+144.8
Machinery	+23.4
Other manufactures	+71.4
Services	**-2,383.7**
Construction	-426.8
Wholesale and retail trade	-501.4
Transportation	-28.7
Finance	-78.2
Insurance	-43.0
Communications	-65.8
Business and professional services	-330.4
Personal and recreational services	-131.4
Other services (e.g. utilities, educ., health, gov't, etc.)	-729.8

See Appendix Table A.1 for sector descriptions

Table 12
Trade War: Net Employment Impacts by State

Alabama	-30,348	Montana	-9,050
Alaska	-5,972	Nebraska	-16,201
Arizona	-42,673	Nevada	-21,566
Arkansas	-19,493	New Hampshire	-8,133
California	-248,399	New Jersey	-61,694
Colorado	-44,590	New Mexico	-13,623
Connecticut	-27,219	New York	-143,888
Delaware	-6,919	North Carolina	-63,479
District of Columbia	-11,187	North Dakota	-7,501
Florida	-145,251	Ohio	-76,491
Georgia	-71,170	Oklahoma	-27,308
Hawaii	12,030	Oregon	-25,713
Idaho	-11,484	Pennsylvania	-84,789
Illinois	-85,120	Rhode Island	-6,894
Indiana	-39,233	South Carolina	-31,491
Iowa	-23,514	South Dakota	-7,200
Kansas	-23,566	Tennessee	-46,960
Kentucky	-30,677	Texas	-199,388
Louisiana	-34,943	Utah	-21,853
Maine	-10,635	Vermont	-4,993
Maryland	-45,237	Virginia	-64,467
Massachusetts	-50,502	Washington	-57,237
Michigan	-61,727	West Virginia	-11,162
Minnesota	-36,832	Wisconsin	-37,344
Mississippi	-18,710	Wyoming	-5,302
Missouri	-45,075	TOTAL*	-2,235,400

* The sum of the states does not add precisely to the total because of rounding.

V. Conclusion

By any measure, the imposition of tariffs by the United States and U.S. imports of steel, aluminum, motor vehicles and parts, some subset of products imported from China – or all of them is a net loss for the U.S. economy and U.S. workers. An examination of all the ways in which such tariffs, accompanied by retaliation by U.S. trading partners, affects purchasing and hiring decisions demonstrates that on balance U.S. farmers, manufacturers, services providers and their workers experience greater losses than gains. In some instances, the tariff actions erase all of the anticipated gains from tax reform.

Appendix A: Methodology In Detail

A. The Model

To estimate the economic effects of various tariff scenarios, we start with the Global Trade Analysis Project (GTAP) database, which is integrated into a computable general equilibrium (CGE) model. The mathematical structure of our model, starting with the GTAP database, follows Egger et al, augmenting the basic Eaton-Kortum-Armington structure of the GTAP model with monopolistic competition, depending on the sector.[6]

The GTAP database covers international trade and economy-wide interindustry relationships and national income accounts, as well as tariffs, some nontariff barriers and other taxes. While our GTAP model database is based on version 10 (for 2014 data), we have updated the data to better reflect the U.S. economy in 2017. We have also estimated the trade elasticities and used in the model an extended version of the gravity model database employed by Egger et al (2015).

The model simulates the percentage changes in aggregate economic measures, including U.S. real GDP and aggregate employment, when moving from the baseline or reference level (in this case, 2017 U.S. and global economies) to the various counterfactuals (tariffs and quotas are imposed). The model results are then converted into percentage changes when moving from counterfactual levels to the actual levels that prevailed in the baseline. The results reflect short-term impacts, i.e., that the tariffs have been in effect for at least one to three years. For this analysis, we recognize that U.S. employment has continued the growth trend that began in mid 2010 (see https://fred.stlouisfed.org/series/PAYEMS), with the economy now appearing to approach full employment. At the same time, wage growth remains relatively flat compared to employment growth. We incorporated data reflecting recent employment and earnings trends and the tightening of the labor market.[7]

It is important to emphasize that our employment impact estimates are net. They take into account potential increases as well as decreases in employment as demand increases in some cases for U.S. products, and declines in others. These changes arise not only from the direct impacts of the re-imposition of tariffs, quotas and retaliation, but also the indirect impacts of changes in supply and demand for goods and services generally across the economy. For example, you will see that some sectors that you might not think would benefit from tariffs – chemicals, for example – show employment increases. This is because declines in production in other sectors releases labor and capital that can now be used

6 See Francois, J., Manchin, M., & Martin, W. (2013). "Market structure in multisector general equilibrium models of open economies." In D. Jorgenson and P. Dixon eds., *Handbook of computable general equilibrium modeling*, vol. 1, Elsevier, and Egger, Peter, Joseph Francois, Miriam Manchin, and Douglas Nelson. "Non-tariff barriers, integration and the transatlantic economy." *Economic Policy* 30, no. 83 (2015): 539-584.

1. According to the U.S. Department of Labor, unemployment increased 1.4 percent from May 2017 to May 2018. (See https://www.bls.gov/opub/ted/2018/real-average-hourly-earnings-up-0-point-2-percent-for-all-private-employees-april-2015-to-april-2018.htm). We use this recent relationship between relative changes in employment and real wages (technically in the form of an aggregate labor supply elasticity) to better reflect current labor market conditions.

more productively in other sectors, like chemicals. So output and related employment rise there.

B. Data

To determine tariff level changes in the different scenarios, we first mapped U.S. import and export data for 2017 from the U.S. Census Bureau to both GTAP sectors and remedy/retaliation lists. For U.S. Section 232 steel/aluminum remedies, we applied a 25 percent tariff to U.S. imports of the steel products detailed in the Commerce Department's steel national security report, and a 10 percent tariff to U.S. imports of the aluminum products detailed in the Commerce Department's aluminum national security report, excluding imports from Argentina, Australia, Brazil and Korea. We reduced imports of steel from Korea by 30 percent, the estimate in media reports that the Administration sought to achieve from Korea. We similarly reduced imports from Brazil by the shares shown in Table 1, and froze imports from Argentina at the average of 2015-2017 levels.

Finally, for state level analysis, we first map state-level data on employment and GDP for NAICS sectors from BEA to corresponding model sectors. We then map national changes in production and employment at industry level to the corresponding state data at the model sector level. The impact on states therefore reflects the variation in the output and employment structure across state economies.

C. Modeling Issues

Technically, the increase in trade costs for services takes the form of increased operating costs for U.S. firms operating in the Chinese market (also known as iceberg trade costs). We hypothesize that China imposes the equivalent of a 25 percent tariff on U.S. services imports into China, and slow-downs in Customs processing and other administrative procedures amounts to an additional 2 percent tariff-equivalent on goods imported from the United States.

Table A.1

Sector Concordances

GTAP no.	GTAP Sector	Our Model Sector No.	Our Model Sectors	NAICS No.	NAICS Category
1	PDR - Paddy rice	1	Primary agriculture	111,112	Agriculture
2	WHT – Wheat	1	Primary agriculture	111,112	Agriculture
3	GRO - Cereal grains n.e.c.	1	Primary agriculture	111,112	Agriculture
4	V_F - Vegetables, fruit, nuts	1	Primary agriculture	111,112	Agriculture
5	OSD - Oil seeds	1	Primary agriculture	111,112	Agriculture
6	C_B - Sugar cane, sugar beets	1	Primary agriculture	111,112	Agriculture
7	PFB - Plant-based fibers	1	Primary agriculture	111,112	Agriculture
8	OCR - Crops n.e.c.	1	Primary agriculture	111,112	Agriculture
9	CTL - Bovine cattle, sheep and goats, horses	1	Primary agriculture	111,112	Agriculture
10	OAP - Animal products n.e.c.	1	Primary agriculture	111,112	Agriculture
11	RMK - Raw milk	1	Primary agriculture	111,112	Agriculture
12	WOL - Wool, silk-worm cocoons	1	Primary agriculture	111,112	Agriculture
13	FRS - Forestry	2	Forestry	113	Forestry
14	FSH - Fishing	3	Fishing	114	Fishing and Hunting
15	COA – Coal	4	Other mining	2121	Coal Mining
16	OIL – Oil	5	Oil & gas	21112	Crude Petroleum Extraction
17	GAS – Gas	5	Oil & gas	21113	Natural Gas Extraction
18	OMN - Other mining	4	Other mining	2122, 2123, 213	Metal Ore Mining + Nonmetallic Mineral Mining + Support for Mining Activities
19	CMT - Bovine meat prods	6	Processed foods	311	Food Manufacturing
20	OMT - Meat and fish products n.e.c.	6	Processed foods	311	Food Manufacturing
21	VOL - Vegetable oils and fats	6	Processed foods	311	Food Manufacturing
22	MIL - Dairy products	6	Processed foods	311	Food Manufacturing
23	PCR - Processed rice	6	Processed foods	311	Food Manufacturing
24	SGR – Sugar	6	Processed foods	311	Food Manufacturing
25	OFD - Food products n.e.c.	6	Processed foods	311	Food Manufacturing
26	B_T - Beverages and tobacco products	7	Beverages & tobacco	312	Beverage and Tobacco Product Manufacturing
27	TEX – Textiles	8	Textiles	313, 314	Textile Mills + Textile Product Mills
28	WAP - Wearing apparel	9	Wearing apparel	315	Apparel Manufacturing
29	LEA - Leather products	10	Leather products	316	Leather and Allied Product Manufacturing

GTAP no.	GTAP Sector	Our Model Sector No.	Our Model Sectors	NAICS No.	NAICS Category
30	LUM - Wood products	11	Wood products	321, 322, 323	Wood Product Manufacturing + Paper Manufacturing + Printing and Related Support Activities
31	PPP - Paper products, publishing	12	Paper products, publishing	321, 322, 323	Wood Product Manufacturing + Paper Manufacturing + Printing and Related Support Activities
32	P_C - Petroleum, coal products	13	Petroleum, coal products	324	Petroleum and Coal Products Manufacturing
33	CRP - Chemical, rubber, plastic products	14	Chemical, rubber, plastic products	325, 326	Chemical Manufacturing + Plastics and Rubber Products Manufacturing
34	NMM - Mineral products n.e.c.	15	Mineral products nec	327	Non-metallic Mineral Product Manufacturing
35	I_S - Ferrous metals	16	Iron & steel	3311, 3312, 3315	Primary Metal Manufacturing (Ferrous)
36	NFM - Metals n.e.c.	17	Nonferrous metals	3313, 3314, 3315	Primary Metal Manufacturing (Other)
37	FMP - Metal products	18	Metal products	332	Fabricated Metal Product Manufacturing
38	MVH - Motor vehicles and parts	19	Motor vehicles and parts	3361, 3362, 3363	Motor Vehicle Manufacturing + Motor Vehicle Body and Trailer Manufacturing + Motor Vehicle Parts Manufacturing
39	OTN - Transport equipment n.e.c.	20	Transport equipment nec	3364, 3365, 3366, 3369	Aerospace Product and Parts Manufacturing + Railroad Rolling Stock Manufacturing + Ship and Boat Building + Other Transportation Equipment Manufacturing
40	ELE - Electronic equipment	21	Electronic equipment	334	Computer and Electronic Product Manufacturing
41	OME - Machinery and equipment n.e.c.	22	Machinery and equipment nec	333, 335	Machinery Manufacturing + Electrical Equipment, Appliance, and Component Manufacturing
42	OMF - Manufactures n.e.c.	23	Manufactures nec	337, 339	Furniture and Related Product Manufacturing + Miscellaneous Manufacturing
43	ELY - Electric power	34	Other services	22, 61, 62, 81, 99	Utilities + Educational Services + Health Care and Social Assistance + Other Services (except Public Administration) + Federal, State, and Local Government (excluding state and local schools and hospitals)
44	GDT - Gas manufactured and distributed	34	Other services	22, 61, 62, 81, 99	Utilities + Educational Services + Health Care and Social Assistance + Other Services (except Public Administration) + Federal, State, and Local Government (excluding state and local schools and hospitals)
46	CNS – Construction	24	Construction	23	Construction
47	TRD - Trade and distribution	25	Trade and distribution	42, 44-45, 72	Wholesale and Retail Trade, Accommodation and Food Services

GTAP no.	GTAP Sector	Our Model Sector No.	Our Model Sectors	NAICS No.	NAICS Category
48	OTP - Other transport	26	Other transport	482, 484, 485, 486, 487, 488, 493	Rail, Truck, Transit and Ground, Passenger, Pipeline, Scenic and Sightseeing Transportation, + Support Activities for Transportation + Warehousing and Storage
49	WTP - Water transport	27	Water transport	483	Water Transportation
50	ATP - Air transport	28	Air transport	481	Air Transportation
51	CMN - Communications	29	Communications	491, 492, 51	Information + Postal Service + Couriers and Messengers
52	OFI - Financial services	30	Financial services	521, 522, 523, 525	Monetary Authorities-Central Bank + Credit Intermediation and Related Activities + Securities, Commodity Contracts, and Other Financial Investments and Related Activities + Funds, Trusts, and Other Financial Vehicles
53	ISR – Insurance	31	Insurance	524	Insurance Carriers and Related Activities
54	OBS - Other business services, IT services	32	Business and professional services	53, 54, 55, 56	Real Estate and Rental and Leasing + Professional, Scientific, and Technical Services + Management of Companies and Enterprises + Administrative and Support and Waste Management Services
55	ROS - Recreational and other services	33	Personal and recreational services	71	Arts, Entertainment, and Recreation
45	WTR - Water and sewer services	34	Other services	22, 61, 62, 81, 99	Utilities + Educational Services + Health Care and Social Assistance + Other Services (except Public Administration) + Federal, State, and Local Government (excluding state and local schools and hospitals)
56	OSG - Other public services	34	Other services	22, 61, 62, 81, 99	Utilities + Educational Services + Health Care and Social Assistance + Other Services (except Public Administration) + Federal, State, and Local Government (excluding state and local schools and hospitals)
57	- Residential services, Dwellings	34	Other services		

Table A.2

Country/Regions

Australia	Ecuador	Lithuania	Kuwait
New Zealand	Paraguay	Luxembourg	Oman
China	Peru	Malta	Qatar
Hong Kong	Uruguay	Netherlands	Saudi Arabia
Japan	Venezuela	Poland	Turkey
Korea	Costa Rica	Portugal	United Arab Emirates
Taiwan	Guatemala	Slovakia	Egypt
Cambodia	Honduras	Slovenia	Morocco
Indonesia	Nicaragua	Spain	Tunisia
Laos	Panama	Sweden	Benin
Malaysia	El Salvador	United Kingdom	Burkina Faso
Philippines	Dominican Republic	Switzerland	Cameroon
Singapore	Trinidad and Tobago	Norway	Cote d'Ivoire
Thailand	Austria	Iceland & Lichtenstein	Ghana
Viet Nam	Belgium	Albania	Guinea
Bangladesh	Cyprus	Bulgaria	Nigeria
India	Czech Republic	Belarus	Senegal
Pakistan	Denmark	Croatia	Ethiopia
Sri Lanka	Estonia	Romania	Kenya
Canada	Finland	Russia	Madagascar
United States	France	Ukraine	Malawi
Mexico	Germany	Tajikistan	Mauritius
Argentina	Greece	Armenia	Rwanda
Bolivia	Hungary	Georgia	Tanzania
Brazil	Ireland	Iran	Uganda
Chile	Italy	Israel	Zambia
Colombia	Latvia	Jordan	Zimbabwe
			South Africa
			Rest of the World

CURRENT TRADE POLICIES AND THE US ECONOMY

Statement by
C. Fred Bergsten
Senior Fellow and Director Emeritus
Peterson Institute for International Economics

to the
Subcommittee on National Security, International Development and Monetary Policy

Committee on Financial Services
United States House of Representatives
June 19, 2019

The Trump Administration has clearly abused Congressional intent and arguably some of its legislative authorities in implementing current trade policies. Congress should act urgently to rein in the excesses of the Executive Branch.

There is no evidence that imports of steel and aluminum from some of our closest allies—Canada, Europe, Japan, Korea, Mexico and Turkey—have damaged or threatened to damage the national security of the United States. Hence there is no justification for invoking Section 232 of the Trade Expansion Act of 1962. (The steel tariffs are also extremely costly in economic terms: they have saved perhaps 12,000 steel producing jobs at an average cost of $900,000 each.)

There would be even less justification for invoking that provision to impose import restrictions on motor vehicles and auto parts, as suggested by the Secretary of Commerce in May, on the grounds that research and development by "American automotive companies" (presumably only Ford, General Motors and Tesla) is essential for US national security and that such R&D investment would be encouraged by restricting competition in the US auto market.

An even more egregious stretch is the President's threat, clearly still in place, to apply tariffs against all imports from Mexico unless that country takes far-reaching steps to restrict immigration into the United States across its border. The legal justification would be premised on a declaration of national emergency under Section 203 of the International Emergency Economic Powers Act of 1977 (IEEPA), a highly dubious proposition in this case. In any event, tariffs have never been used to pursue such a non-trade objective and IEEPA has never been used to impose tariffs.

President Trump has also deployed tariffs in three cases that are at least arguably justifiable in domestic legal terms: "safeguard" duties on washing machines and solar panels, and retaliatory barriers against China's violation of US intellectual property rights. The international legality of these cases, however, is being challenged in the World Trade Organization and they have already produced retaliation against US exports (China, which has also reduced its tariffs against all countries other than the United States) and possible further retaliation pending the WTO outcomes (Japan, Korea and India).

This pattern of protectionism represents an unprecedented and massive reversal of US trade policy. If fully implemented, all of the mooted tariffs (or their equivalents via quotas or negotiated managed trade agreements) would essentially apply a tax of 25 per cent to over $1 trillion of US imports. This would amount to a tax increase of more than $250 billion on the American public, which ultimately pays most if not all of the cost of the tariffs, without Congressional approval. It would more than offset the tax cuts of a year ago.

The foreign countries which are adversely affected by the US tariffs will retaliate, if they have not already done so, to a similar extent against US exports. This would roughly double the hit of the President's trade policy to the US economy.

In addition, President Trump has threatened to withdraw the United States from NAFTA, including as a tactic to force Congressional approval for his renegotiated United States/Mexico/Canada Agreement (which, incidentally, has hurt rather than helped US competitiveness). This would disastrously disrupt supply chains in the automotive, textile/apparel and many other sectors with very substantial further costs to our economy. The United States has never withdrawn from a free trade agreement and it is unclear whether the President has legal authority to do so without Congressional approval. (President Trump also made a major mistake in withdrawing the United States from the Trans-Pacific Partnership (TPP), whose other members have proceeded with the agreement without the United States and from which exclusion we are now losing an estimated $130 billion per year.)

The uncertainty surrounding all these actions and threats dampens confidence in the economic outlook, as we are already seeing, and will deter investment. These three economic effects, taken together, could take a full percentage point or more off US growth and even tilt the country into recession. The uncertainty also has a profound impact around the world on the credibility of the United States as a potential negotiating partner and as a faithful proponent of the rule of law.

Lawyers will endlessly debate the legality of the President's actions under current domestic and international law. The courts tend to defer to the Executive on matters of national security and foreign policy. The Administration will argue that it needs to retain full flexibility to use tariffs as a negotiating tool. There is widespread agreement, which I share, that many of China's restrictive trade and industrial policies must be reformed. Congress has been correct over the years to delegate authority to the President to negotiate the details of trade agreements with other countries, within guidelines determined by the Congress itself.

But the Administration is clearly violating Congressional intent and arguably at least some of the laws that it is invoking. Congress should now clarify and assert its Constitutional responsibility to determine US trade policy. This is important both to rein in abuses of delegated powers to the President and to preserve needed Presidential negotiating authority for this and future US presidents.

Congress should require the President to seek its approval, or at least consult with it, regarding any proposed new tariffs on the basis of an analysis of the potential gains of the initiative, and its costs, in both economic and foreign policy terms. Congress should more sharply define "national security" for purposes of Section 232 and IEEPA to prevent abuse of those statutes. It should specify that, just as the Congress must approve any new trade agreement, it must approve the abrogation of any trade agreement that it had previously adopted. The upcoming USMCA legislation might provide an opportunity to make such changes in US trade law.

The checks and balances in the US governance system have traditionally relied on statesmanlike Administrations to counter the protectionist tendencies that often emerge from the Congress. We now need a far-sighted Congress to counter the proclivities of a protectionist President. I am delighted that the Subcommittee is holding this hearing and hope you will move promptly to protect the national interests of the United States from the heavy price they are now paying for the trade policies of the current Administration.

Testimony of John Boyd
President, National Black Farmers Association (NBFA)
Financial Services Committee

National Security, International Development, and Monetary Policy

Dear Honorable Chairman Emanuel Cleaver II and Congressman Steve Stivers, Ranking member. Thank you for the invitation. It is truly an honor to address your committee.

I am John Boyd, Founder and President of the National Black Farmers Association (NBFA). The NBFA has over 109,000 members in 42 states. Our membership consists of full-time farmers, part-time farmers, land and timber owners and many concerned citizens. I am a fourth-generation farmer, maintaining about 300 acres in Southside, Virginia.

Due to the President's tariffs, farmers are in a crisis.

Since President Trump imposed tariffs on China, U.S. grain farmers have suffered dramatically. China at its peak was purchasing 90% of U.S. grown soybeans. In 2014, I sold soybeans for $16.80 per bushel. Since the China-imposed tariffs, my soybean crops have dropped to $8 a bushel. To break even and not lose money on my crop, I need to sell soybeans for no less than $11 a bushel.

I am what's called a cash and sell farmer, meaning I am not storing any of my crop. I harvest and sell my soybean crops to the Smithfield Foods company, which operates the nearest grain elevator. It is located in Petersburgh, Virginia. This requires trucking my harvest in 500 bushel capacity grain trucks.

Most farmers operate this way. The increased tariffs have changed this process. Our last soybean harvest was a disaster. For the first since I began farming in 1983, I was told by the grain elevator company, "Due to the imposed China tariffs we are not buying soybeans." Because I had nowhere to sell my soybean harvest and nowhere to store them, I was financially devastated when many acres rotted in the field.

On July 24, 2018, President Trump announced his $12 Billion Bailout Subsidy for farmers to offset the financial damage brought down on thousands of farmers like me by the change in tariffs. The President touted this subsidy as a solution to the devastating losses we endured. He pledged that the subsidy would be available swiftly and in two installments to farmers.

President Trump's trade policies have been a disaster for soybean farmers like me. As you know, China responded to President Trump's tariffs on Chinese aluminum and steel products by placing retaliatory tariffs on more than 800 food and farm products, including soybeans.

In particular, China placed retaliatory tariffs of 25% on U.S. soybeans, raising the total tariff rate to 27% and effectively restricting access to what was once the largest market for America's soybean growers. Prior to the Trump administration's tariffs, almost one half of soybeans grown in the U.S. were exported, and about one-fourth were exported to China.

President Trump's trade war has essentially closed the China market for farmers like me – perhaps forever. Since the President's trade tirade, China has instead turned to soybean farmers in Brazil and elsewhere. We may never reclaim our standing as the world's biggest soybean market. While exports of American soybeans to Europe have increased, the sales are a fraction of the sales we have lost. As a result, soybean farmers like me are being forced to sell our crops at prices below the cost of production – that is, we are losing money on each bushel we sell – if we are able to sell our crops at all.

The Market Facilitation Program created by President Trump and Agriculture Secretary Purdue to cushion the blow delivered by the Trump trade policies is no substitute for the income soybean farmers have lost. In fact, Market Facilitation programs have further tilted the playing field against small family farmers.

Because Market Facilitation Payments (MFP) are tied to production, the largest and most successful producers are collecting the lion's share of the funding. While some large farmers received nearly $1 million for crops harvested in 2018, most family farmers like me have so far received less than $5,000.

According to the Environmental Working Group, the top 10% of MFP recipients received 54% of all MFP payments. Rather than adopt strict payment and income limits, as the Trump Administration proposed for farm subsidies in their FY 2019 and FY 2020 budget requests, the Administration instead chose to apply the same broken rules that have funneled farm subsidies to the biggest farms for decades. These rules are especially unfair to African American, Latino and Asian American farmers, who tend to have smaller operations than white farmers – and are less likely to be eligible for government farm supports at all.

That promise not been true for many black farmers and other small-scale farmers. Our payments have arrived late, or for some, never. We have NO backup support in difficulties such as this. As black farmers, we have a long history of being shut out of help from the USDA. That department has a well-documented pattern over many decades of treating black farmers poorly, resulting in slow, denied, or delayed help compared to other farmers.

Even for me, a highly vocal advocate for fair treatment of all farmers and black farmers in particular, the system can be a nightmare to negotiate. It took nearly a year after I applied for assistance to receive a payment of $6,800. I am still deeply in the RED.

Meanwhile, I was outspoken in calling for Congress to take action on our plight during the five-week government shutdown. I have continued to plead our case on cable television networks and in media outlets such as the *Washington Post* article that was published on January 10, 2019 under the headline "Farmers feel a sting from the shutdown." SEE:
https://www.washingtonpost.com/us-policy/2019/05/30/senators-urge-usda-stop-trump-farm-bailout-money-going-foreign-owned-companies/?utm_term=.6f09e01b8f81

Most of our NBFA members are in no financial condition to sit out a whole farming season with NO INCOME from selling our harvests to grain operators. And our government has shown little regard for our plight. We have experienced poor leadership from the United States Department of Agriculture (USDA) in this crisis.

As a spokesman for more than 100,000 black and other minority farmers, I have repeatedly reached out to Agriculture Secretary Sonny Perdue for a face-to-face meeting to discuss our difficulties. The requests have fallen on deaf ears. No meeting has been granted. I also have reached out to United States Trade Representative Robert Lighthizer to discuss the possibility of opening new markets for soybeans and other farm commodities. No meeting there, either.

The effects of the China-imposed Tariffs will be long lasting. I believe more farmers will lose their land to farm foreclosures. Farming is hard work. We do it because it is a fulfilling way of life--when the system works well. We are serious about the work and our place in the nation's economy. Farming comes with built-in hardships. We don't need our government putting up extra stumbling blocks.

Without a farm operating loan many banks do not want to lend farmers operating capital due to the all-time low prices on soybeans. I would urge the top ten U. S. Banks to recognize our circumstances and act with urgency to extend us credit now.

Recently, President Trump imposed more tariffs on China and threatened Mexico and other countries with tariffs. These actions put us farmers at a disadvantage in the marketplace. Tariffs should be used a last ditch effort. If we are going to save the American Farmer, we require open markets. Farmers want free trade. I am a very proud farmer I would much rather get a fair price for my crop than stand in line and wait for government help that continues to exclude farmers that look like me.

The black farmers represented by NBFA have been left out of any talks or communication with the White House and USDA. A few weeks ago, President Trump met with farmers at the White House. I have personally reached out and asked to meet with the President, to no avail. The White House released a photo of the meeting which I might add none of those farmers looked like me.

It is unacceptable that foreign owned corporations are benefiting at an alarming rate while tax-paying American farmers such as myself are receiving miniscule amounts of the relief designated with stated purpose to help American Farmers. Economic fairness is at stake in this matter.

Unless there is a set aside amount for support of small-scale farmers in the proposed $16 Billion Bailout, we will be treated as invisible and insignificant participants in the process. Policy decisions regarding farmers will continue to disproportionately reward foreign-owned corporations and exclude already disadvantaged farmers in our category.

Justice would be served in the current crisis by a vote for bipartisan legislation from this committee to set aside $5 Billion to help address the needs of black and other small-scale farmers. Fair treatment is all we are asking. Just justice.

Promoting Economic Growth: Exploring the Impact of Recent Trade Policies on the U.S. Economy

Testimony to the U.S. House
Committee on Financial Services, Subcommittee on National Security, International Development and Monetary Policy

Gordon Gray
American Action Forum*

June 19, 2019

*The opinions expressed herein are mine alone and do not represent the position of the American Action Forum. I thank Madison Erbabian for excellent research assistance.

Introduction

Chairman Cleaver, Ranking Member Stivers and members of the Committee, I am honored to be before you today to discuss the outlook for the U.S. economy and discuss that outlook in the context of developments in trade policy.

In my testimony, I wish to make several basic observations:

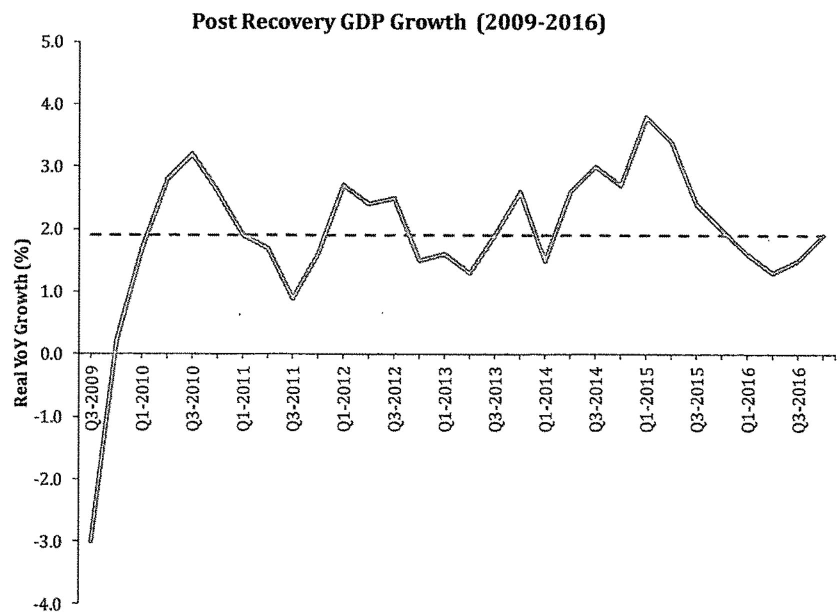
- Recent economic growth outperformed the trend that prevailed throughout the recovery, underscoring the significance of pro-growth policy, and should neither be taken for granted nor ascribed to any single policy change.
- The Tax Cuts and Jobs Act (TCJA) and other policies have improved the investment climate in the United States and the competitive posture of U.S. firms abroad.
- Reducing global trade barriers and expanding markets are pro-growth trade policies and should be pursued where possible.

Let me discuss these in turn.

The U.S. Economic Outlook

According to the National Bureau of Economic Research (NBER), the U.S. economy began to recover from the Great Recession in June of 2009.[1] Ten years on, the recovery continues. But the pace and character of the recovery matters deeply for American workers and households. For 7 years after the start of the recovery, the pace of national income, employment, and wage growth was positive but disappointing. Real gross domestic product (GDP) growth averaged 1.9 percent per year.

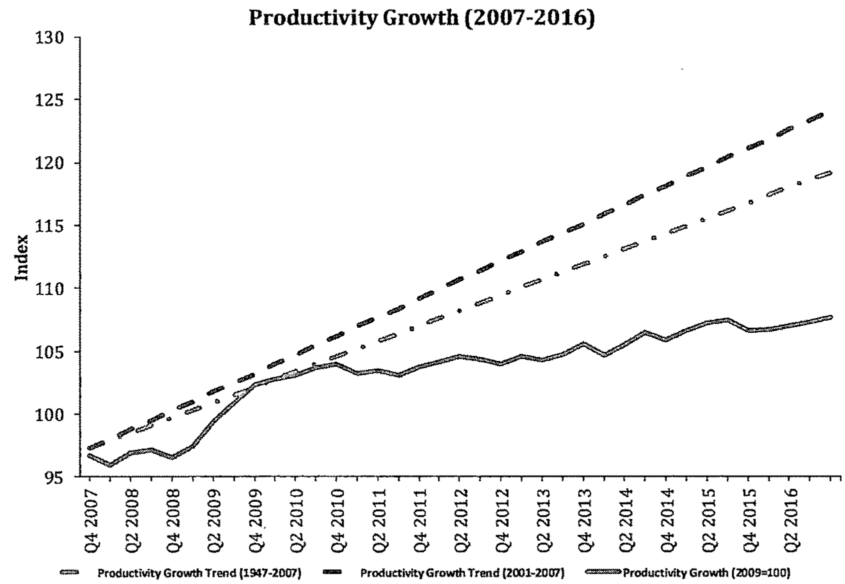
[1] https://www.nber.org/cycles/cyclesmain.html



That sluggish pace of growth equates to an average 1 percent per capita income growth. At that rate, it would take 70 years for an individual to double their standard of living – an achievement that used to take just 35 years or about one working career.[2]

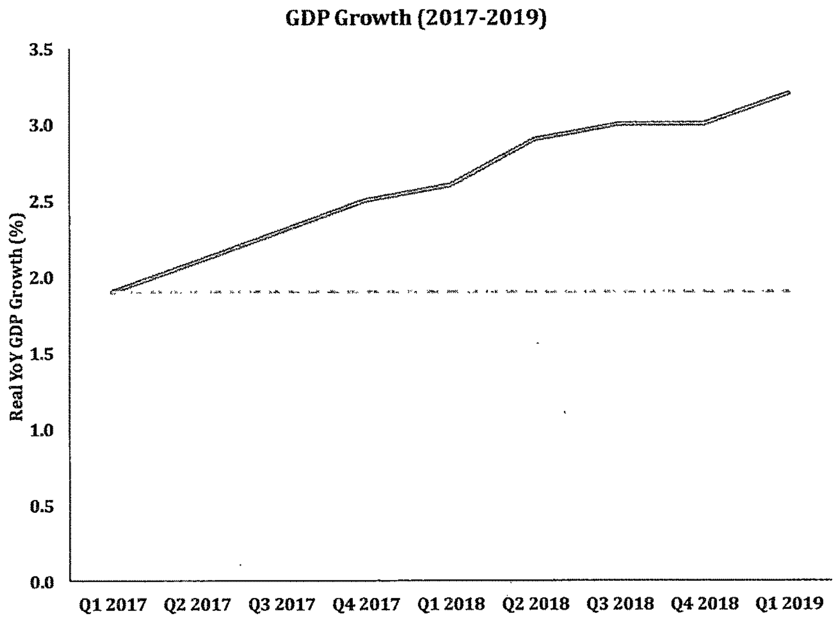
Productivity, an essential ingredient for long-term growth and the key determinant for wage growth, lagged behind historic performance.

2 https://www.uschamberfoundation.org/sites/default/files/The%20Growth%20Imperative.pdf



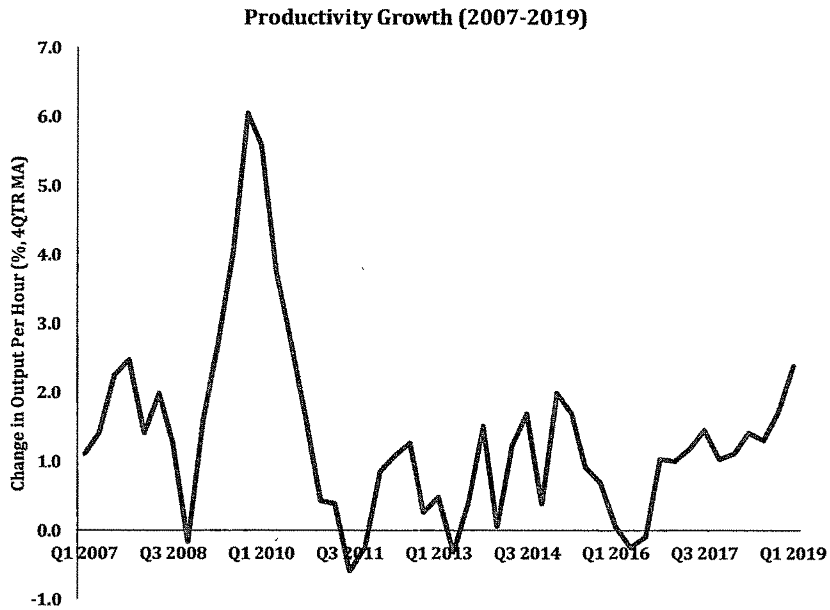
Source: BLS

But more recently, the pace of growth has accelerated, and has averaged somewhat above the sub-2 percent pace that prevailed during most of the recent recovery. Indeed, over the past 9 quarters, GDP growth has averaged 2.7 percent, 0.8 percentage points higher than the average of the preceding post-recovery period.

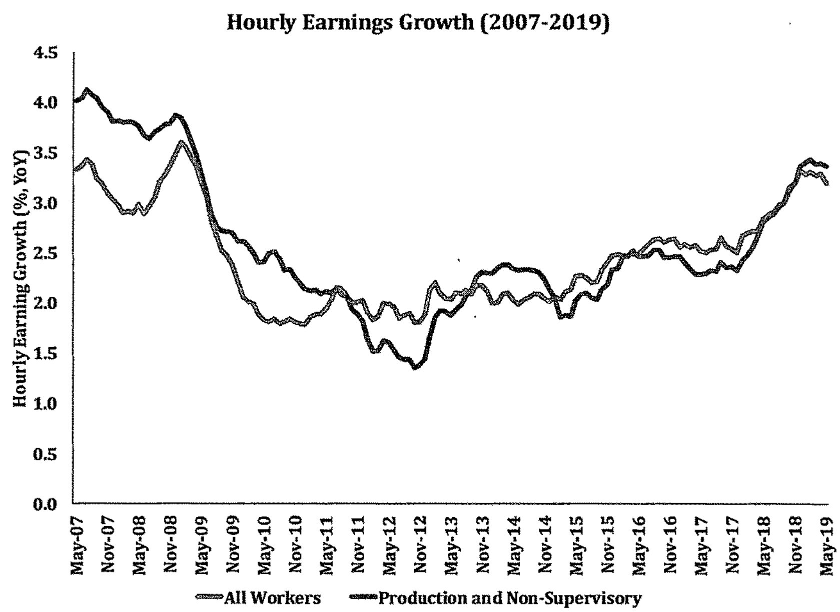


Reflecting this acceleration in growth, productivity has also strengthened. The most recent productivity data reflect the strongest annual growth since 2010.[3]

[3] https://www.washingtonpost.com/business/us-productivity-grew-at-solid-34percent-rate-in-first-quarter/2019/06/06/9be9a372-885a-11e9-9d73-e2ba6bbf1b9b_story.html?utm_term=.857658474db8



With higher growth and productivity, unemployment has continued to fall as payroll and wage growth have accelerated. Wage growth has improved overall, including for non-supervisory workers.



The upshot of recent economic performance is that past need not be prologue – moribund economic growth is not preordained. Ascribing the recent improvement in economic policy to any single policy would be dubious, but certainly public policy has had an effect on economic output. To the extent that the economy has improved, one could reasonably conclude that recent policy developments have contributed to more robust economic growth.

Recent Developments in Public Policy

Perhaps the most immediate policy change under the current administration has been with respect to the regulatory environment. The previous administration imposed net new regulatory costs of over $890 billion.[4] By contrast, in 2017 and 2018, net regulatory burdens were reported to have decreased by over $31 billion. While assessing the effect this deregulatory effort has had on the economy is difficult, there is a sound basis for concluding that these efforts have had a positive effect on economic growth.[5]

[4] https://www.americanactionforum.org/insight/midnight-regulations-push-obama-administrations-regulatory-tally-past-890-billion/
[5] https://www.whitehouse.gov/wp-content/uploads/2019/03/ERP-2019.pdf

The most significant legislative policy changes achieved by the current administration largely occurred at the end of 2017 and beginning of 2018 – these are the TCJA and the Bipartisan Budget Act of 2018 and related appropriations acts. According to the Congressional Budget Office (CBO) these measures would have, "measurable economic effects."[6]

Indeed, according to CBO, the TCJA would, through improved incentives to work and invest and increased disposable income, improve GDP by 0.7 percent over the budget window.[7] There is considerable uncertainty attached to such estimates. For example, the Tax Foundation estimated that the TCJA would "increase long-run GDP by 1.7 percent, create 339,000 jobs, and raise wages by 1.5 percent."[8] With about 18 months since the enactment of the TCJA, evaluating the impact the Act has had on the economy remains difficult. The primary channel for the long-run contribution to GDP growth is through the business tax reforms – essentially the incentive effect of a lower corporate tax rate and the allowance of expensing for investment, which expires in 2025. These incentives will take time to prove out and assessing the impact of these policies on the economy remains challenging, though there are some reasons for cautious optimism.[9]

The budget acts, which provided substantially higher levels of federal funding for defense and non-defense agencies, also contributed to stronger economic growth. According to CBO, "the effects of recent spending legislation are projected to boost the annual level of real GDP by 0.3 percent in 2018 and by 0.6 percent in 2019."[10]

The combined effects of the regulatory policy changes, the TCJA, and recent spending measures contributed to the recent improvement in economic growth and the related uptick in hiring and wage growth. These measures do not present unalloyed growth opportunities, however. Tradeoffs and future risks attend to each of these and other policy changes, particularly with respect to trade, that have been pursued by the current administration.

Evaluating Policy Risks

The major legislative achievements of the current administration also involve tradeoffs, for example higher debt with respect to the TCJA and spending measures, that must also be considered in evaluating the effects of these policies on the economy. Indeed, significant elements of the TCJA are temporary – muting somewhat its economic impact, while the current spending levels are set to decline

[6] https://www.cbo.gov/publication/53651
[7] https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf
[8] https://taxfoundation.org/tcja-one-year-later/
[9] https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Holtz-Eakin%20Testimony.pdf
[10] https://www.cbo.gov/system/files/2019-04/53651-outlook-2.pdf

under current law. The economic outlook is also clouded by uncertainty with respect to other major elements of the federal policy. Trade is a conspicuous example.

The current trade policy outlook is challenging. The United States is the most robust trading partner in the world, with combined trade volume in 2017 of goods and services valued at over $5.2 trillion.[11] Among nations, the United States was the second-largest exporter of goods and the largest exporter of commercial services as of 2017. Trade is vital to the United States, the largest economy in the world, and the trade policy landscape is unsettled.

Congress has an opportunity to contribute to improving the trade outlook by considering the United States-Mexico-Canada Agreement (USMCA). The USMCA modernizes the existing North American Free Trade Agreement (NAFTA) by adding protections for intellectual property and updating rules on digital trade. The agreement also updates prevailing trade rules related to the agriculture, manufacturing, and automotive industries. While the economic implications for the USMCA should not be overstated, demonstrating the capacity to ratify trade agreements would send a meaningful signal to global trading partners and remove some policy uncertainty from the economic horizon.

The executive branch's approach to trade is also uncertain. The tariffs threatened and imposed by the president and related retaliatory actions by U.S. trading partners is irreducibly costly. According to estimates by my colleague Jacqueline Varas, the administration has imposed tariffs costing $69.3 billion on a combined $283.1 billion of imports. In response, the EU, China, Russia, Turkey, and India have imposed tariffs on $110 billion of U.S. goods.[12] The administration has threatened additional tariff actions that could substantially raise costs to U.S. consumers. Ultimately, the cost of these tariffs must be weighed against the degree to which they are successful in achieving other beneficial trade policy aims. To the extent that the administration can use tariffs as a negotiating tool that secures more beneficial trade terms, particularly with respect to China's practices, the tariffs could be justified. If the tariffs do not produce an improvement in trading terms, however, they will simply remain a new tax on U.S. households.

Conclusion

The recovery from the Great Recession is poised to ring in its 10-year anniversary, marking the longest economic expansion in U.S. history. That growth in GDP, employment, and wages accelerated in the last 2 years is remarkable, and underscores the significance of public policy to improving the economic outlook. But these improvements in growth are not guaranteed – major forecasters predict the U.S. economy will slow over the next several years. But this is not inevitable –sound,

[11] https://www.wto.org/english/res_e/statis_e/wts2018_e/wts2018_e.pdf
[12] https://www.americanactionforum.org/research/the-total-cost-of-trumps-new-tariffs/

pro-growth policy can meaningfully improve the economic outlook and ensure future Americans will be able to see enjoy the high and growing standard of living that has characterized the modern American economy.

Testimony by Ronnie Russell
Board of Directors, American Soybean Association
before the
Subcommittee on National Security, International Development and Monetary Policy
Committee on Financial Services
U.S. House of Representatives

I want to thank Chairman Cleaver and Ranking Member Stivers for inviting me on behalf of the American Soybean Association (ASA), to provide testimony to the Committee on the impact of trade and tariffs to the agriculture economy and to soybean producers. My name is Ronnie Russell and I am a soybean farmer from Missouri where I farm in Ray County. I am a member of the American Soybean Association Board of Directors and serve on the ASA Governing Committee. ASA is the national organization that represents U.S. soybean farmers on policy and international issues. This testimony will be on behalf of the American Soybean Association; however, I would like to provide a fist hand account of how the current trade and tariff uncertainty has impacted me and the long-term health of my farming operation.

U.S. Soy Industry

In 2017, U.S. farmers produced a record 4.4 billion bushels of soybeans and exported 2.3 billion bushels, or 52 percent, valued at $27 billion. For the last 20 years, soybeans have contributed more to the U.S. trade balance than any other agricultural product. We are very proud of this record, and of our role in helping to feed a growing world. China is the world's largest soybean importer, buying 93 million metric tons of soybeans in 2016, mostly from Brazil, the U.S. and Argentina. In 2017, China imported 1.4 billion bushels of U.S. soybeans, 62 percent of total U.S. exports and nearly one-third of our annual soy production. Over the next 10 years, Chinese demand for soybeans will grow annually by the size of our entire export market to the EU.

Impact of Tariffs on Producers

Things are bad in farm country right now. If I were back on my farm in Missouri today, I would be planting my spring crops. However, the concerning reality of the farm economy and our rural communities has led me to speak today to give you an idea of what farmers in my rural community and many other communities across the heartland of America are experiencing.

As a farmer producing soybeans, corn, wheat, hay and alfalfa I am no stranger to the perils and unpredictability of farming. I have been farming for 43 years and have seen my share of low prices and crop loss due to weather. This season has been one of the most challenging I have experienced. But as a farmer who has always had to deal with the possibility of inclement weather, I have tools at my disposal to mitigate a year with poor planting, flooding or even drought.

However, over the past year I have endured threats to my farm that I cannot control or predict. The use of tariffs by the U.S. government has resulted in punitive retaliatory tariffs on U.S.

exports, particularly agriculture products. The most detrimental of these is the 25 percent retaliatory tariff on U.S. soybeans imposed by China on July 6, 2018.

This retaliatory tariff has all but halted the shipment of U.S. soybeans to China, which up until last year was by far our largest export destination. In 2017, China purchased $14 billion worth of U.S. soybeans. This was no drop in the bucket. It represented fully 31 percent of our total soybean production that year, and 60 percent of our annual exports.

The imposition of retaliatory tariffs by China has caused immediate and severe damage to the price of U.S. soybeans, which fell from $10.89 to $8.68 per bushel last summer. These low prices have continued and, in some cases, dropped even further. Farmers are losing money on every acre of beans we plant. The impact on my farm has been significant. And because this drop was driven, not by weather or increased competition but instead as a result of the government's use of tariffs, it is hard to determine the extent of damage to my business.

Soybean farmers like me are feeling the impacts of the tariff war; and they are unsure if they will be able to make it through another growing season. Older farmers are considering retiring early to protect the equity they've built up in their farms, while younger producers are looking at finding other employment. We may also see the shuttering of more businesses in rural communities whose livelihoods depend on the health of the farm economy.

As late as April this year, U.S. farmers were hopeful that an end to the ongoing tariff war with China was close at hand. However, the recent increase in tariffs and the potential for further escalation is unacceptable. Our finances are suffering and stress from months of living with the consequences of tariffs is mounting. Soybean growers need China's tariff removed now.

Recommendations

Long-term, what farmers and rural communities need is predictability and certainty, which only comes through maintaining and opening new markets where we can sell our products. For decades, U.S. soybean farmer check-off dollars went into developing China's market for soybeans. Our investments grew the Chinese market from $414 million in 1996 to $14 billion in 2017. While we are working hard to diversify and expand other market opportunities, the loss of the China market cannot be fully replaced.

I ask Congress to urge the Administration to conclude negotiations with China that include immediately lifting Section 301 tariffs by the U.S. in exchange for China removing its 25 percent tariff on U.S. soybeans. I also urge the Administration and Congress to finalize and enact the US-Mexico-Canada Agreement and begin negotiations of new Free Trade Agreements with other countries that offer the potential for increasing imports of soy and livestock products.

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[DISCUSSION DRAFT]

116TH CONGRESS
1ST SESSION

H. R. ______

To require the President to provide notice and reporting with respect to the effects of proposed tariffs on United States financial markets and consumers, to establish the Tariff Review Committee, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. CLEAVER introduced the following bill; which was referred to the Committee on ______________

A BILL

To require the President to provide notice and reporting with respect to the effects of proposed tariffs on United States financial markets and consumers, to establish the Tariff Review Committee, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Tariff Truth and Transparency Act of 2019".

SEC. 2. REQUIREMENTS FOR EXECUTIVE ACTION ON TARIFFS.

(a) NOTICE OF INTENT TO IMPOSE OR REMOVE TARIFF.—The President shall publish notice in the Federal Register at least 45 days in advance of the imposition of any new tariff or removal of existing tariff under any provision of law with respect to a foreign country or foreign entity, of the President's intention to implement such change.

(b) CONSULTATION.—The President shall consult with the Congress regarding a proposed new tariff, including consultations regarding—

(1) efforts to achieve or increase multilateral cooperation on the issues or problems prompting the proposed tariff; and

(2) efforts to ensure the proposed tariff does not have a detrimental effect on United States financial markets and consumers.

(c) PUBLIC COMMENT.—The President shall publish a notice in the Federal Register of the opportunity for interested persons to submit comments on any proposed new tariff.

(d) REQUIREMENTS FOR EXECUTIVE BRANCH.—With respect to any new tariff imposed by the President—

(1) the tariff shall terminate not later than 2 years after the tariff is imposed, unless specifically

extended by the President in accordance with this section; and

(2) the President shall seek to minimize any adverse impact on the humanitarian activities of United States and foreign nongovernmental organizations in a country against which the tariff may be imposed.

(e) REPORT BY THE PRESIDENT.—Prior to imposing any new tariff, the President shall provide a report to the Congress on the proposed tariff. The President's report shall contain the following:

(1) An explanation of the objectives intended to be achieved through the proposed tariff.

(2) An assessment of—

(A) the likelihood that the proposed new tariff will achieve its stated objectives within a reasonable period of time, which shall be specified;

(B) whether the achievement of the objectives of the tariff outweighs any costs to United States national interests, including costs to United States financial markets and consumers; and

(C) the impact of the proposed new tariff on—

(i) United States financial markets and consumers;

(ii) the overall United States economy;

(iii) humanitarian conditions, including the impact on conditions in any specific countries on which the tariff is proposed to be imposed;

(iv) humanitarian activities of United States and foreign nongovernmental organizations; and

(v) relations with United States allies.

(3) Individual agency views on the ability of the tariff to achieve the tariff's stated purpose and any views, including a concurrence or non-concurrence on the tariff, from the Secretary of the Treasury, Secretary of Agriculture, Secretary of Defense, Secretary of Commerce, Secretary of Energy, Director of the Office of Management and Budget, and the United States Trade Representative.

(4) A description and assessment of—

(A) the likelihood of multilateral adoption of comparable measures;

(B) comparable measures undertaken by other countries;

(C) alternative measures to promote the same objectives, especially if such measures may results in less costs to United States financial markets and consumers, and an assessment of their potential effectiveness;

(D) any obligations of the United States under international treaties or trade agreements with which the proposed tariff may conflict;

(E) the likelihood that the proposed tariff will lead to retaliation against United States interests, including agricultural interests; and

(F) whether the achievement of the objectives of the proposed tariff outweighs any likely costs to United States interests, including any potential harm to United States financial markets, business, agriculture, and consumers, and any potential harm to the international reputation of the United States as a reliable supplier of products, technology, agricultural commodities, and services.

(f) FEDERAL RESERVE REPORT ON ECONOMIC COSTS OF THE PROPOSED TARIFF.—Before imposing a new tariff, the Board of Governors of the Federal Reserve System, in consultation with the United States International Trade Commission, shall issue a report to the

President and the Congress on the likely short-term and long-term costs of the proposed tariff to the United States economy, including—

(1) the potential impact on United States trade performance, employment, and growth;

(2) the international reputation of the United States as a reliable supplier of products, agricultural commodities, technology, and services; and

(3) the economic well-being and international competitive position of United States industries, firms, workers, farmers, and communities.

(g) IMPACT REPORT ON AGRICULTURAL COMMODITIES.—Prior to the imposition of a new tariff by the President, the Board of Governors of the Federal Reserve System, in consultation with the Secretary of Agriculture, Secretary of Commerce, and Secretary of the Treasury, shall submit to the Congress a report that shall contain an assessment of—

(1) the extent to which any country or countries that will be subject to the tariff are a market that accounted for, in the preceding calendar year, more than 3 percent of all export sales from the United States of any agricultural commodity;

(2) the likelihood that exports of agricultural commodities from the United States will be affected

by the proposed tariff or by retaliation by any country to which the tariff will apply, including specific commodities which are most likely to be affected;

(3) the likely effect on incomes of producers of the specific commodities identified by the Secretary;

(4) the extent to which the proposed tariff would permit foreign suppliers to replace United States suppliers; and

(5) the likely effect of the proposed tariff on the reputation of United States farmers as reliable suppliers of agricultural commodities in general, and of the specific commodities identified by the Secretary.

(h) WAIVER AUTHORITY.—The President may waive any of the requirements of subsections (a), (b), (c), (e), (f), and (g), in the event that the President determines that such a waiver is in the national interest of the United States. In the event of such a waiver, the requirements waived shall be met during the 60-day period immediately following the imposition of the new tariff, and the tariff shall terminate 90 days after being imposed unless such requirements are met.

SEC. 3. TARIFF REVIEW COMMITTEE.

(a) ESTABLISHMENT.—There is established within the Executive Branch an interagency committee, which shall be known as the "Tariff Review Committee", which shall have the responsibility of—

(1) coordinating United States policy regarding tariffs; and

(2) providing appropriate recommendations to the President prior to any decision regarding the implementation of any tariff.

(b) MEMBERSHIP.— The Tariff Review Committee shall be composed of the following members, and any other member the President considers appropriate:

(1) The Secretary of the Treasury.

(2) The Secretary of State.

(3) The Secretary of Commerce.

(4) The Secretary of Agriculture.

(5) The Secretary of Defense.

(6) The Secretary of Energy.

(7) The United States Trade Representative.

(8) The Director of the Office of Management and Budget.

(9) The Chairman of the Council of Economic Advisers.

(10) The Assistant to the President for Economic Policy.

(c) CHAIR.—The President shall designate one of the members specified in subsection (b) to serve as Chair of the Tariff Review Committee.

SEC. 4. ANNUAL REPORTS.

(a) ANNUAL REPORT.—Not later than 6 months after the date of enactment of this Act, and annually thereafter, the President shall submit to the Congress a report detailing for each country with respect to which a tariff has been implemented—

(1) the extent to which the tariff has achieved the applicable objectives of the United States with respect to that country;

(2) the extent to which the tariff has harmed humanitarian interests in that country; and

(3) the impact of the tariff on other interests of the United States, including—

(A) United States financial markets and consumers;

(B) the United States economy generally; and

(C) relations with countries friendly to the United States.

(b) REPORT BY THE UNITED STATES INTERNATIONAL TRADE COMMISSION.—Not later than 6 months after the date of enactment of this Act, and annually thereafter, the United States International Trade Commission shall report to the Congress on the costs, individually and in the aggregate, of all tariffs in effect under United States law, regulation, or Executive order. The calculation of such costs shall include an assessment of the impact of such tariffs on the international reputation of the United States as a reliable supplier of products, agricultural commodities, technology, and services.

SEC. 5. EXCLUSION FOR ANTIDUMPING AND COUNTERVAILING DUTIES.

This provisions of this Act shall not apply to—

(1) an antidumping duty imposed pursuant to section 731 of the Tariff Act of 1930 (19 U.S.C. 1673); or

(2) a countervailing duty imposed pursuant to section 701 of the Tariff Act of 1930 (19 U.S.C. 1671).

SEC. 6. EFFECTIVE DATE.

This Act shall take effect on the date that is 20 days after the date of enactment of this Act.

Politico

Lighthizer won't rush USMCA in Congress (back)

By Sabrina Rodriguez

U.S. Trade Representative Robert Lighthizer said today that he has not rushed to get the new North American trade pact up for a vote, opting instead to make changes to win widespread Democratic support for the deal.

House Ways and Means Chairman Richard Neal (D-Mass.) asked Lighthizer to promise that he would give House Democrats the "space and time to workout" prevailing issues on the USMCA. Lighthizer reiterated his long-standing commitment to work with Democrats to garner their support.

"The bill has been public, and we've been in negotiations for nine months," Lighthizer said during a House Ways and Means hearing focused on President Donald Trump's trade agenda. "I don't believe that waiting nine months to get to the point where you can make improvements is rushing anything,"

The U.S., Mexico and Canada signed the new trade pact seven months ago, at the end of November. Lighthizer — who has been the face of the Trump administration's engagement with lawmakers on the deal — has been increasingly courting Democrats in recent months.

House Speaker Nancy Pelosi (D-Calif.) has appointed nine Democrats, led by Neal, to work with Lighthizer to address Democratic concerns on the agreement's provisions on enforcement, labor, environment and drug pricing. Lighthizer praised Pelosi for organizing those working groups.

"I'm very eager to sit down and say, 'OK, members, tell me with some specificity,' and then to be able to say, 'Here, I'll do this. Is that enough?' We just have to get to that stage," Lighthizer said.

Lighthizer recognized that Pelosi would determine when the deal gets brought up for a vote in the House. But he added that he believes "getting this deal done sooner rather than later is in everyone's interest."

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PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

18-21 China and the United States: Trade Conflict and Systemic Competition

C. Fred Bergsten
October 2018

C. Fred Bergsten, senior fellow and director emeritus, was the founding director of the Peterson Institute for International Economics (formerly the Institute for International Economics) from 1981 through 2012. Excellent research assistance was provided by Fredrick Toohey and David Xu. The Smith Richardson Foundation provided funding support for this research.

The current trade war between the United States and China is a central dimension of the emerging Cold War between the two superpowers. The conflict also highlights and threatens to aggravate the contest for global economic leadership between the two countries, which ranges far beyond their disputes over trade balances and level playing fields. This Policy Brief analyzes the links between the immediate clash and the far more important systemic confrontation and offers three suggestions for new policy directions that could address the two problems simultaneously.

First, China should join the current initiatives of the United States and the European Union, and of those two with Japan, to reform the rules of the World Trade Organization (WTO) to effectively address the systemic issues central to the present trade conflict: role of governments in economic policy as they affect issues such as trade and investment protection, subsidies, state-owned enterprises, technology transfer, intellectual property rights, and currency manipulation. Second, China should indicate an interest in joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); such a step probably would induce the United States to rejoin the arrangement and provide another venue to open markets and write new rules. Third, though not directly related to trade, the United States and China should work together to reform the International Monetary Fund (IMF) to shore up its financial resources and amend its governance structure to provide a much larger role for China (and other emerging-market economies such as India and Brazil).These steps would provide a comprehensive new framework to address the most critical problems that have triggered the current trade war, and the economic component of the new Cold War that surrounds it, as well as the even more fundamental crisis of the global economic order.

RISE OF CHINA

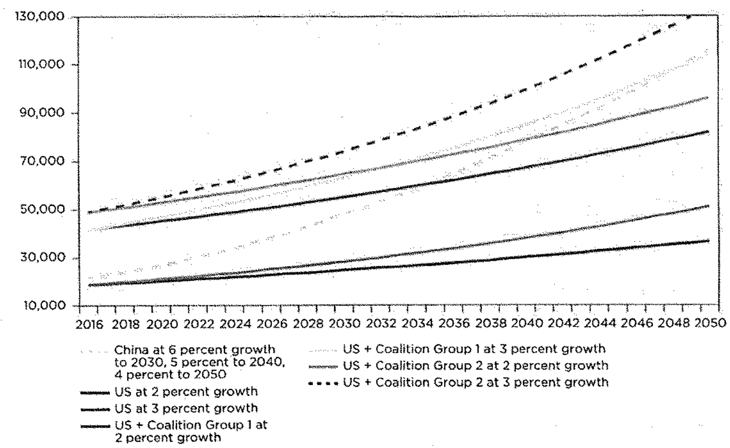
China's rise to global economic superpower status, with its distinct national characteristics, poses a challenge to the international economic order and its incumbent leader, the United States. History suggests the real possibility of inevitable conflict between rising and incumbent powers, the so-called Thucydides trap (Allison 2017). Germany's challenge to Great Britain in the late 19th century was associated with the end of the first era of globalization and the descent toward the First World War. The confrontation between rising Japan and the newly powerful United States in the 1930s contributed importantly to the onset of the Second World War. Some in the United States clearly want to arrest the rise of China to whatever extent possible. A new Cold War, or worse, could be at hand.

Transition periods in global leadership also lead to major economic disruption. Economic historian Charles Kindleberger (1973) blamed the Great Depression largely on the unwillingness of the newly powerful United States to replace the traditional but faltering leader, the United Kingdom, in providing the global public goods that were essential to head off the spread of that calamity: open markets for trade, adequate lending to debtor countries, and provision of needed liquidity in the face of financial crises. Such a "Kindleberger trap" could occur today if the United States were no longer willing or able to exercise such leadership and if China were not yet able or willing to do so.

China has been a larger economy than the United States in purchasing power parity (PPP) terms since 2010 (figure 1). Its trade is now slightly larger than that of the United States (figure 2). Its GDP at market exchange rates will exceed that of the United States, on likely growth pro-

Congress of the United States
Washington, DC 20515

Figure 1 GDP growth at PPP exchange rates, 2016–50



PPP = purchasing power parity

Coalition Group 1: United States, European Union, Canada, Australia, and New Zealand
Coalition Group 2: Group 1 plus Japan and South Korea

Source: IMF *World Economic Outlook* Database, October 2017; author's calculations.

jections, in about a decade (figure 3a). China is likely to outdistance the United States substantially on all these metrics over the coming decades.

A very different picture emerges, however, when the economic weight of America's traditional allies is added to that of the United States itself. The "hegemonic coalition" as a whole, whether limited to the core group of Europe-Canada-Australia-New Zealand (Coalition Group 1) or also including Japan and Korea (Coalition Group 2), more than doubles the size of the leadership alliance and prolongs its numerical superiority over China for at least two more decades (figures 1, 2, 3b, and 3c). The inevitable systemic competition between the United States and China has thus been largely viewed, in both countries and around the world, as a gradual and long-term process that would play out over many years and probably decades.

THREE NEW SHOCKS

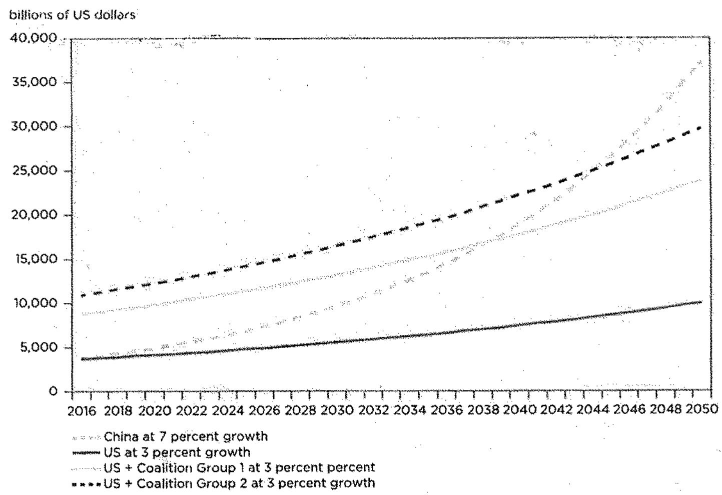
Three shocks surrounding the current US-China conflict now threaten to sharply accelerate the timetable, however, and greatly heighten the salience of the systemic issues for the resolution of that confrontation (and vice versa).

First, President Donald Trump's abdication of America's traditional international role, and especially his threatening of the alliances that underpin America's hegemonic coalition, could create a global leadership vacuum reminiscent of the 1930s. This could tempt China to make a dash for dominance rather than bide its time per the traditional mantra of Deng Xiaoping. A systemic clash could become much more imminent.

President Trump is of course not alone in endorsing US withdrawal from global responsibility. Many Democrats take credit for withdrawing from the Trans-Pacific Partnership (TPP) before he did and most of them also opposed the North American Free Trade Agreement (NAFTA). Both parties criticized globalization sharply during the 2016 campaigns. There is now substantial domestic pushback against Trump's abdication and protectionism, and a future administration from either party would probably be less extreme and much less confrontational. It is unclear, however, whether the United States will regain the will to re-assume global economic leadership at anything like the traditional level in the foreseeable future.

A dash for dominance by China is especially plausible because of the second new shock: the ambitious agenda of President Xi Jinping to realize "the China Dream" sooner

Figure 2 Trade growth, 2016–50



Coalition Group 1: United States, European Union, Canada, Australia, and New Zealand
Coalition Group 2: Group 1 plus Japan and South Korea
Source: IMF *Direction of Trade Statistics*; author's calculations.

rather than later (though there are some indications that the rhetoric to that end is now being dialed down). The "Made in China 2025" program explicitly endorses this goal. Xi's assumption of political power for an indefinite period enables him to pursue such an effort. It reflects a widespread Chinese view that US responsibility for the global financial crisis in 2008–09 severely, perhaps fatally, discredited the American economic model and the ability of the United States to provide credible global leadership.

The third shock emphasizes the importance of the possible acceleration of the global transition timetable: the apparent reversal of China's economic policy strategy. As my colleague Nicholas Lardy (2019) lays out brilliantly in a forthcoming book, the emphasis on marketization, which drove Chinese economic policy for 30 years after the opening up reforms of the late 1970s, has given way to a renewed focus on state enterprises, governmental intervention, and central control—political as well as economic. This reversal significantly affects China's foreign economic policy and could carry profound implications for other countries.

THREE SYSTEMIC POSSIBILITIES

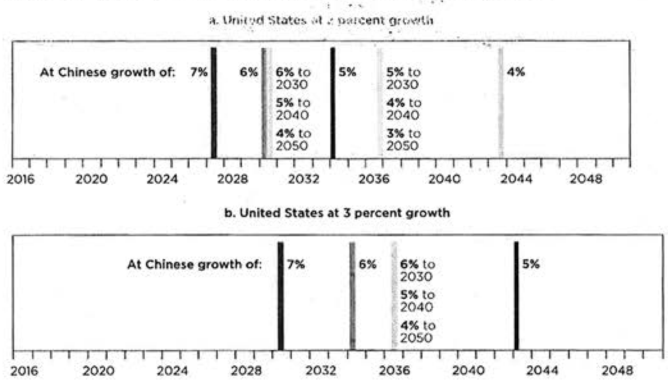
In this new global environment, three systemic outcomes are possible. The first, and perhaps most likely, is a **G-0** world without any effective national leadership at all. The United States is arguably still able but no longer willing to lead. China may not yet be either able or willing. The result could be an unstable G-0 (G-0u), a replication of the "Kindleberger trap" of the 1930s: a systemic vacuum with no provider of public goods to counter another, perhaps even worse, global trade and/or financial crisis.

On the other hand, a leaderless world could turn out to be stable (G-0s) even without its traditional leader. The rest of the world has responded admirably to Trump's abdication so far by keeping the system intact, and indeed moving ahead, on many fronts, for example, the Paris agreement on climate change, the CPTPP, and new free trade agreements (most notably EU-Japan). The Federal Reserve, as an independent institution, can continue to support the monetary system as it did so critically during the financial crisis in 2008–09.

Will the rest of the world be able to proceed successfully without the "indispensable nation," especially when the next crisis hits? Will the institutions that have been built up

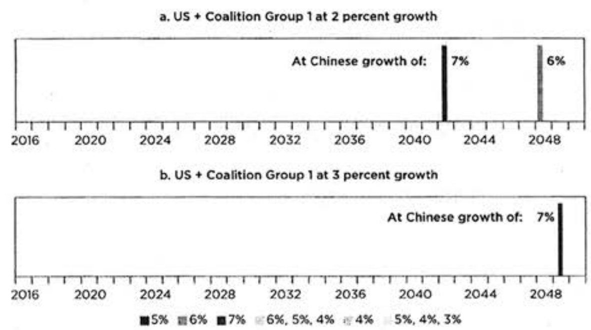
Congress of the United States
Washington, DC 20515

Figure 3a When does China exceed US GDP at market exchange rates?



Note: Light blue and green lines not shown in panel b because if Chinese GDP grows at those rates, it will not exceed US GDP (assuming 3 percent growth) by 2050.
Source: IMF *World Economic Outlook* Database, October 2017; author's calculations.

Figure 3b When does China exceed US + Coalition Group 1 GDP at market exchange rates?

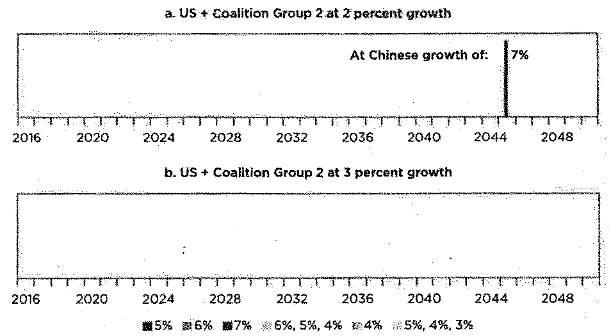


Coalition Group 1: United States, European Union, Canada, Australia, and New Zealand
Note: Other lines not shown because if Chinese GDP grows at those rates, it will not exceed US + Coalition Group 1 GDP by 2050.
Source: IMF *World Economic Outlook* Database, October 2017; author's calculations.

so painstakingly over the last 70 years hold? The European Union and especially the eurozone and the European Central Bank on monetary issues will be key determinants of the G-0 outcome, stable or unstable. So will China, if it chooses (as it has on several occasions in the past) to shore up the current system, from which it has gained so much—but from whose rules it has been quite willing to deviate when it believes it gains from doing so.

If the G-0 proves to be unstable, and the United States remains in withdrawal mode from the world and attack

Figure 3c When does China exceed US + Coalition Group 2 GDP at market exchange rates?



Coalition Group 2: Group 1 plus Japan and South Korea

Note: Other lines not shown because if Chinese GDP grows at those rates, it will not exceed US + Coalition Group 2 GDP by 2050.

Source: IMF *World Economic Outlook* Database, October 2017; author's calculations.

mode on its erstwhile allies, and especially if China decides to make a dash for dominance rather than support the current regime, a **G-1** led by China is a plausible alternative. The rest of the world might welcome, and even seek, such a result to fill the void. China's domestic politics would presumably support, and even exult in, such a dash.

An international economic order with Chinese characteristics could differ significantly from its predecessors (led by the United Kingdom and then the United States). There would be less emphasis on the market and more scope for governmental intervention, especially on international transactions (managed trade) but also in domestic policies. There would be less rule of law and institutionalized dispute settlement and more voluntary arrangements and negotiated resolutions, preferring the United Nations institutions to those of Bretton Woods. There would be less democracy and more centralized authority.

All this would presumably evolve over time, as modifications to the existing order, rather than emerge full-blown through a "new Bretton Woods" agreement. It would clearly be uncomfortable for the United States and most other members of the hegemonic coalition, although, as otherwise opposites Thomas Friedman[1] and George Will[2] have both noted recently, Trump has moved considerably in China's direction on such issues and attitudes as absolute sovereignty, trade protection, the rule or nonrule of law, disregard for truth, and sycophancy.

This prospect vividly illustrates the link to the current US-China disputes. Those disputes center on some of these very issues, including the apparent inability of current international rules and enforcement mechanisms to prevent objectionable Chinese practices (intellectual property theft, forced technology transfer) but also objectionable US practices (abuse of "national security" protection, blocking of the dispute settlement system). Differences persist over the role of the state (e.g., regarding state-owned enterprises and support for national champions), international governance (e.g., regarding subsidies and China's demand to be accorded "market economy status" in the WTO), and decision-making procedures. Different outcomes of the current debates will push the system in different directions, and different systemic reforms would lead to different resolutions of such issues in the future.

The third systemic option is thus the most desirable: a **G-2** in which the United States and China, under the looming threat of trade wars and major economic and political disruption, work together to resolve their current conflicts and begin to address the structural issues to head off either a Thucydides trap or a Kindleberger trap. Such a strategy would provide essential leadership within the existing institutions, both formal (WTO, IMF) and informal

1. Thomas Friedman, "Are we becoming too like China?," *New York Times*, May 9, 2018, A25.

2. George Will, "The Socialist States of America," *Washington Post*, July 8, 2018, A17.

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(G-20, APEC), for carrying out their mandates to achieve and economic prosperity and stability.

AN ACTION AGENDA

In addition to resolving some of the immediate issues, the action agenda could have three major components:

1. China should join the new US-EU and US-EU-Japan initiatives to reform the rules of the WTO (including those on subsidies, intellectual property rights, state-owned enterprises, investment, technology transfer, and maybe cybersecurity) in a plurilateral and thus less charged political context. This step by China would both provide an effective substantive response to the most pressing (as well as long-term) problems and multilateralize the means for doing so, which is the best way to obtain cooperation from China.
2. China should indicate interest in joining the CPTPP, which would probably induce the United States to rejoin so both could then use the negotiation to reduce barriers and write new regional rules in some of these areas. The United States has been hostile toward the CPTPP, but most of the other members would welcome Chinese participation and the United States would find it very difficult to stay out if China entered.
3. Both China and the United States should support major reform of the IMF, as already scheduled for the next two years, to provide it with adequate financial resources and modify its governance to better reflect the evolving balance of international economic power for China and a few others such as India and Brazil. This action item does not relate directly to the trade issues but is an essential component of constructively engaging China into global economic leadership.

Channeling the current confrontation partly toward such multilateral rule-making negotiations, based on prior agreements between, and steered by, the United States and China themselves, would represent by far the most constructive path toward its resolution. [illegible] be for the United States and China to work out their own differences first, through a new bilateral arrangement or even a free trade agreement, and then transmit their agreements to the broader regional and global contexts. Whatever the chosen strategy, the goal would be to link the immediate conflicts and long-term systemic considerations (in addition to agreeing on more immediate deliverables to help overcome the current confrontation).

The United States disrupted the global economic order once before in the postwar period with the "Nixon shocks" of floating the dollar and imposing an across-the-board import surcharge in 1971. The immediate result was several years of financial instability, trade uncertainty, and high diplomatic tension. But the system held. Moreover, the long-term results were highly constructive: Most of the world moved to floating from fixed exchange rates, and the Tokyo Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) reduced trade barriers substantially and significantly improved the GATT (e.g., negotiation of the Subsidies Code and the Government Procurement Agreement, among others). A similar outcome can be achieved on this occasion but only if the rest of the world, including China, keeps the regime afloat during the G-0 period of US abdication and if the United States and China themselves resolve their current confrontation and agree to cooperate to modify the system so that it is sustainable in the long run.

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