

**TRADE WARS AND HIGHER COSTS:
THE CASE AGAINST TRUMP'S TARIFFS**

HEARING

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TRADE WARS AND HIGHER COSTS: THE CASE AGAINST TRUMP'S TARIFFS

Wednesday, December 18, 2024

UNITED STATES CONGRESS,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to call, at 2:34 p.m., in Room 210, Cannon House Office Building, Hon. Donald S. Beyer, Jr. presiding.

Present: Representatives Schweikert, Estes, Beyer, Trone, and Moore.

Senator Hassan.

Also Present: Representatives DelBene, Schneider, and Panetta.

Staff Present: Sebi Devlin-Foltz, Jessica Martinez, Hannah Ceja, Lia Stefanovich, Ron Donado, Jacob Rogers, Douglas Simon, Garrett Wilbanks, Shauna Burton, Matthew Cernicky, Jeremy Johnson, and Colleen Healy.

Representative Beyer. Given that the magic hour has arrived, I am happy to call this hearing to order, and we will have more people showing up. House votes just finished. Senate votes are about to begin. But this hearing will come to order.

I would like to welcome everyone to today's hearing. It is entitled "Trade Wars and Higher Costs: The Case Against Trump's Tariffs."

I want to thank all of our distinguished witnesses for being here even though this will make the case for Trump's tariffs.

The Constitution—but let me turn to my opening statement.

The Constitution empowers Congress, not the President, to determine trade policy for good reason. Misusing the power to impose tariffs can wreak havoc on our economy.

We are holding this hearing today because the President-elect has vowed to implement massive tariffs in his second term, wrongly, I believe, claiming that it will lower costs for Americans and bring back jobs. The President-elect seems to have forgotten the outcome the first time he implemented this: trade wars that raised costs for Americans, it outsourced American jobs, and resulted in billions of Federal bailouts to large corporate farms.

This time it can be much worse. His proposed across-the-board tariffs would apply a 10 or 20 percent tax to all imported goods—all imported goods—cell phones, auto parts, coffees, bananas, you name it—regardless of the country of origin, which greatly expands the type and the quantity of goods subject to the tariffs.

Experts across the ideological spectrum, both Democratic and Republican witnesses for today's hearing, have found that these tariffs drive up costs in the U.S., shrink the economy, and leave us worse off.

An analysis by our witness, Brendan Duke of the Center for American Progress, found that a proposed 20 percent tariff on all imports combined with a 60 percent tariff on Chinese imports would mean that a typical American household pays up to \$3900 more per year.

I know Ed Gresser from PPI has done similar effects in his work which shows how tariffs harm the economy. We need only look back a few weeks to this last election to see how much Americans dislike inflation and having their costs raised.

Separately, one of the Republican witnesses, Erica York of the Tax Foundation, found that Trump's proposed tariffs could shrink GDP by as much as 1.7 percent after factoring in retaliatory tariffs from other countries.

And just this afternoon, the Congressional Budget Office released a report showing that a version of Trump's tariff plan would cut the GDP and raise prices, while failing to raise enough revenue to pay for things like his proposed tax cuts.

It is always refreshing when rigorous analysis done by experts across the ideological and political spectrum reach similar conclusions. I was in New York this past week with another senior American economist, well known, who said 98 out of 100 economists who we talk to would agree that tariffs are a bad thing.

We can all clearly tell China, Mexico, and Canada are not paying for these tariffs. I was in business for almost 50 years, and I know that when a tariff is imposed, it is the purchasing business, the American importer, who pays the tax, who then, to the best of their ability, passes that tax on to the consumers.

Tariffs of this magnitude also invite carve-outs and exemptions for well-paid and well-connected and well-lobbied corporations. In 2021, GAO report found that the Trump administration officials gave away exemptions to hundreds of importers and often failed to fully document how they reviewed and what they decided on in these exemption requests.

Perhaps these exemptions were disproportionately granted to donors of Republican candidates, which is not my conclusion but one reached by an analysis of exemption data and political contributions. They, conversely, also found that companies' donations to Democrats reduced its odds of being granted an exemption.

The reality of this reckless economic plan is it won't grow the middle class, nor will it lower the cost of groceries or rent. Donald Trump even wants to use these tariffs as a way to pay for the trillions of dollars in tax cuts for the rich that are in TCJA, part 2. So higher costs for you, lower taxes for his wealthiest friends.

And, thankfully, it is not just Democrats calling out his proposal. There are economists on all sides of the political spectrum agree that tariffs are bad economic policy that would shrink the economy by billions.

I know, folks, this is basic economics. Many people are calling the Trump tariffs tax hikes. In my simple word, they are inflation aggravators. They are a threat to the economy and the threat underscores the importance for Congress to reassert its constitutional authority over trade policy. That is why I am looking forward to the testimony of the witnesses.

[The statement of Representative Beyer appears in the Submissions for the Record.]

Representative Beyer. As soon as Vice Chairman Schweikert gets here, we can do his opening statement. But in the meantime, let me turn to our witnesses. Let me introduce them one at a time.

First—Senator, good luck with your vote. Please come back if it is possible.

Senator Hassan. I will try.

Representative Beyer. Mr. Ed Gresser is the vice president and director of Trade and Global Markets at the Progressive Policy Institute. Prior to his current role, he worked at the Office of the United States Trade Representative. He has served as the U.S. trade representative for Trade Policy and Economics.

He began his career as a Capitol Hill staffer and later as head of PPI's trade and local markets. He also co-founded and directed the think tank Progressive Economy.

So, Mr. Gresser, the floor is yours for 5 minutes.

STATEMENT OF MR. ED GRESSER, VICE PRESIDENT AND DIRECTOR FOR TRADE AND GLOBAL MARKETS, PROGRESSIVE POLICY INSTITUTE, WASHINGTON, DC

Mr. Gresser. Mr. Chairman, thank you very much. Members of the committee, thank you for holding this hearing on an across-the-board increase in U.S. tariffs next year.

My view in brief: This would lower American living standards, erode our business competitiveness, and harm our exporters. Depending on the method used, it could also damage U.S. governance and the separation of powers and raise corruption risks.

I might start with a definition. Since, like you, I have heard some puzzling assertions this year that foreigners might somehow pay tariffs. No. U.S. tariffs are taxes paid by Americans.

A tariff is a tax on purchases of goods from overseas, paid to Customs and Border Protection by U.S.-based individuals or businesses. If the buyer is a retailer, the tariff becomes part of the store price. If the buyer is a manufacturer or a home builder or a farmer, it becomes part of production cost.

As an example, imagine a retailer ordering 10,000 men's cotton shirts at \$10 each. These have a 19.7 percent MFN tariff, so the retailer writes three checks: \$100,000 for the shirts, \$19,700 to CBP for the tariff, and \$5,000 to the shipping company. Altogether, she has paid \$124,700, \$12.47 per shirt, including \$1.97 in tariff payments. This is a landed cost from which she marks up to cover expenses and earn enough to profit. At the cash register a week later, the tariff is embedded in the price. The retailer has written the check, a shopper has borne the cost. Again, U.S. tariffs are taxes paid by Americans, not foreigners.

Our tariffs last year averaged 2.4 percent. What if this were to spike to 10 percent or 20 percent? I suggest three effects. First, prices would rise for families as we add 10 or 20 percent to today's taxation of shirts, winter vegetables, cars, energy, OTC medicines, salt, all 11,414 goods in the tariff schedule.

Mrs. York and Mr. Duke have both done excellent studies of the impact this would have on families. I would only add that this impact falls most heavily on lower income Americans since more of

their budgets go to goods. A single-parent family, for example, spends 39 percent of post tax income buying goods, twice as much as the 19 percent for the wealthiest households.

Second, economywide, as we impose a tax that hits U.S. goods using industries—manufacturing, farming, retail, and construction—economy changes a bit as they shrink relative to nongoods users, such as, for example, real estate or financial services. As tariffs raise costs for energy, metals, paint, fertilizer, and other inputs, U.S. manufacturers and farmers lose ground to their foreign rivals, both here in the U.S. and overseas.

As tariffs hike home and consumer goods prices, builders and retailers lose sales. Meanwhile, the industries which spend less on goods, more on investment, more on services, are mostly exempt and they tend to grow. In fact, since the smaller tariffs in 2018, manufacturing has dropped from 10.9 percent to 10.0 percent of GDP, and manufacturing trade deficits have nearly doubled.

Third, multiple harms to U.S. exporters. Countries hit with tariffs, especially in violation of trade agreements, often retaliate. Exporters are then the cannon fodder of trade wars, first to be pushed into the front line and first to fall. Who are they? American farmers earn 20 percent of their income from exports and are always early targets for retaliation. USDA believes in 2018 and 2019 they lost \$27 billion to foreign retaliation. In the business world, African American exporters average 21 workers at payrolls of \$75,000 each, compared to 11 workers and \$54,400 across the privately held business community. These are important and successful parts of our economy, and we shouldn't sacrifice them lightly.

Many of exporters' losses, though, come even without retaliation, as friendly fire casualties of our own tariffs. Arizona, New Mexico, and Texas, for example, exported \$141 billion worth of goods south to Mexico last year. This included tens of billions of dollars in auto parts, semiconductors, specialized components, and other high-value things that Mexican plants buy to assemble into cars and appliances.

If we put tariffs on Mexico, these plants in Mexico will contract, they will then buy less from their Phoenix, Rio Rancho, and Houston suppliers, and then the U.S. and Mexico both lose output in jobs.

Finally, and apart from the economic consequences, I am highly concerned to read discussion of potential attempts to impose tariffs by decree without congressional approval. The Constitution gives Congress the unambiguous power to set taxes, duties, imposts, and excises is actually the very first enumerated power and is there for good reason.

If a President or any single individual can create his or her own tariff system, not only do impulsive and unsound decisions become more likely, but all future Presidents would face standing temptation to use tariffs in corrupt ways to award supporters and cronies or to punish critics and business rivals. This risks systemic harm to American governance. I hope no administration would proceed in such a way.

Thank you.

[The statement of Mr. Gresser appears in the submissions for the Record:]

Representative Beyer. Mr. Gresser, thank you very much.

I now move on to Mr. Brendan Duke. He is the senior director for economic policy at the Center for American Progress. Prior to joining CAP, he worked as a senior policy analyst on the National Economic Council and served on the Biden Administration Supply Chain Disruption Task Force. He has also been a senior adviser to Senator Michael Bennet, worked for the Senate for Budget and Policy and, most importantly, in his distinguished background, he was part of the Democratic staff of the Joint Economic Committee.

So welcome back, Mr. Duke. The floor is yours for 5 minutes.

STATEMENT OF MR. BRENDAN DUKE, SENIOR DIRECTOR FOR ECONOMIC POLICY, CENTER FOR AMERICAN PROGRESS

Mr. Duke. Thank you, Congressman Beyer. And thank you members of the committee.

My name is Brendan Duke. I am honored to submit this testimony about President-elect Donald Trump's tariff proposals.

Trump has unveiled several proposals to tax imported goods, too many for me to go through in the allotted time here. But his most consistent idea is a sweeping 10 to 20 percent tax on all imported goods, with a special 60 percent tax on imported goods from China.

Taxes on imported goods can serve two purposes. They can promote U.S. production of the tariff products or they can raise revenue. It is impossible for a tax to do both effectively at the same time.

A tax on imported widgets that successfully completely reshore production of those widgets wouldn't raise a dollar of revenue since nothing would be imported. Similarly, a tax that was maximally successful at raising revenue wouldn't onshore any U.S. production.

It is clear that the across-the-board tariffs that Trump has proposed are a revenue-raising device that would fail to do much to promote U.S. manufacturing. There are three reasons for this.

First, it would apply to imported goods that the United States does not produce and does not have any reasonable hope of producing, such as coffee or bananas. We will simply raise revenue from taxing those imported goods from abroad instead of producing them here.

Second, economic theory and evidence shows that tariffs do not change the size of a country's trade balance since they also cause the currency to appreciate. This makes imports cheaper. In fact, Trump's Treasury Secretary nominee has stated, quote, Historically, 40 to 50 percent of the tariff is recovered in currency appreciation, end quote.

At the same time, dollar appreciation makes U.S. exporters less competitive with foreign producers and causes U.S. exports to fall. So much of whatever increase in U.S. manufacturing we see from fewer imports would be offset from the reduction in exports.

Third, U.S. exporters would become less competitive because the across-the-board tariff would raise the costs of their inputs for U.S.-based production. Across-the-board tariffs ignore many of the key rationales U.S. policymakers have for imposing tariffs, such as protecting or growing a key industry on national security or economic competitiveness grounds. It, instead, lets the market decide

which imports and exports to produce, almost certainly leaving those key strategic rationales completely unfulfilled.

Strategic tariffs in carefully chosen sectors can be a useful tool as part of a country's larger national security or industrial strategy. More targeted tariffs recognize the fact that tariffs cannot change the size of the U.S. trade balance but can shape its composition to fit our national security or economic competitiveness needs.

The Biden administration's approach is a good template for how this can work: focusing on incentivizing important industries, like electric vehicles, with targeted tariffs and significant investment. This approach has resulted in a historic boom in manufacturing construction.

Given that across-the-board tariffs would do so little to achieve manufacturing goals, we can then move to discussing them as tax policy. A 20 percent tax on all imported goods and a 60 percent tax on all imported goods from China would raise \$4.5 trillion over 10 years.

A wide range in researchers across the ideological spectrum have produced estimates of how much the across-the-board tariff would cost the typical family. Each of these estimates suggest that it would more than offset the \$1,000 tax cut a typical family would receive from extending the expiring portions of the 2017 tax law. In other words, they get a net tax increase.

The combination of the first Trump tax cuts, renewing the expiring provisions, and a 20 percent across-the-board tariff would be a tax cut for the top 1 percent and a tax increase for everyone else.

Several think tanks and Wall Street banks have estimated that the tariffs would produce a one-time increase in the inflation rate of 1 to 2.5 percent. Inflation would eventually move back down, but families would pay those costs as long as the tariff is in place.

A common argument is that inflation was low during Trump's first term so tariffs could not have been inflationary. But they did not show up in the headline inflation rate because they were relatively a small fraction of the U.S. consumption basket. The tariffs Trump has proposed are about 4 to 10 times larger than his first term, so we should expect effects something like 4 to 10 times larger than his first term's tariffs.

Finally, it is likely that Trump would rely on existing executive authority to enact these tariffs instead of receiving new legislation from Congress. The executive branch has significant unilateral power to impose tariffs because these provisions were designed to be trade enforcement tools, not revenue raising tools.

The 20 percent across-the-board tariff would raise about as much revenue as extending the Trump tax cuts would lose. This would present a significant shift in power over Federal budget authority from Congress to the executive branch, allowing the President with the stroke of a pen to raise as much revenue as the tax bill at the center of next year's fiscal policy debate.

Using existing tariff authority as a revenue tool is an especially flawed idea because it would introduce executive branch discretion into revenue collection that is unprecedented in modern America. This opens the door to using that discretion to favor politically aligned firms, giving them a leg up over their competitors. It is

easy to imagine a major corporation with access to the Trump administration petitioning for tariff exclusions that its competitors do not receive.

That is the sum of my thinking on the across-the-board tariffs Trump has proposed: unlikely to boost American manufacturing, major cost for families, and opening the door to pay-for-play.

Thank you.

[The statement of Mr. Duke appears in the submissions for the Record:]

Representative Beyer. Mr. Duke, thank you very much.

Let me now yield to my friend from Kansas, Mr. Estes.

Representative Estes. Thank you, Mr. Beyer.

I would like to introduce our two distinguished witnesses. First, I would like to welcome my fellow Kansan, Mrs. Erica York. And she currently serves as a senior economist and research director at the Tax Foundation where her research primarily focuses on macroeconomic implications of Federal tax policy, including corporate income tax, individual tax credits, and tariffs.

She is currently an adjunct professor at Sterling College in Kansas, where she earned her undergraduate degree in business administration and economics. She received her master's degree in economics at Wichita State University, which is in the center of my district at home.

Also, I would like to introduce Mr. Jeff Ferry, who serves as the chief economist at the Coalition for—of a Prosperous America. Mr. Ferry holds economics degrees from Harvard and the London School of Economics. A former technology executive in the private sector, his work now focuses on the economics of trade, globalization, and tariffs. Thank you for joining us today.

And I yield back.

Representative Beyer. Mrs. York, the floor is yours for the next 5 minutes.

STATEMENT OF MRS. ERICA YORK, SENIOR ECONOMIST AND RESEARCH DIRECTOR, TAX FOUNDATION

Mrs. York. Representative Beyer and members of the committee, thank you for the opportunity to join you today.

I want to begin by saying the goals of boosting U.S. competitiveness, increasing manufacturing productivity, and growing opportunities for American workers are worthy. In my area of expertise—tax policy—these goals are best achieved by reforms that enhance the simplicity and neutrality of the tax system, not by policy changes that introduce new distortions, no matter how well-intentioned.

For our conversation, I want to focus on the U.S.' recent attempt to use tariffs to achieve these goals, why they fell flat, and how better tax policy, particularly moving to a consumption tax base away from an income tax base, can foster greater investment, productivity, and competitiveness.

Debates about American manufacturing often focus on jobs rather than on output and productivity. While it is true that manufacturing employment has declined, that decline follows broad global and historical development trends where workers first shift from

agriculture to manufacturing in early stages and from manufacturing to services in later stages.

The most relevant policy question for the manufacturing sector is what can be done to boost productivity for the benefit of American workers, because without long-run productivity growth, we cannot get long-run wage growth.

Now, tariffs are often presented as a tool to do such, but they have consistently failed. If we look at the experience of the 2018–2019 trade war tariffs, we see that they resulted in a smaller U.S. economy on net with higher prices for consumers and businesses as tariffs passed through to U.S. import prices; less manufacturing employment, both due to higher input costs and due to foreign retaliation; and depressed investment growth.

The firms that faced tariff increases in 2018 and 2019 represented about 65 percent of manufacturing employment, and one study estimated that tariffs cost firms about \$900 per worker, creating pressure to reduce wages or reduce employment in that sector. And, similarly, the U.S. International Trade Commission found that while steel and aluminum tariffs boosted metals production at targeted firms, downstream industries like construction and equipment manufacturers experienced larger production declines.

Today’s interconnected economy further complicates the story of tariffs. Our exporters are also our importers, relying on a complex web of global value chains to source the parts and materials that they use to create jobs and produce here in the United States. Rather than boosting competitiveness, tariffs on inputs increase the cost of operating in the United States.

The ultimate story that plays out with tariffs is one of redistribution and reallocation. Tariffs take income from unprotected sectors of the economy and redistribute it to targeted firms, and tariffs reallocate resources from where they are employed productively and reallocate them to inefficient producers.

Instead of turning toward tariffs, we should address the biases in the tax system that disincentivize investment in production in the United States. Despite progress made by the 2017 Tax Cuts and Jobs Act, the U.S. still maintains a tax system that places a higher tax burden on investment and saving than on income that is consumed immediately. The effect of this is that it depresses the levels of investment, capital accumulation, worker productivity and wages and saving compared to a consumption tax system.

The tax system is also still plagued by complexity. Defining income, dealing with cross-border transactions, and limiting profit shifting require complex provisions, many of which were introduced in the 2017 TCJA.

An alternative to tariffs that follows consumption tax principles and would be simpler and remove barriers to locating production and investment in the United States would be an earlier draft version of the 2017 tax law, the destination-based cash flow tax. A DBCFT would entail three primary reforms to our current tax system.

First, it would permit businesses to immediately deduct costs for capital and R&D investments rather than depreciate and amortize them over time.

Second, it would eliminate net interest deductions providing more even tax treatment for debt and equity financing at the firm level.

And, third, it would replace international tax provisions with a border adjustment. The cost of goods purchased from foreign sellers, imports, would not be deductible, while revenues from sales to customers abroad, exports, would not be taxable. The resulting tax base would be trade neutral, eliminate opportunities for profit shifting, and invite investment into the United States.

Transforming the current U.S. corporate tax system into a cash flow tax would finish the job that the TCJA started, and it would achieve the goals of higher investment, higher productivity, and a more competitive Tax Code for U.S. businesses that tariffs cannot.

Thank you for your consideration of these issues, and I would be honored to take your questions.

[The statement of Mrs. York appears in the submissions for the Record.]

Representative Beyer. Mrs. York, thank you very much. And, finally, we will hear from Mr. Ferry.

**STATEMENT OF MR. JEFF FERRY, CHIEF ECONOMIST,
COALITION FOR A PROSPEROUS AMERICA**

Mr. Ferry. Thank you.

Good afternoon. I am Jeff Ferry, chief economist of the Coalition for—

Representative Moore. Your mike is not working, sir.

Mr. Ferry. Hello? Testing. Now? Okay. Could you start the timer again, please?

Good afternoon. I am Jeff Ferry, chief economist of the Coalition for a Prosperous America. CPA is a bipartisan coalition focused on rebuilding U.S. manufacturing. I have economics degrees from Harvard and the London School of Economics, and I have worked as an economist in the U.K and the U.S.

We have supported tariffs as an important tool to rebuild U.S. manufacturing; increase the share of good-paying jobs in the economy, especially for the lower half of the income distribution; and restore U.S. national security.

The terms of this hearing focused on tariffs and prices are too narrow. The primary purpose of tariffs is to stimulate domestic production. Tariffs should be used wherever they can stimulate domestic production. The evidence from the tariffs of 2018 and 2019 show many cases where tariffs did exactly that. In those cases, the increases in production led to more investment and more U.S. jobs. The benefits clearly outweighed the price increases, which turned out, in fact, to be very small.

There are actually five significant reasons to support tariffs or some degree of protection for the U.S. economy.

First, greater economic growth with less inequality comes from having high-growth, high-wage industries in this country.

Second, national security requires us to reduce our dependence on foreign parts and components for all warfighting equipment and critical technologies.

Third, economic security and resiliency requires the ability to increase domestic production at short notice for everything from med-

ical gloves to pharmaceuticals to the copper and aluminum cables used in our electricity grid.

Fourth, protective policies can and must be used to counter the biased, unfair, distortive economic policies of other nations, especially China.

And, finally, tariffs can generate large amounts of Federal revenue to help reduce the Federal budget deficit, which is too high by any standard. Our model showed that broad-based tariffs can generate \$628 billion a year in tariff revenue.

Turning to the issue of tariffs and prices. In 2019, after the China tariffs were imposed, many economists and other so-called experts said that the cost of tariffs would be entirely passed on to U.S. consumers. So I began asking every economist I met, okay, most of the China tariffs were at the rate of 25 percent. Can you name for me one product where you have recently seen the price rise by 25 percent? Not one economist could name even one product. Not one.

The facts finally became clear in an important paper published by the International Trade Commission in 2023 showing that price increases in the U.S. market were generally on the order of just 10 to 20 percent of the headline value of a tariff. So, for example, the steel tariff of 25 percent led to an average steel price increase in the U.S. of 2.39 percent. That is 2.39 percent. That is the price increase of steel tariffs.

On the production side, the steel tariffs led the major U.S. steel companies to build 15 brand-new steel facilities across the country. Those facilities employ some 5,000 new steelworkers at compensation which averages around \$100,000 a year. That is a very good wage for a man or woman without a college degree.

Using the CPA trade model, we recently modeled a scenario where the U.S. imposes 20 percent tariffs on all worldwide goods imported, except for China where we impose 60 percent tariffs. We assumed in our model that all of our trading partners impose reciprocal tariffs on U.S. exports matching our tariff rates.

Our 10-year model found that U.S. GDP would rise by two percentage points more than in the no-tariff scenario in the first 4 years and continue to grow by slightly more in the next 6 years, out to 2035. By 2035, an additional 5.97 million jobs were created, and real household incomes were up by 12 percent, or \$10,000 per household, as compared with the no-tariff scenario.

What about prices? Prices rose by 0.6 percent above the no-tariff rate of inflation for the first 4 years and then settled back to the baseline. In other words, inflation of 2.6 percent instead of 2 percent. But in exchange for that slight increase in inflation, we rebuilt the manufacturing sector, we added thousands of dollars to household income, and we created six million jobs.

Thank you, Mr. Chairman and Mr. Vice Chairman.

[The statement of Mr. Ferry appears in the Submissions for the Record.]

Representative Beyer. Mr. Ferry, thank you very much.

I would like to welcome the vice chair, and soon to be the chair, of the Joint Economic Committee.

Vice Chairman Schweikert. I apologize for my tardiness.

Representative Beyer. Wonderful to have you here.

Let me first recognize the distinguished Congresswoman from Milwaukee, Ms. Moore, for her 5 minutes of questions.

Representative Moore. Thank you so much.

You know, I was thinking back to my—and, Mr. Ferry, you will appreciate this. You know, in my obsession with language and foreign languages and trying to learn them and failing miserably, and sort of the use of kind of superlatives like “all” and “across the board,” I think that is where I am starting to have some problems when I read the very complicated material and I think about—thank all of our very distinguished guests.

And I guess where I want to start—maybe, Mr. Ferry, I will start with you since you are sitting right there and you just finished testifying and really claimed such great—you seem to be very fond of the thought of tariffs. But don’t you think that the tariffs that President Trump provided in his first administration basically did nothing until there was some industrial policy linked with it?

When Biden came along, many people said, well, why didn’t he end the tariffs if tariffs are so bad, might increase prices and so on. Don’t you think it is because the CHIPS and Science provisions, you know, the reduction in inflation act, that all these things really wrapped some policy and created a *raison d’être* for the tariffs?

I am thinking of my own Senator, Senator Tammy Baldwin, who very successfully pushed the Buy America and helped the steel industry, but it wouldn’t have helped us very much had we not put some policy and stuff behind it to incent investments in that.

So I am wondering if one of the mistakes that all of us might be making is the use of the word “all”. I think that when I hear about these across-the-board tariffs, I—you know—and I am not an expert at these things—I wonder if that won’t have major winners and losers, if it won’t invite some grift, quite frankly, or it won’t invite certain groups of people to, you know, come in and ask to be excluded versus other groups.

And so I am wondering if—Mr. Ferry, just first very quickly, will you admit that you got to have some industrial policy wrapped around the tariffs, else they may not—

Mr. Ferry. No, I don’t agree, Congresswoman.

Representative Moore. Anybody agree with me on the panel? Mr. Duke?

Mr. Duke. Yes. So, I mean, I think the key thing is that, you know, the Biden administration showed that you can combine, you know, strategic investments in certain industries with the tariffs to push forward. The problem with across the board is you can’t do industrial policy on everything, right? There is no industrial policy by which the United States is going to boost coffee or bananas. That is not going to happen.

And so why are we taxing that? Again, tariffs lose their efficacy in terms of—you know, they drive production to a certain industry, but if we are doing it to every industry, it just doesn’t make any sense, right?

So I think that is the key thing is that it kind of devalues that. I mean, there is costs to, you know, driving that production in a certain industry, but they can be worth it on national security or other grounds. But doing it on everything just doesn’t make any sense.

Mr. Ferry. Can I explain a little bit my answer, Congresswoman?

I think we saw very clearly that tariffs on their own benefited many industries. The U.S. ITC study showed that out of 12 industries they studied, including steel, production increased in all of those 12 industries, and that involved more jobs. They did not study washing machines, which is one of the best examples of success.

Now, I agree with you that there are places where industrial policy can play a role.

Representative Moore. Before my time runs out, Mrs. York, Mr. Gresser, let's talk about washing machines. What we have—has my time expired?

Representative Beyer. No.

Representative Moore. What we have, the makers of dryers just automatically raising their prices because they can, I mean—

Mrs. York. Yes, that is what we observed with the tariffs. The price of washers and dryers both went up by about \$90 each, and that led to billions in added costs for consumers. And if you look at the billions in added costs per job saved, it is extremely wasteful. We are paying a lot more than the people in those jobs are earning.

And I would say on the U.S. ITC report, they did find production would increase in protected industries, but that came at a cost to downstream industries, like construction, like equipment manufacturers, who then had to pay higher costs for their inputs.

Mr. Gresser. Yes. If I could add just a bit. In terms of home appliances, probably advantage some and disadvantage others, but we have fewer people making home appliances now than we did before the tariffs. Likewise, the ITC's look at the steel industry showed, yes, that it benefited them a bit as of 2021. They had grown by 2.2 billion, along with aluminum. But steel users, in particular auto parts, machinery, cutlery and tools, shrank by 3.5 billion. So the result was a slightly smaller manufacturing sector with a slightly larger metals sector within it. And you always have to count who is the losers as well as the winners when you are assessing a policy.

Representative Moore. My time has expired. Thank you.

Representative Beyer. Thank you very much.

I now recognize the gentleman from Arizona, Mr. Schweikert.

Vice Chairman Schweikert. Thank you, Mr. Temporary Chairman. You look good in that seat.

Sorry. He is actually one of the people I actually like, which is a fairly small list.

Mr. Chairman, without—

Representative Moore. How small is that list, sir?

Vice Chairman Schweikert. You are way up on top of that one. You know, she is actually—never mind.

Mr. Chairman, I would like to actually introduce a list just for—partially to help me make a point of the number of Members of Democrat leadership and basically national unions who actually support the tariff policy both in the first Trump administration and

demanded that the continuation of those tariffs continue under the Biden administration.

Without objection?

Representative Beyer. Without objection.

[Submission for the Record by Vice Chairman Schweikert]

Vice Chairman Schweikert. Thank you, Mr. Chairman.

Mrs. York, in reading over some of your testimony, can you help me, because I have been working on sort of a concept, and I don't know if I am speaking to traditional tariff models. But much of the world has a tax arbitrage on us. You know, you export to us, you get the refund of your VAT tax back. When we send other countries something, they attach it back. And in some places—and forgive me, I am a little out of date—you know, Germany might be 18 points, China has actually graduated according to industry.

Is there a design, whether it be a destination tax or cash flow tax, or some of these other models, that actually at least would mean, from a tax arbitrage standpoint, American workers, American manufacturing might have a level playing field?

So there is a hierarchy in this question. What, first, should I do so our manufacturing, both in and out, would actually have a level playing field with tax?

Mrs. York. Yeah. Most other countries across Europe, they rely on value-added taxes. Those are border adjusted, which ends up being trade neutral, like if we adopted a value-added tax or a DBCFT would end up being trade neutral. The reason we have an impediment to manufacturing and investment and productivity in our Tax Code is the way we define our income tax base and that we would base your tax residence on being in the United States. We have a source-based tax system or an origin-based tax system.

So because we deny full deductions for investment, full deductions for research and development, we increase the cost of capital. And because we don't have a national level consumption tax, we rely heavier on income taxes than many of our trading partners rely.

Vice Chairman Schweikert. So, Mrs. York, what would you design that would be in some ways maximized productivity, maximized tax receipts, maximized benefit to working population in this country but would be as minimally economically distortive as possible? Is it a destination tax? And is that sort of, you know, an economist's vision of what a future tariff model would actually look like?

Mrs. York. It would be moving toward a consumption tax. That can take on many different design elements. A DBCFT is one option. That transforms the base of our corporate tax to a cash flow tax. You can do that without the border adjustment if you do full expensing for all capital investment, plus eliminate that interest deduction. That gets us to a cash flow tax. That removes that barrier to investment that is created by long depreciation schedules.

If you don't want to border adjust that tax, you could do a value-added tax if you want to add that element—

Vice Chairman Schweikert. I was trying to avoid moving to a national VAT because—

Mrs. York. Then I would border adjust the cash flow tax.

Vice Chairman Schweikert. All right. Who really objects to a border adjustment?

Mrs. York. What we saw in the debates in the lead-up to the TCJA was that the big debate occurred over whether the currency would appreciate. The currency appreciation is what makes it trade neutral because you are applying the tax on imports by denying that deduction and then you are not taxing exports by providing that exemption if you have the currency adjustment.

Vice Chairman Schweikert. I know this is your specialty, but slightly more complex because you also pick up, hopefully, the export additional value of some of the refundability of things being exported out.

Mrs. York. Yeah. You have a question if you are an exporter in loss position whether you get that tax refunded to you.

Vice Chairman Schweikert. Yes.

Mrs. York. There are design options for that that you can make it equivalent. But I think that was the big impediment, the question of whether currency would appreciate. And I think most models point to that it would. If you look at the experience of the 2018–2019 tariffs, you saw currency appreciation. If you look at recent tariff announcements, you see currency appreciation just with the threat of tariffs. So I think we have reasonable evidence to say that the currency would move.

Vice Chairman Schweikert. We are out of time, and I really had something I wanted to touch on.

Look, when this hearing was first announced, my first thought was, well, this is another “got you” hearing. But the reality of it is, I look at the history of my Democrat colleagues, and in many ways this was my brothers and sisters on the left side who this was what they evangelized. It is just that we happen to now have a more populous President who is now talking about it. So it is very confusing for folks.

My hunger is to try to find a way to make it economically rational—

Representative Moore. Yes.

Vice Chairman Schweikert [continuing]. That it maximizes exactly, you know, what my economist friend here was saying, it maximizes the robustness of economic capital stock and productivity.

And, Mr. Chairman, this is one of your moments to help us actually try to find a common economic vision instead of trying to wedge each other.

And with that, I yield back and hope for another round.

Representative Beyer. Thank you.

And just before I recognize the gentleman from California, I would like to point out that I have never evangelized tariffs.

Vice Chairman Schweikert. No. You are a purist. You win. But you are also a car dealer.

Representative Beyer. Import car dealer.

The gentleman from California, Mr. Panetta, the floor is yours.

Representative Panetta. Thank you, Mr. Beyer. It is always entertaining when you have your vice chair next to you, be it on the Joint Economic Committee or be it on our committee in Ways and Means.

But I appreciate the fact that we are actually talking about something that, fortunately or unfortunately, has gotten a lot of publicity lately. And this is a popular thing to talk about when it comes to tariffs. But to be honest with you, we need to talk about the other “T” word, and that is trade. And I can’t stress that enough.

So I understand why we are talking about tariffs, especially considering how kind of “en vogue” they are politically, to be frank. And what would you expect when you had the President-elect talking about how he wants to apply either 10 to 25 percent across-the-board cuts or 60 percent tariffs on China.

And so you also, though, had this first Trump administration use tariffs accordingly, yet they were maintained by the Biden administration. And then with the Biden administration, you had them working on frameworks but really not leaning in to any sort of agreements. And as I like to say it, a framework to me is like having a hamburger without the beef, to be frank.

And also, then you had a Vice President who actually voted against the last major trade deal we had, USMCA. And I think that is probably the last time we have had serious discussions about a trade deal was when we actually worked together, Democrats and Republicans, to pass the USMCA.

So I appreciate this type of discussion on tariffs, but I just hope we get to a point, especially on the Ways and Means Committee, where we can start talking trade again. Because I do believe that these types of proposals that are put out there by the President-elect could have serious consequences on the American economy.

And I mean the thing is, is that you don’t know what the President-elect is going to do. I mean, people say, well, he is not going to, you know, put forward these types of tariffs. He is just using it for leverage.

And, look, you are seeing, as was reported by The Wall Street Journal about 5 days ago, CEOs flock to Mar-a-Lago to either try to persuade him or talk to him, hopefully, about not following through with these types of policies; policies that could shrink the economy by up to 3.6 percent, according to some estimates. And part of a broader or dangerous trend where we are, like I said, going away from trade and talking about tariffs instead.

It is an approach that, I believe, could not only harm businesses and workers and consumers here at home, but also weaken the United States leadership in the global economy. So I hope that we can dive more deeply into how tariffs affect consumers, how we can talk more about trade, and how we can have a sensible path going forward.

Again, my name is Jimmy Panetta, and I represent the 19th Congressional District in California. We have a lot of—I have the southern part of Silicon Valley, I have the mouth of the Salinas Valley, so I have a lot of—I have a lot of semiconductor chips and I have cow chips; put it that way. So a lot of agriculture, a lot of high tech going on.

And what we saw, though, when it comes to the agriculture, though, is when tariffs are levied, it is—the ag sector bears a brunt of the retaliatory tariffs. And during the last Trump administra-

tion, 30 billion of agriculture products were targeted by retaliatory tariffs, which represent 22 percent of all retaliated goods.

The administration gave \$16 billion in relief payments to farmers to mitigate the impacts of those trade policies. I understand that.

But I guess, Mr. Gresser, if I could impose my first question to you, if the proposed tariffs were implemented, what is—what would be the impact on ag?

Mr. Gresser. Thank you, Congressman, for the question. It would be quite extensive. The 2018–2019 tariffs were pretty limited to metals. That is about 20 billion or—20 to 40 billion in imports, plus China. And according to the USDA, farmers lost more than \$27 billion in export income over that time. And that was really for one country and small slices of others.

If we have, for example, threats of tariffs on Canada and Mexico and China together, that is 10 percent of all farm income in the United States. Farmers are always the first to hit—be hit with retaliation. The last group went soybeans, sorghum, fruit, dairy, cotton, wheat, tree nuts, corn, lots of other things. And so I think it would be a pretty difficult time for American agriculture.

Representative Panetta. Got you. And, quickly, the number one issue in my district is affordable housing or the lack of. So, Mrs. York, given that there is an estimated shortage of 7 million affordable homes already, what would broad tariffs do to the cost of housing?

Mrs. York. Broad tariffs would increase lots of the components we use to build housing, and so it would reduce the housing supply further.

Representative Panetta. Great.

Thank you, Mr. Chairman, again. I appreciate this opportunity. Thank you for having me waive on, and thank you for having this discussion.

Representative Beyer. Thank you, Mr. Panetta, very much.

Let me now recognize the gentleman from Kansas, Mr. Estes.

Representative Estes. Well, thank you, Mr. Chairman, and thank you for all of your witnesses for being here today.

You know, this Congress just has a few weeks remaining until the results of the November election take effect in Washington. Two years ago, Americans split the House majority from Democrat to Republican, and this year they flipped the Senate and the White House.

If you ask voters across the country whether they were in red districts or blue districts or anything in between, many will say that the economy was the driving factor when they cast their ballot. And we know that over the last 75 years, nothing has lifted more people out of poverty than free and fair trade and an open capitalistic market society.

And tariffs are part of that to help make—it is a tool to help address and make sure that we do have free and fair trade. A lot of times, countries, as we have seen, will have a stated goal of having free and fair trade, but they don't always follow up with the actual letter of the law in terms of the way they implement it; whether it is restrictions, whether it is licensing agreements, whether it is just flat-out rejection of some imports that show up on their shores.

So today we are standing here, and we are looking at 4 years of two different administrations to compare with. And we talk about the pocketbook issue is a top priority for so many Americans. Inflation stands out as that problem.

Under President Biden, the average year over year inflation rate was 4.99 percent. Under President Trump, that was 1.91 percent. And the truth is, if you add a cumulative amount, it was even worse over 4 years than what those yearly averages looked. During President Biden's administration, inflation has gone up over 20.6 percent cumulative versus only 7.3 percent during the entire 4 years President Trump was in office.

Americans have felt the pain of this inflation, particularly after a booming economy with President Trump in the White House. And during that time, inflation was low, even with the tariffs, as we have talked about earlier today.

So with my colleagues and some of the political pundits trying to scare the public into just rejecting the economic agenda, it is important to remember that Americans do remember the truth because they saw it every time they went to the grocery store, paid a utility bill, or filled up their gas tank.

The truth is, tariffs are one of those tools that a President can use to help negotiate with allies and strengthen national security. If used strategically, they can help build our economic prosperity, bringing foreign countries to the negotiating table, creating new trade agreement opportunities, and prevent bad actors from manipulating our markets or threatening our security.

Mr. Ferry, we saw vastly different economies and inflation rates under the two different Presidents—through the two previous—our current and former President, despite President Biden keeping most of President Trump's tariffs intact.

Would you agree that the concerns raised by my colleagues aren't necessarily as relevant based on what we have seen in that the spending and poor economic agenda pose a far greater threat to American consumers than the tariffs that President Trump has talked about?

Mr. Ferry. I would certainly agree that the inflation performance of the Biden administration was terrible and is one of the reasons why your friend to the right is about to become chairman of the committee. However, you know what I would say—and I agree with what has been said about consumption taxes, and I agree with some of the things Brendan Duke has said as well. But the overriding fact, Congressman, is that today the Chinese manufacturing sector is more than two times the size of the U.S. manufacturing sector.

We gave some wonderful javelin hand—shoulder-resting, hand-held weapons to the Ukraine. Within weeks, we had run out of the missiles that those javelins shoot. Why? Because the parts come from Asia.

And it is not true that the prosperity of this country over the last hundred years is due to free and fair trade. The prosperity of this country over the last hundred years is due to industries that innovate and create high-productivity jobs and high productivity—highly competitive products. We have lost a lot of that through bad policies and also just through the aging of these industries.

We need to take action to get those things back. The Trump tariffs in the first administration were actually not sufficient to bring back enough of those industries, and I applaud President Biden for increasing them, particularly on EVs, because we would lose our entire automobile industry if we allowed China to take over the world market for EVs.

That is a choice we have got to make today, and the choices we have to make are to take policies to benefit those high-productivity sectors which are mostly manufacturing.

Representative Estes. And let me correct if I misspoke. When I talked about the last 75 years of lifting people out of poverty, it was around the world.

I would agree with you that innovation in United States has been very important in terms of a driver and helping generate the U.S. economy.

Mr. Ferry. And I would agree with you that Presidents Bush and Clinton did a lot to lift the Chinese out of poverty, and the day they invade Taiwan, we might—some people might not feel so good about that.

Representative Estes. Thank you. Mr. Chairman, I yield back.

Representative Beyer. Thank you, Mr. Estes. I will move on to my own.

First of all, Mr. Estes, I want to agree with you the inflation has been terrible, but we need to compare apples to apples. We had Donald Trump in those 4 years without COVID, COVID in the last couple of months, and then President Biden having to put up with the supply chain shocks, with the tripling of profit margins from many, many different places with greedflation, and the fact that America did better than almost any other industrialized country in the world in dealing with the supply chain shocks in terms of inflation. And now we are back down to the 2 percent that we were at before. And, hopefully, it will stay there, unless we have these tariffs kicking in.

Mrs. York, thank you for your comment about the costs of steel and aluminum and others on building supplies, but I would like to turn to Mr. Gresser too.

Along with inflation, one of the great crisis of America today is housing unaffordability. They are not building new houses. Every housing developer I talk to say it costs more to build a house than they can sell it for.

How would these potential—not the little tariffs that they just have on steel and aluminum, but the bigger tariffs that are coming, the 10 and 20 percent and 60 percent, likely to affect our housing supply chain?

Mr. Gresser. Whenever we are imposing high taxes on inputs, that becomes part of the production cost. That becomes, then, part of the price that the home builder has to sell it at. So prices of housing will rise. It will rise at different rates for different types of buildings.

But if one of our goals is to reduce home costs, make it easier, that would be—adding tariffs to building supplies is going in the wrong direction.

Representative Beyer. Thank you very much.

Mr. Duke, are the importers who pay the tariffs and pass on to the consumers the same as the people who retaliated against with tariffs from other countries?

Mr. Duke. I mean, first of all, America's exporters are our biggest importers. So they get hit in that way, and they also get hit by the appreciated dollar. And then, obviously, ag is a whole other sector that gets disproportionately hit.

Representative Beyer. And you mentioned that there has been no evidence to suggest that tariffs would change the trade balance. Intuitively, it seems like it should help the trade balance, that we would be importing less and, therefore, owing other countries less. Why doesn't that happen?

Mr. Duke. Sure. The trade deficit is basically defined by the balance between investment and savings and the U.S. economy. Tariffs, if they are not going to deficit reduction—and Donald Trump has talked about 8 to 9 trillion dollars of tax cuts, so I don't think we are talking about deficit reduction here—don't actually increase national saving.

And so it basically changes—it basically—what happens is imports as a share of the economy fall, which seems like it is accomplishing it. But then exports as a share of the economy also fall, so they net out.

And, again, you know, what are we trying to do here, is that we just get a portion of the economy falling and a portion of the economy falling. It doesn't really actually, you know, meet any strategic goals that we are trying to accomplish.

If our goal is resiliency with China, that doesn't accomplish it if just causing the import share of GDP to fall a little and the export share of GDP to fall a little.

Representative Beyer. Thank you.

Mrs. York, you talked extensively about the consumption-based cash flow tax. Let me ask you a yin and a yang question.

Number one is, whenever Democrats always hear that, they think regressivity. That the people at the bottom end who spend almost all their income are going to pay a much greater share of their income than the people that can save a third, a half, whatever.

On the other hand, I would love your input on what that will mean for tax avoidance, since we know that 99 percent of people that have 1099s or 401—or W-2s pay the taxes and that something like 650 billion to—650 billion to a trillion dollars a year is missed in taxes not collected from people that don't get their things that way.

Mrs. York. Consumption is much more observable than income. So it is much easier to administer and enforce a consumption tax than it is an income tax.

And then on the question of regressivity, I would point to ideas like Senator Cardin's progressive consumption tax. There are a number of design options that you have with a consumption tax that can avoid a regressive impact, whether it is a rebate, whether it is a large exemption or other design elements.

The DBCFT in particular is less regressive or has a more progressive distribution than a value-added tax because a DBCFT allows for a deduction of payroll expenses. So you are not actually

hitting consumption that is coming out of wage income. You are hitting consumption that is coming from existing assets and current future—or future super normal returns to capital. So because of that payroll exemption, it has a more progressive distribution than value-added taxes used in Europe.

Representative Beyer. Great. Thank you very much. My time is up.

I would like to announce that, if you all are game, we will do a second round of questions because there is much to talk about, and you guys are—I know you guys are all—you are so lucky that every member here is a member of the distinguished Ways and Means Committee, the only committee mentioned in the U.S. Constitution.

And with that, let me recognize the gentleman from Illinois, Mr. Schneider.

Representative Schneider. Thank you.

Mr. Chairman, I think you also forgot, we are under contract to say the very important, very powerful Ways and Means Committee. But thank you all for being here.

And I want to thank the chairman and ranking member for calling the hearing and you witnesses for sharing your perspectives with us.

Being a member of the Ways and Means Committee, Trade and—Subcommittee, but also on the House Foreign Affairs Committee, I am proud that so much of our work is focused on international leadership. The world is better, I think, when the United States leads in, when we are at the table, we help establishing the standards and help defining the rules.

We are strongest when we work with our international partners and allies, and we should do well to remember this as we move into the next Congress.

In recent months, as was probably already discussed, President-elect Trump has made a number of statements regarding his trade priorities for his incoming administration. He has proposed, for example, a 10 percent tariff on all products imported into the United States, a 60 percent tariff on all goods imported from China. And looking at our two largest trading partners, Canada and Mexico, a 25 percent tariff there.

The threats will raise prices on everyday items for consumers, will directly impact small- and medium-sized businesses that have worked so hard to adapt and adjust and ship their supply chains away from China, and has a potential to drastically reshape the global economy.

We saw the chaos President Trump's trade war created during his first term. During that administration, I met with manufacturers and businesses throughout the Illinois 10th Congressional District, my district, and heard directly from constituents about the impact tariffs were having on their businesses and how employers had to quickly adapt to a challenging trade environment.

They talked about having to make hard decisions not to make certain investments, having to make decisions about whether to hire or expand. And while each business was distinct, they all had this same common message: Tariffs create uncertainty, raise the cost of doing business, and make it harder to hire new people and expand their operations.

So looking towards the next Congress, we have to ensure that our trade rules work for American workers, for businesses and consumers.

Mr. Duke. I will start with you. President Trump's recent threats to put tariffs on goods coming from China and Mexico have caused a lot of uncertainty among small- and medium-sized businesses. Can you discuss the lasting impact that the last administration's agenda had—last Trump administration's agenda had on businesses in the U.S. during his first term and how you see those businesses and really businesses of all size preparing for what is ahead?

Mr. Duke. Sure. So the United States actually was in a manufacturing recession right before COVID. We were actually shedding manufacturing jobs while they were happening, in part because of the trade war—the retaliation and trade wars that were occurring, because of U.S. dollar appreciation, which, obviously, the Taxes and Jobs Act helps fuel with the higher deficits that that caused. So that is what we saw then.

Obviously, we hit COVID. You know, obviously, a very weird, difficult period, and we are coming out. But I think the key thing is that, just out of uncertainty, that the President can just rage post a trillions of dollars tax increase, and what are businesspeople supposed to do about it, putting it through an administrative process that they don't understand.

The idea that a, you know, small Illinois business is going to have to follow the ins and outs of Politico Pro's trade newsletter is just not good policy. It is not what we should be doing here in Washington, D.C.

Representative Schneider. Great. Thank you.

Mr. Gresser, it can take years to move supply chains, to rejigger your entire value chain. Can you share steps Congress should take, in your mind, Congress should take, to identify the products that are wholly manufactured in China and to work to shift—help businesses make the shifts necessary in the future?

Mr. Gresser. Well, the one thing I would say right away is that a policy of making threats and picking fights with our two large neighbors is directly against that.

The auto industry has spent tens of billions of dollars and moved mountains to reshape its North American supply chains, and if we are now going to put tariffs on Mexican cars and Canadian auto parts and Canadian crude oil, that will wreck a lot of their work.

So what we need, the first thing I would say is, solidify and calm our relationships with allies and neighbors and friends, and then we can turn to China. But if we are disturbing those, you know, core relationships, then we are going to be in a much worse position for leadership and economically and in almost any way you could think.

Representative Schneider. Yeah. I am almost out of time, but it is not just crude oil. Canadian timber—

Mr. Gresser. Timber—

Representative Schneider [continuing]. Is important. If you want to decrease housing costs, increasing the raw materials that go to frame those houses doesn't make a lot of sense.

Mr. Gresser. That is well put.

Representative Schneider. Yeah.

I yield back.

Representative Beyer. Thank you, Mr. Schneider.

I again recognize the incoming chair of the Joint Economic Committee, Mr. Schweikert.

Vice Chairman Schweikert. I hope that had the tone of you being happy.

Representative Beyer. Yes.

Vice Chairman Schweikert. Thank you, Mr. Chairman.

Mr. Ferry, CBO, a little while ago, put a letter—I mean, hours ago, I think. And one of their numbers was a dynamic score, that a 10-percent across the board would, static, decrease deficits by about \$2.2 trillion; dynamic, about \$2.1 trillion.

But if it is a broad-based, are you someone, as—you know, because you have pretty impressive economic credentials—do you also see the currency adjustment within a broad-based sort of flat model tariff like that?

Mr. Ferry. Our own model shows with a larger tariff, 20 and 60, roughly \$6 trillion of Federal income over 10 years. So that is considerably more, okay? And that is because we assume the economy will grow more than I suspect the CBO does, although I haven't read the CBO's—

Vice Chairman Schweikert. Well, but—yeah, the CBO letter was just—I don't think—they did a 60-percent tariff, but some of the numbers in there were solely focused, it looks like, on China.

But have you ever run the 10-percent model?

Mr. Ferry. Yes, we have run a 10-percent model and published it, and it was somewhat consistent with what you are asking about.

Let me answer your question directly.

Vice Chairman Schweikert. Well, because—

Mr. Ferry. Currency is what you are interested in?

Vice Chairman Schweikert. Yeah, currency is one of my—because there is a reason for that.

Mr. Ferry. Right. And most of these models do not include currency, because currency is a nominal variable, a monetary variable, not a real variable. So you have to take a position on what you think would happen in the currency.

And my view is that the currency value of the dollar is not determined by the trade balance. And I think there is 50 years of evidence to show that.

I would have supported the DBCFA if it had included a proposal to manage the currency. The U.S. needs to manage the dollar to a competitive level.

So what I am saying is, the currency is completely unpredictable. I actually agree with the incoming Treasury Secretary that governments in certain advanced countries, particularly the Anglo-Saxon countries, will typically allow stupid things to happen to their currency.

So what we would need to do to achieve what you are talking about is manage the dollar, hold it at a competitive level, and say we are going to allow those tariffs to increase the size of the productive sector of the economy.

Vice Chairman Schweikert. Okay. And—

Mr. Ferry. Does that answer your question?

Vice Chairman Schweikert. It does.

Look, I don't have a Ph.D., but I always am worried about nominal interest rates' effects on the selling of debt. A good example, I mean, look what happened to Brazil yesterday and other countries that have also tried to do some of the management of the currency value. You know, the debt mark—particularly a country like ours—we brought, what, \$10 trillion to market last year? And with our demographics, it is going to get worse.

As a matter of fact, a couple minutes ago, the 10-year went over 4½ percent, even though the Fed reduced interest rates. And I think that is partially future expectations of our demographics and our binging on debt.

So I am trying to work with my brothers and sisters on this committee and Ways and Means on, how do we maximize economic productivity and growth, tax receipts, as an offset to a debt where—you know, we have a CR heading to the floor that may be about to have another \$140 billion of un-offset debt. So that means our baseline now is already, what, \$2.3 trillion debt this coming year? Maybe with some of the other economic factors—if interest rates stay this high—you are going to 2.6? That means you are borrowing \$80,000 a second. We have a math problem.

And so, is a tariff destination tax choosing those who we like and incentivizing trade with them and punishing those we don't? I mean, somewhere here there has to be a unified theory, both receipt stabilization, economic growth maximization, and accepting the reality of our demographics.

Remember, 100 percent of the debt, basically, from today through the next 10 years is interest and demographics. It is healthcare costs. We got old. That is not Republican or Democrat; it is math.

But it is so hard, because we are so busy beating the crap out of each other partisan-wise that we don't actually pull out things called—what are they called? Oh, calculators.

Mr. Ferry. Well—

Vice Chairman Schweikert. And sorry for the preaching, but I am frustrated.

Mr. Ferry. No, you are right; this is a serious problem.

What we have to do is get the budget deficit down, which involves cutting spending. We can, as you say, increase tax receipts by growing the productive sector through tariffs and industrial policies. And we can hold interest rates down in doing that. We could—

Vice Chairman Schweikert. And I hope there is actually even a third round, because there is a difference between industrial policy and subsidized industrial policy. Because across the world, now, we have set off a cascade where China, I think, has put 30, 36 billion into their chip sector. Europe just did almost the same thing. Taiwan is about to do it.

So all we did is now create rent-seeking around the world when it is industrial policy with cash. And there becomes the problem. We didn't actually gain, really, that much true productivity, because we just set off a subsidization cycle around the world.

So, with that, I yield back. Thank you for your patience.

Representative Beyer. Thank you, Mr. Schweikert.

I will recognize again the gentlelady from Milwaukee.

Representative Moore. You know, Mr. Schweikert, you always give a great jumping-off point.

Vice Chairman Schweikert. I do it just for you.

Representative Moore. You do it just for me, I think.

You know, I have been listening very carefully to folks and listening to how the farmers really caught hell. I am from Wisconsin; we have soybeans. That is in the mix of stuff that really took a beating. But the strategy was just to subsidize them.

I want to know, number one, from people how sustainable that is and is that worth it, if we had across-the-board—if we did the across-the-board tariffs. You know, we could just keep on subsidizing the losers.

And, you know, the \$6 trillion, Mr. Ferry, are you suggesting—you have been suggesting that this could pay for the tax cuts. You mean all of them? The whole TCJ—FJ?

Mr. Ferry. It could, yes.

Representative Moore. It could pay for all of them, without raising prices.

And so I find that—you know, the \$6 trillion, we didn't find that the tariffs really trickled down to people that much. And I guess I am wondering, your model, you know, how you got to the \$6 trillion.

Mr. Ferry. Well—

Representative Moore. In a couple of seconds.

Mr. Ferry. The first thing I want to say is that, when I was a kid in the 1970s, my dad was a union print worker in New York City earning \$200 a week, okay?

Representative Moore. That was good money.

Mr. Ferry. That was very good money. And on a part-scholarship I went to Harvard. And the reason why a lot of the kids from my neighborhood went to Ivy League schools was because their dads were working in jobs that had high productivity and they were able to get good money in those days. Today, we are in a completely different economic mess.

Now I will answer your question.

Six trillion dollars comes from \$600 billion a year. Our model suggests that if you have \$3 trillion of imports and you tariff them at 20 percent, that is \$600 billion a year.

The difference between my model and—one difference—there are many differences. One difference between our model and other models is that other models assume imports will decline. Brendan Duke and I actually agree that imports are only going to decline for a short period of time. The trade deficit will remain. So imports move up again. You are tariffing them at 20 percent. The net result is those 6 trillion dollars.

Now, what you do with those 6 trillion is critical. And I wrote a paper—

Representative Moore. That is right, because if it is just CEO pay, then that is going to be a problem. And that is what we have been experiencing.

Mr. Gresser, pick up from where he left off, the \$6 trillion and how it circulates in the economy.

Mr. Gresser. For sure. A couple of things.

One, if we are taxing 3 trillion in imports and getting \$600 billion out of it and the imports don't decline, one, that is not realistic; two, it would mean there is no effect on the employment mix that Mr. Ferry is talking about. So that is not a realistic assumption.

Representative Moore. It doesn't create jobs.

Mr. Gresser. Not in the outcomes that he is discussing.

There have been very serious criticisms of this model, done by, for example, Robert Koopman, the former USITC director who oversees the USITC modeling. So I would be very careful about accepting these figures at face value.

What we are talking about in a tariff of 20 percent on imports is a 20-percent tax on crude oil, \$250 billion worth of crude oil; we are talking about a tariff of 20 percent on clothes; we are talking about 20 percent on appliances. Most of these things will bring in some money and raise prices.

I did look at one appliance, toasters. In order to make toasters in the United States, and pop-ups, based on the experience of Japan and Italy and U.K., they have to cost about \$300 each. You are talking about big, big impacts on middle-income and low-income families, with very little return in the economy and probably negative—

Representative Moore. And then how much do the subsidies cost to save soybeans and farmers? Is that worth it?

Mr. Gresser. The subsidy for ag, I believe, is about \$28 billion for lost exports. So you are essentially paying people, who were making good livings and honest livings and doing very well, because they are now kind of on their backs.

The U.S. Government, we spend \$7 trillion a year; we can afford to spend \$28 billion a year. But why? You know, why not let people keep winning, rather than subsidizing if we are losing?

Representative Moore. Well—so little time, so many questions. I yield back.

Representative Beyer. Thank you.

I want to recognize the gentleman from Kansas again, Mr. Estes.

Representative Estes. Well, thank you, Mr. Chairman. I hesitate to jump into the give-and-take you and Mr. Schweikert had. I don't know whether I should call you "Acting Chairman" or—

Vice Chairman Schweikert. "Lord Chairman."

Representative Estes. "Lord Chairman"? Okay, sure.

Representative Estes. This is a—

Representative Moore. "Current Chair."

Representative Estes. "Current Chair." Excellent.

Well, great. This is great opportunity to be able to get together and talk and have another round of questions. There are so many good things we want to talk about.

I think so much of what we are all trying to look at is, how do we get a good, strong growing economy which ultimately provides good jobs for Americans and ultimately helps with raising tax revenue to help support the government functions that we want to have? And trying to figure out what the right policy decisions are for all of those implementations.

There are a couple of questions I wanted to ask just as a followup.

And, Mrs. York, one of the things, going back into the testimony that you had, a question I had—I was trying to follow through the thought process on the double taxation of savings as it relates to a decision that somebody makes to consume today versus invest.

Because, to me, if they make that decision, consume today after you are paid the payroll versus investing it, the tax would be on the earnings of the investment—yes, it is delayed, but it wouldn't be on the original investment itself.

So I was trying to follow that double-taxation process.

Mrs. York. Yeah. We have a handy chart on our website if you want to see, like, some number examples.

But, essentially, when you pay tax when you earn your money, that reduces how much you have able to put into savings, and then when you pay tax again on the return to that, it further reduces it; compared to a tax where you either, like a 401(k), you get to deduct that saving upfront and then pay tax on the total withdrawal at the end, or, like a Roth IRA, you have already paid tax on your income, you save it, and then you don't pay tax again when you make your withdrawal.

In that system, you are neutral between when you are consuming your money, because you are not facing that additional layer of tax for delaying your consumption. But if we do put that additional layer of tax on the returns when you have already paid tax on your principal, that is further reducing what you would be able to consume in the future, so it discourages that saving activity.

It is similar to what we see under the corporate tax, where you don't get to fully deduct the cost of your investment immediately, so the tax falls on that investment and increases the cost of capital. Very similar to double-taxing saving at the individual level.

Representative Estes. All right. Thank you.

Mr. Ferry, at the end of my previous round of questions, you had made a comment that really stood out, in terms of that China's manufacturing base is double the United States.

And that goes to highlight a lot of what I was trying to highlight as we are talking about how do we incentivize free and fair trade and making sure that we have, you know, open markets that people can engage in and a capitalist society moving forward.

One of the things I wanted to talk—I had a question in general about for you is that, you know, one aspect of tariffs is to help protect the United States against some of these abusive practices by other countries. We have had major concern about the Chinese Communist Party stealing intellectual property for decades.

And now, as Mr. Schweikert pointed out, we have started this round-robin of multiple subsidizing. China is doing a super-deduction for research and development expensing, which makes the United States even more vulnerable.

How do you think tariffs or other trade tactics can be used to protect United States' intellectual property in future years?

Mr. Ferry. It is very difficult to protect intellectual property from such a resourceful, secret service and a huge operation that the Chinese run. I, myself, worked for technology companies that were victims of Chinese intellectual property theft.

I don't think tariffs are the central weapon to protect against that. There are export controls, and there is better security.

But what you have to understand—and I think we sometimes don't take a strategic enough view. We have to step back, and we have to say to ourselves: In a world like this, where we run a trillion-dollar trade deficit, China runs a trillion-dollar trade surplus, and you have other countries also exploiting our propensity to consume rather than produce, how do we rebuild our economy?

And the way we do that is, we rebuild sectors that are strategic. And semiconductors are one sector. There are many, many sectors that are strategic.

And, yes, there will be duplication. China will be doing its own, as they are. And it is mostly—to an incredible extent, it is based on technology that was developed here, often in Silicon Valley, and stolen. But we have to accept that duplication if we want to maintain our country as a free country.

Representative Estes. Yeah.

Well, thank you. Thank you for all the witnesses for being here today.

I yield back.

Representative Beyer. Thank you, Mr. Estes.

I will go to my second round of questions.

I first want to make the point that, on the deficit reduction that the tariffs generate, that is only deficit reduction if we don't use it to pay for tax cuts, which is, I think, the intention right now. So we would anticipate that deficit, much to our consternation, will continue to go up greatly in the next 4 years.

Mr. Duke, Mr. Ferry said they want to manage the dollar to a competitive level, which is easy to say. I think Milton Friedman is probably rolling over in his grave, which is okay with me. But I would love to get your take, as a competing economist, on capital and the idea of managing the dollar to a competitive level.

Mr. Duke. Sure thing.

So, you know, our trade partners, they can manipulate their currency, they divide into teams. But I think, fundamentally, the reason why the dollar would appreciate from this is because we are taxing imports, right? And that just causes the dollar—like, there is no distortion to fix here. Like, that is just what we would expect to happen.

And I think, fundamentally, like, I think the reason why we have a trade deficit—a big part of the reason why we have a trade deficit is because we have a fiscal deficit, because we don't save enough. If we want to address the dollar, the simplest way to do that is to reduce the deficit.

I think a really good way to reduce the deficit is to take the \$5 trillion of tax increases on the wealthy and corporations that President Biden put out, put that toward deficit reduction, you know, not just put the Trump tax cuts on the credit card, causing the dollar to appreciate, but, you know, bring down the deficit. It is about 7 percent of GDP right now.

That strikes me as a way easier way than getting into managing the dollar, which I don't—you know, I mean, Mr. Buffet made a lot of money off, you know, speculating for a hedge fund. I don't think,

you know, we should exactly be doing that, though, with the U.S. Treasury.

So I think there is a simple way to deal with an overvalued dollar, if we think that is the case, that hurts our, you know, exporters, which is to reduce the deficit. There are ways to do that without harming Americans.

Representative Beyer. Great. Thank you very much.

Mr. Gresser, in your stated remarks and even at more length in your written, you talk about the constitutional challenges, that Article I, section 8 of the U.S. Constitution gives Congress the ability to set tariffs, trade policy.

Over the years, Congress has passed at least six bills that I know of—201, 302, you know, the IEEP that my friend Ms. DelBene has a very good bill on right now—that basically give this power back to the President.

Why is that a bad thing? And why is it especially a bad thing in light of our inability to pass a continuing resolution this afternoon? When Congress does things so very slowly, why not defend the President's right to manage trade policy all on his own?

Mr. Gresser. Well, I think the most direct answer is, respect for, you know, the Constitution and its text and what powers it gives to the Congress and what powers it gives to the President.

But in terms of the laws you are mentioning, there are definitely some that I think are responsible and useful delegations. If you create a Trade Promotion Authority bill, that says negotiate trade agreements, here is what we want it to look like, if you succeed and you satisfy us, you have proclamation authority to lower tariffs. Or, on the other side, anti-dumping law. You know, we think, the Congress, this is what dumping is, this is what we would like you to do with petitions, here is how we would like you to investigate it, here is what we would like you to do.

What concerns me is an open-ended right for the President to create any new tariff he wants, to cut any tariff he wants, to do whatever product, whatever country. I think that is a recipe for very bad government, for very bad choices.

And, going back to my first point, Congress should exercise its responsibility. The Constitution says Congress has the right to—or has a responsibility to deal with foreign—regulate the commerce of foreign countries, and it has the sole right to lay and collect taxes, duties, and posts and excises. And I think that there is good reason for that, and if laws like IEEPA or Section 301 have gotten away from that, then I think Congress should think about dialing them back.

Representative Beyer. Thank you very much.

Mr. Gresser, one more relevant question—because I read your trade remarks every week.

Mr. Gresser. Uh-huh.

Representative Beyer. We are losing Earl Blumenauer, who has been the champion for getting rid of the \$800 de minimis exception for all these goods coming in from China. I forget what it—it is a big, big number, a billion dollars a day or something like that.

What is your perspective on de minimis, especially in light of the conversation about tariffs? Because it is closely related.

Mr. Gresser. In terms of de minimis, I believe there are about—you know, when Congress passed this law, there were about 100 million packages coming into the U.S. Now there is about a billion. That does raise interesting questions, and it does put American retailers in a difficult position, where they are paying the full tariff and individuals buying online are not.

So I think there is some—you know, Congress has some good reason to rethink some of this. I would like to think that there are some ways to do it without raising prices on individuals and families. So that is where my starting points are.

Representative Beyer. Okay. Great.

Mr. Ferry, did you have any input on de minimis?

Mr. Ferry. Yes. I—

Representative Beyer. I saw your eyes twinkle over there.

Mr. Ferry. Yes.

I think de minimis is effectively a free-trade agreement with China. It has enabled them to ship billions of dollars of goods into the U.S., putting thousands of manufacturers out of business. Now, as it accelerates, it is putting retailers out of business. And I am hearing from businesspeople that if we lose our retail channel to the consumer, then we lose the ability to sell.

So it is hurting both manufacturers and retailers, and I think we ought to put a stop to it immediately by abolishing it entirely. And, remember, we are the only country in the world with an \$800 limit on de minimis.

And, you know, I will say it again very briefly. We have to decide whether we are a country that consumes or produces. Too much of what I have heard today is about how wonderful consumption is. If you look in history, the decline of empires, like the Spanish and Dutch and the British, come about because the ruling class gets obsessed with consumption and does not produce enough and then a crash comes. We need to produce more of all the goods that we are now buying through de minimis.

Representative Beyer. Thank you.

My research assistant from Arizona has just pointed out that de minimis went up 209 percent in the—

Vice Chairman Schweikert. Since—

Representative Beyer [continuing]. Last 6 years.

And I would recognize my friend from Illinois, the distinguished Congressman, Mr. Schneider.

Representative Schneider. Thank you.

And I will go to Mr. Gresser.

And this may or may not—looking at your testimony, this may or may not be a fair question, but, you know, as I study history a little bit, you know, in the 1980s we had imposed an embargo on shipping grain to the Soviet Union. And I have looked at reports that show, in Illinois, we never really recovered from that. The high point was 1979. And we lost those markets because people went to other places.

What I am wondering is: You look at the last 4 years of the last administration and the embargoes. Have industries recovered from the impact of the trade war, or are American industries still struggling?

Mr. Gresser. That is a great question.

There is, I think, strong evidence that agriculture has not recovered from that, that we have lost market share for the long run.

One thing that is interesting to me, on the manufacturing side, is that, over these past 4 years, the use of steel in the United States has declined pretty sharply. So we are importing a lot less steel than we did before, but we are not making any more steel than we did before. And capacity utilization is below what it was before the tariffs. What that suggests to me is that construction and auto businesses, big buyers of steel, are figuring out how to make do with less.

So they may be recovering over time the losses they got from that. But that, overall, means a contraction in the U.S. manufacturing sector, which is being overcome over time, but not because we are making more steel over time; it is because, you know, people learn from scarcity and they can adjust sometimes.

So your question is right-on, that these things have long-lasting effects and they sometimes rebound on the people or industries they were meant to support.

Representative Schneider. Yeah. I mean, expanding on your comment about necessity, necessity is the mother of invention. It is not just that they make do; it is, they find alternatives or innovation comes and it accelerates that replacement of one product for another.

Mr. Ferry, I want to pick up on what you said, the loss of retailers. When we were talking about supply chains, value chains, whatever, it is a chain, and—I guess I am into the aphorisms right now, but—a chain is only as strong as its weakest link. And for a manufacturer to get its products ultimately to a consumer, there are a lot of links in that chain, but the last one is the interface where the consumer actually can see, touch, and acquire the product.

What do you see as the long-term impact of a decline in retail because of inability to, you know, address the de minimis issue?

Mr. Ferry. The impact of the decline in retail is, among other things—well, it is serious at several levels.

First of all, it is a decline in tax revenue for State and local governments, which depend dramatically on retail revenue. And Congressman Beyer and I live in the same district, and a lot of the revenue for the city of Alexandria comes from the retail community. And the more they buy from machine (ph) and the other off—you know, the other de minimis China sellers that are selling tax-free, the more that tax revenue declines. That is number one.

Number two, retail provides a lot of jobs. Even though they are not high-paid jobs, they are jobs for a certain type of person. A person who loves fashion works in a fashion retailer. A person who loves bicycles works in a bike shop. And those jobs are in decline, which adds to the problem of mediocre jobs and more and more people working in temporary jobs, working in warehouse- or delivery-type jobs, which are unfortunately two of the main growth sectors for people without college degrees or without high school degrees.

So it is a serious issue.

Representative Schneider. Thank you.

And let me close—Mrs. York, I will turn to you. You had in article in Tax Foundation last month talking about the inflationary impact of tariffs. Can you describe some of the other effects tariffs will have on the economy, both short- and long-term?

Mrs. York. Yeah. The big long-term effect is that they reduce the real value of after-tax incomes by increasing prices that we pay in the United States.

And they also lead to a less efficient allocation of resources by transferring income, transferring jobs, transferring production to the targeted firms and away from where it is currently employed.

And we have evidence from 2018 and 2019 that that is what happened. If you look at the U.S. International Trade Commission report, if you look at studies by academics, they found that decreases in manufacturing employment net decreases in manufacturing production because of these downstream effects.

Yes, tariffs can create benefits in the protected industry, but you have to weigh those against the downstream costs, as well as against retaliation. And the net impact for the U.S. economy is very clearly negative.

Representative Schneider. Great. Thank you.

With that, I yield back.

Representative Beyer. Thank you.

We are honored to be joined this afternoon by the distinguished lady from the State of Washington, former chair of the New Democratic Coalition and many other honors.

Ms. DelBene, the chair is yours—or, the floor is yours.

Representative DelBene. Thank you, Congressman Beyer.

Thanks, all of you, for joining us and for sharing all of your thoughts.

I am joining today's committee hearing because my constituents in Washington have a lot of questions and concerns about the incoming President's new, sweeping tariff proposals.

I serve on the Ways and Means Committee, on the Trade Subcommittee, because trade is very, very important to my State's economy. More than 40 percent of jobs in Washington are tied to trade, ranging from technology products to aircraft and trucks, as well as billions of dollars of agricultural products like seafood and dairy.

Our port workers serve as a gateway to the rest of the world, bringing in energy products and semiconductors that fuel our economy and exporting American wheat, corn, soybeans, and much more.

People in my district generally benefit from lower tariffs, which are just another word for taxes that Americans pay on imported goods, because the costs of these taxes are mostly passed along to consumers in the form of higher prices.

To be clear, sometimes using tariffs as a targeted tool can be helpful. Tariffs can be part of a holistic strategy to push back against unfair trade practices of another country and to reduce dependency within our supply chains or to protect American industries that are important for our national security or fighting climate change.

I have introduced legislation that would impose a tariff on certain goods that are produced in carbon-intensive ways. But sweeping tariffs, like the ones that President Trump has proposed, can

damage communities across the country and raise prices of everyday goods like groceries, gas, and prescription drugs.

Economists, including several of our witnesses today, have estimated that if these proposals aren't tempered, the average American family will pay thousands of dollars more per year because of increased prices. And the last thing Americans need right now is higher prices.

These estimates don't account for retaliation, which can be devastating for American industries. In my State of Washington, in 2019, apple growers across our State lost millions of dollars in market share in India when they retaliated for tariffs that Trump imposed on steel and aluminum. It took 5 years for India to drop those tariffs, and during that time many multigenerational family farmers left the industry.

So these kinds of sweeping tariffs could fundamentally reshape our economy and risk sending us into a recession or sending our communities into economic hardship.

So Congress needs to have a say in major economic decisions like this that affect our districts. As Congressman Beyer talked about, I have introduced legislation, called the Prevent Tariff Abuse Act, to prevent any President, Democrat or Republican, from imposing sweeping tariffs under the guise of a national emergency without a vote in Congress.

I know we talked about this a little bit earlier, but, Mr. Gresser or Mrs. York, do you think the President should be able to raise taxes on Americans by billions of dollars without consulting Congress?

Mrs. York. I think it is very clear that broad, sweeping tariffs would have a negative effect on Americans. We have also estimated tax increases on U.S. households exceeding \$2,000 with universal tariffs.

Congress very clearly has the authority here, whether that is repealing a tariff that has already been imposed or whether that is adding some checks to the tariff powers that have been delegated to the President.

Representative DelBene. Mr. Gresser.

Mr. Gresser. I think, almost anytime, anywhere in the world, where a President or Prime Minister declares states of emergency and tries to rule by decree, it is not a positive sign.

In the case of the U.S. tax and tariff system, the Constitution is very clear, this is a congressional power. And so, no, I don't think it is appropriate for a President to declare a state of emergency and then use it to do whatever he likes, especially if there is no emergency.

And I applaud you for the bill you have introduced, IEEPA in particular.

Representative DelBene. Thank you.

Mr. Duke, how could sweeping tariff increases on Canada, Mexico, and other trading partners impact export-focused industries and jobs like those in Washington State?

Mr. Duke. Yeah. I can think of four ways—I can think of three ways.

First of all, as we discussed, tariffs cause the dollar to appreciate. So, all of a sudden, they are less competitive abroad. The In-

dians, the Washington apple costs more to them in the Indian rupee. And that is what happens.

I think a second part is that U.S. exporters are our biggest importers. They rely on imported goods to stay competitive. There was a study that showed Trump's first round of tariffs was equal to a 2-percent tariff on U.S. goods abroad because of those higher costs that they bore.

The third part is obviously retaliation, just as you said. And, again, for no appreciable gain. It is just to do a sales tax on coffee and bananas. That doesn't make any sense to me.

Representative DelBene. And lots of times, the retaliation is on industries that have nothing to do with what the original tariffs are, so it makes it even more complicated now.

Thank you.

I have gone over my time. Thanks. I appreciate it. And I yield back, Mr. Beyer.

Representative Beyer. Ms. DelBene, thank you very much.

We are almost done, but I have a couple quick questions.

First of all, Mr. Schneider said that necessity is the mother of invention, and I wanted to point out that Thorstein Veblen said that invention is the mother of necessity too.

Second, I am concerned about how, in the last round with Trump, our office, among many others, was deluged with businesses applying for tariff exemptions and wanting us to write letters and intervene with the administration and the like.

I mentioned earlier that—at least somebody had done research that showed that firms favorable to the administration get better treatment than firms unfavorable to the administration.

Mr. Gresser, could you talk at all about how corporations could game this system? Or is there an opening for corruption because of who gets to pay the tariffs and who doesn't.

Mr. Gresser. Yes. Tariff systems are—going back 200 years, former Treasury Secretary, Mr. Gallatin, for Jefferson and Madison, wrote that tariffs are very opaque and nontransparent in comparison to other sorts of taxes and relatively easily manipulated by wealthy and connected businesses.

The problem I saw with the exclusion system you mentioned was that they were asking about 30 or 35, you know, trained and talented people to handle 53,000 applications for relief. The GAO found that each of these petitions got, on average, 10 to 15 minutes' review from a frontline staffer and then 7 minutes from a supervisor. So it was a generator of random outcomes; it wasn't a real process.

And I could easily imagine that businesses which are larger or older or for whatever reason more tied into the political system would have been better at getting these petitions in front of a political person who could say, "Oh, actually, this one looks kind of meritorious. Let's give it another thought."

So, yes, a system of this sort is going to attract so many applications it will overwhelm the people working on it, and the outcomes from that level will be unpredictable. And those which are better connected for whatever reason are probably more likely to get a better read on their petition. So I think you are spot-on.

Representative Beyer. Great. Great. Thank you very much.

One last question for Mrs. York.

Thank you for educating us all to—I don't know all the initials, but—the cash-flow tax system.

There are many things that I would love to see, you know, when falling asleep at night—you know, getting rid of the electoral college, or meaningful immigration reform, or, you know, getting our budget deficit down from \$37 trillion.

When you talk about what sounds like a wholesale change of the way we tax in America, a completely different vision, how do you see overcoming, you know, 125 years or 140 years of history? What are the steps between where we are and the Erica York vision for tax policy?

Mrs. York. So the first two steps were fairly straightforward, and we have already taken steps toward them.

Full expensing for capital investment, that has had bipartisan support in the past, like expensing research and development costs, doing bonus appreciation, improving the tax treatment of structures. So that's fairly familiar policy.

And, then, in the TCJA, there was also introduced a limitation on interest deductions. So it is going further in that direction and fully moving the tax treatment of interest.

So both of those are within the political realm of things that have already been enacted.

The big change is, of course, the border adjustment. And I do think that is more novel to the policy community, who hasn't been in the weeds of what tax economists have been writing since, like, the 1970s. So this isn't a new idea when it comes to academics who study tax policy and who study what is the most efficient way to structure taxes.

But, again, even if you just do those first two steps—full expensing and offset some of the cost of that by reforming the tax treatment of interest—you eliminate many of the impediments in the Tax Code right now that discourage investment and discourage production. So you go a long way, and you don't even have to do the border-adjustment side of it to get that benefit.

Representative Beyer. By the way, the—I rarely defend the TCJA, and I am not going to now. But full expensing is the one thing that I have seen has a significant impact on investment.

So, with that, thank you all very much for joining us.

This probably won't be the last you hear of tariffs in the coming weeks and months. But we have—we just want to say again that economists on the left and right fear that President-elect Trump's tariffs risk shrinking our economy and harming Americans. We have emphasized again and again that the Constitution says this is our responsibility, not the President's.

And I want to thank all of you for participating so nobly in this.

And thank you to my colleagues. And thank you for letting our fellow Ways and Means members waive on to this discussion.

Questions for the record may be submitted after the hearing, and the record will remain open for 3 business days.

[The information follows:]

Representative Beyer. And the hearing is now adjourned.

[Whereupon, at 4:14 p.m., the committee was adjourned.]

**Joint Economic Committee
Congressman Don Beyer – Prepared Remarks
Hearing: “Trade Wars & Higher Costs: The Case Against Trump’s Tariffs”
December 18, 2024**

This hearing will come to order. I would like to welcome everyone to today’s hearing titled “Trade Wars & Higher Costs: The Case Against Trump’s Tariffs”.

I want to thank each of our distinguished witnesses for sharing their expertise today. Now, I would like to turn to my opening statement.

The Constitution empowers Congress, not the president, to determine trade policy for good reason. Misusing the power to impose tariffs can wreak havoc on our economy.

We’re holding this hearing today because president-elect Trump has vowed to implement massive tariff increases in his second term – wrongly claiming that it will lower costs for Americans and bring back jobs.

Trump seems to have forgotten the outcome from the first time he implemented this plan: trade wars that raised costs for Americans, outsourced American jobs, and resulted in billions in federal bailouts to large corporate farms.

This time it could be much worse.

His proposed across-the-board tariffs would apply a 10% to 20% tariff to all imported goods—cell phones, auto parts, coffee, bananas, you name it—regardless of their country of origin, which greatly expands the type and quantity of goods subject to the tariffs.

Experts across the ideological spectrum, including both Democratic and Republican witnesses for today’s hearing, have found that these tariffs drive up costs in the U.S., shrink the economy, and leave us worse off.

An analysis by our witness Brendan Duke of the Center for American Progress, found that a proposed 20% tariff on all imports combined with a 60% tariff on Chinese imports would mean that a typical American household pays up to \$3,900 more each year. And I know Ed Gresser has found similar effects in his work which shows how tariffs harm the U.S. economy.

Separately, one of the Republican witnesses Erica York of the Tax Foundation, found that Trump's proposed tariffs could shrink GDP by as much as 1.7% after factoring in retaliatory tariffs by other countries.

And just this afternoon, the Congressional Budget Office released a report showing that a version of Trump's tariff plan would cut GDP and raise prices, while failing to raise enough revenue to pay for things like his proposed tax cuts.

It is always refreshing when rigorous analysis done by experts across ideological lines reaches similar conclusions, and I look forward to hearing more from our witnesses.

As we can all clearly tell, China, Mexico, and Canada are not paying for these tariffs despite Trump's claims. Instead, Americans will feel the brunt of this policy.

Tariffs of this magnitude also invite carve outs and exemptions for well-connected corporations. A 2021 GAO report found that Trump administration officials gave away exemptions to hundreds of importers and often failed to fully document how they reviewed these exemption requests.

Perhaps that's because these exemptions were disproportionately granted to donors to Republican candidates, a conclusion reached by an analysis of exemption data and political contributions. This found that a company's donations to Democrats reduced its odds of being granted an exemption under the last Trump administration.

The reality of his reckless economic plan is this: it won't grow the middle class, nor will it lower the cost of groceries or rent. Trump even wants to use these tariffs as a way to pay for the trillions of dollars in tax cuts for the rich. Higher costs for you; lower taxes for his billionaire friends.

Thankfully, it's not only Democrats calling out his proposal. Economists on all sides of the political spectrum agree that tariffs are bad economic policy that would shrink the economy by billions of dollars.

And I know that many of my colleagues across the aisle are also concerned about this dangerous economic plan. Even Trump's former economic advisors have called tariffs exactly what they are -- "tax hikes".

Folks, this is basic economics.

Trump's trade wars are a threat to the economy, and that threat underscores the importance for Congress to reassert its Constitutional authority over trade policy.

And this is why I look forward to the testimonies and insights of our witnesses today. Now, I would like to turn it over to Vice Chairman Schweikert for his opening statement.

[END]



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**TARIFFS AND THEIR FAILINGS: A HIGHER U.S. TARIFF WOULD RAISE PRICES,
ERODE U.S. COMPETITIVENESS, AND ENDANGER EXPORTERS**

Edward Gresser
Vice President, Progressive Policy Institute
Joint Economic Committee

December 18, 2024

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to testify on potential increases in U.S. tariff rates. My testimony this afternoon will address four main points: the nature of tariffs and the way they are paid; the people and economic “sectors” who bear their cost; the risks tariff increases pose for American exporting industries; and the unsettling implications of an unlimited presidential power to impose tariffs without Congressional approval. By way of introduction, I am Vice President of the Progressive Policy Institute (PPI) here in Washington, D.C., a 501(c)(3) non-profit research institution established in 1989 and publishing on a wide range of public policy topics. Before joining PPI in 2021, I served at the Office of the U.S. Trade Representative from 2015 to 2021, as Assistant USTR for Policy and Economics, responsible for overseeing agency economic research and use of trade data, chairing the interagency Trade Policy Staff Committee, and administering the Generalized System of Preferences.

Fundamentally, a higher across-the-board tariff rate will leave Americans worse off. It will diminish family living standards by raising store prices. It will make U.S. taxation more regressive for families and less equitable for businesses. It will damage U.S. industries through higher production costs, lost overseas customers, and potential retaliation. And finally, if implemented by presidential decree rather than legislation, it will erode a core Constitutional separation-of-powers principle.

I. WHO PAYS FOR TARIFFS?

To explain these points, let me begin with the basics. A tariff is a tax on purchases of goods bought from overseas, paid by U.S.-based buyers to U.S. Customs and Border Protection when their orders arrive at the border. Such buyers can be individuals ordering goods for their own use; retailers stocking grocery shelves or appliance aisles; small businesses like hair salons or auto repair shops buying supplies; or manufacturers, farmers, and construction companies buying inputs (say, wiring, fertilizer, cement) they use to make cars, raise crops, or build houses.

Mechanically, tariffs work as follows: The buyer of a product from abroad, legally termed the “importer of record,” is the U.S.-based individual or business who ordered it and receives it at

the border.¹ This person or company pays the tariff by writing a check to CBP, in an amount determined by the rate assigned to the product in the U.S.’ “Harmonized Tariff Schedule” (HTS).² If the buyer is an individual consumer, he or she has paid the tariff and assumes the cost. If the buyer is a retailer, the tariff cost is included in the price of the product in the store. If the buyer is an industrial firm such as an appliance maker, the tariff becomes part of its production cost.

Men’s cotton shirts are a typical retail example. Consider a container of \$100,000 worth of these shirts, hypothetically valued at \$10 each, arriving at the Long Beach container port from Vietnam this week for a retailer’s Christmas selection. As the cranes move the container from ship to truck, the buyer reports the arrival to CBP and writes the agency a \$19,700 check, reflecting the 19.7% tariff assigned to the shirts under HTS line 61051000.

Who bears the cost of this, as we follow the shirts from the ship’s deck to the cash register a week later? Clearly, neither the Vietnamese factory producing the shirts nor the shipping company carrying the container has paid CBP any money. The U.S.-based retailer has paid, but this is not the end of the story. The retailer has now paid \$100,000 to a factory for the shirts, \$19,700 in tariffs to CBP, and about \$5,000 to the shipping company for transport. So her 10,000 shirts cost her \$124,700 in total. This “landed cost” — \$12.47 per shirt, each including \$1.97 worth of tariff — is the base from which she calculates a markup sufficient to cover domestic transport, wages and salaries, building maintenance, and other costs, with enough profit per shirt to end the year “in the black.”

Markups vary by company, but hypothetically assuming a simple doubling from port to cash register, the shirts would sell for \$24.94 each, with the tariff embedded in the price and amplified by markup. So the retailer has paid, and the shopper bears the tariff system’s cost — and note that this cost is well above CBP’s \$1.97 in revenue per shirt. (Of course, if the shirts do not sell, the retailer is simply out the money.) If the government raises the tariff rate, the landed cost will be higher, and therefore, all else equal, the price in the store will be higher.

Of course, retailers are not the only buyers of goods, and consumer goods are not America’s only imports. Industrial inputs — paints and wiring bought by construction and manufacturers, or fertilizer by farmers — are large imports, too. For these products, tariffs work the same way, though in some cases, the “incidence” (that is, the burden of paying the tariff) can fall on the U.S. producer as well as the final consumer. American automakers, for example, face intense competition from factories in Canada, Mexico, Germany, Sweden, Japan, Korea, and now China. A higher U.S. tariff on metals, semiconductor chips, and parts would make it more expensive for them to assemble cars in the United States. They will pass some or all of this on to auto-buyers, but as they do, the U.S.-produced vehicle’s price will rise relative to the Asian- or European-made alternatives. At some point, the manufacturer may feel it must absorb the tariff cost itself, and compensate by reducing employment and/or wages, scaling back research and development, limiting marketing, or making some other damaging choice.

Finally, two real-world examples — one current, one long past — serve as an illustration. After investigating the tariffs imposed on steel, aluminum, and many Chinese-made goods in 2018 and 2019, (sections of U.S. trade law designed respectively for national security-related measures

and negotiating leverage in trade disputes), the U.S. International Trade Commission concluded unambiguously that “tariffs under sections 232 and 301 passed through fully into U.S. importer prices”.³ Likewise, the United Kingdom’s 3 pence-per-pound tea tariff of 1773 was a tax paid by Americans — not somehow by Chinese tea growers or the East India Company. In sum, U.S. tariffs today are taxes paid by Americans, never by foreign exporters or governments.

II. LIKELY EFFECTS OF A HIGHER TARIFF

What effects could we expect from a higher U.S. tariff? I suggest three: higher prices for families, eroded competitiveness for U.S. industry, and losses for American exporters.

A. Higher Prices, With Heaviest Impact on Low-Income Americans

First, families will pay more for goods.

Last year, for example, Americans imported \$250 billion in energy, \$241 billion worth of food, \$25 billion in shoes, \$184 billion in pharmaceuticals, \$56 billion in smartphones, and \$1.6 billion in crutches.⁴ Tariffs now vary significantly for such products, with averages near zero for most energy products, precisely zero for medicines, smartphones, and crutches, and 12% for shoes. A higher tariff rate will affect all such products in the same way, raising buyers’ “landed costs” and, therefore, (all else equal) raising store prices. So we should expect grocery, clothing, first-aid, and other common store products to cost more.

This will raise prices for everyone, but will hit lower-income families hardest. The reason for this is simple: lower-income families spend more of their income on goods — food, clothes, home furnishings, auto purchases, medicines, personal care products, and so on — than wealthy families. To be specific, the Bureau of Labor Statistics’ Consumer Expenditure Survey shows that in 2023, on average, 134.5 million U.S. households spent 29% of their post-tax income on these goods. Top-decile families, earning on average \$353,000 per year, spent about 19% of it on goods while putting more into savings, vacations, and services such as education or health. And single-parent families, whose post-tax incomes averaged \$52,000, spent 39% of it on goods.

	All U.S. households	Top 10% of incomes	Single-parent families
Post-tax income, 2023	\$87,869	\$271,617	\$52,462
Spending on goods*	\$25,153	\$51,257	\$20,398
Share of post-tax income spent on goods	28.6%	18.9%	38.9%

** Excluding restaurant meals, but counting all other Bureau of Labor Statistics goods categories, including food, household supplies, clothes, medicines and first aid, automobile purchases, personal care, toys, consumer electronics, and other goods. Source: BLS’ 2023 Consumer Expenditure Survey, <https://www.bls.gov/cex/tables.htm>*

In sum, tariffs are an inherently regressive form of taxation. The more we rely on them for revenue (or impose them for other purposes), the more taxation will fall on working-class and lower-income Americans.

B. Lost Competitiveness for U.S. Industries

Second, U.S. businesses producing goods will see their competitiveness erode as production costs rise.

Automakers buy metal and paint, factories and farms buy energy and fertilizer, makers of medicines use precursor chemicals, and so on. The permanent “Most-Favored-Nation” (MFN) tariff system exempts many of these goods from tariff taxation by setting the tariff rate at zero, and puts most of its high tariff rates on consumer goods such as clothes, shoes, and silverware. A higher across-the-board tariff would, therefore, hit these businesses much harder than tariff policy now does. As an index of the types of businesses that would see costs rise, a 2021 Government Accountability Office (GAO) study of the “exclusion” process for the 2018/2019 “301” tariffs on Chinese goods reports that of the 52,810 requests businesses filed for exemptions on the grounds that they could not find alternative suppliers, 12,120 were for consumer-goods, 8,460 for industrial goods, and 12,633 for automotive goods (which can be consumer products bought by repair shops, or industrial goods bought by parts manufacturers and vehicle-makers).⁵

With these inputs all rising in cost, American industrial products will cost more and be less competitive, both against imports and in export markets. There will, of course, be winners from this price increase, but they are very likely to be outnumbered by losers. As one example in recent experience, the U.S. International Trade Commission’s 301 and 232 study estimated that the 2018 tariffs on steel and aluminum, as of 2021, had increased the size of the two metals industries by about \$2.2 billion while shrinking the size of the auto parts, cutlery, machinery, and other metal-using manufacturing industries by about \$3.5 billion.⁶

As a more general comment, just as they are a regressive and inequitable consumer tax, they are also inequitable as a business tax, disfavoring sectors that buy lots of goods and favoring those that don’t. In practice (and setting aside the macro risk of a 1930s-style international trade war), this would mean relatively smaller U.S. retail, manufacturing, farming, construction, restaurant, hospital, and personal care services sectors, and relatively larger real estate, financial services, some forms of entertainment, legal, and perhaps private education sectors.

C. Exporters Lose Customers and Risk Retaliation

Third, U.S. exporters — a \$3 trillion part of the American economy — are likely to suffer through lost customers and retaliation.

If U.S. tariff rates rise in a more economically isolationist America, some of our main foreign markets will contract, and their downturn will damage successful American businesses. The U.S. relationships with Mexico and Canada are an example here. The two countries buy over \$700 billion in U.S. goods every year, and many U.S. exporters specialize in providing them with very sophisticated, high-value parts and components used to assemble final goods. For example, New Mexico, Texas, and Arizona are the three states most reliant on exports to Mexico. Mexico buys 70% of New Mexico’s exports; by another measure, Texas’ \$130 billion in exports to Mexico represents 5% of Texan state GDP. New Mexico’s \$3.5 billion in exports to Mexico include \$1.7

billion in computer parts, \$230 million in magnetic and optical media, \$290 million in electrical components, and \$190 million in semiconductor chips — that is, high-tech inputs destined not for Mexican households but for auto plants and factories assembling appliances.⁷ Imposing a 25% tariff on these resulting cars and TVs as they flow back to the U.S. will likely close many of the plants producing them; as this happens, suppliers in Las Cruces, Albuquerque, and Rio Rancho will contract along with them.

Similar examples appear throughout the United States. Texas' exports to Mexico include \$10.8 billion in semiconductor chips, \$5.1 billion in electrical equipment, and \$7.0 billion in auto parts. Arizona sells Mexico \$4 billion in semiconductor chips, electronic and electrical equipment, resins, and auto parts. Virginia ships \$200 million in auto parts and \$250 million in computer equipment to Canada and Mexico. On the northern border, Ohio's \$5 billion worth of metals and auto parts destined for Ontario and Quebec auto plants would face the same risks, as would Maine's \$320 million in lumber mill and paper products and Wisconsin's \$1 billion in auto parts, electronics, and power transmission equipment.

Meanwhile, some foreign governments — perhaps many — will retaliate against higher U.S. tariffs with tariffs of their own. This was the case in the early 1930s, after the “Smoot-Hawley” Tariff Act of 1930 (the last time we experimented with an across-the-board tariff increase), and economic historians generally agree that the resulting cycle of retaliation and tariff hikes deepened and prolonged the Depression. More recently, the Chinese retaliation for the 2018/2019 “301” tariffs led to the loss of \$20 billion per year in farm exports. Canada, Mexico, and China together — all subject to tariff threats last month — buy fully half of U.S. farm exports and contribute about 10% of all U.S. farm income⁸; and agriculture is typically an early target for such actions. Nor might tariffs on U.S. goods be the only form of retaliation: if the U.S. abandons WTO rules on tariffs, others may retaliate in different arenas — for example, by abandoning the WTO rules on intellectual property that underpin U.S. research spending and technological innovation. Exporters are valuable parts of our economy, especially in manufacturing and agriculture, and we should not lightly sacrifice them.

Or, to choose a particular community, our 1,139 African American exporters sell \$1 billion a year abroad, with Canada as their top market. According to last year's Census/BEA survey, they have 21 employees per firm on average, at a payroll of \$75,000 per worker, compared to 11 employees and \$54,520 per worker for privately held U.S. businesses in general.⁹ These are successful firms and good employers, and we shouldn't sacrifice them lightly.

III. UNLIKELY EFFECTS OF A HIGHER TARIFF

So the likely effects include higher prices, erosion of competitiveness in U.S. goods-producing and -using industries, and risk to American exporters. On the other hand, tariff increases are quite unlikely to reduce U.S. trade deficits or to raise U.S. industrial output.

A. Trade Balances Affected Only Modestly

On the first topic, recall that the first Trump administration argued in its first “President’s Trade Agenda” report in 2017 that a rise in the trade deficit over time showed earlier administrations justified much more use of protective tariffs:

“In 2000, the U.S. trade deficit in manufactured goods was \$317 billion. Last year [i.e. 2016] it was \$648 billion — an increase of 100 percent.”¹⁰

What then happened? As tariff rates rose from a trade-weighted average of 1.4% in 2017 to 3.0% in 2021,¹¹ the U.S. trade deficit did not fall. Instead, it rose, and especially fast in the manufactured goods the administration’s report cited as so troubling. By 2021, the “manufacturing-only” trade deficit figure cited in the 2017 report reached \$1.06 trillion — about 60% above the 2016 figure — and with tariffs still in place it has remained in this vicinity since then. The overall U.S. goods/service deficit also rose, from \$479 billion to \$842 billion in 2021, \$785 billion in 2023, and a likely \$900 billion in 2024.¹²

Why did this happen? Tariffs do affect trade balances, but their influence is modest. Fundamentally, trade balances equal the difference between national savings and national investment. As a form of tax increase, raising tariffs should reduce government “dissavings” and, therefore, modestly reduce trade deficits (unless there is some offsetting change in investment or private-sector savings). But if a tariff increase is accompanied by other tax cuts — as was the case in 2018 and appears to be the current plan — U.S. savings do not rise and are likely to fall. This is why after the 2018/2019 tariff increases (accompanied by the 2017 tax cut bill) the trade deficit did not fall but instead rose rapidly. If the goal is to reduce the trade deficit in some substantial way, while avoiding an economic contraction, the government tool with the most effect would be an overall reduction in fiscal deficits and policies to encourage private savings, not a tariff.

B. Industrial Sectors More Likely to Shrink than to Grow

Nor is there any reason to expect U.S. manufacturing (let alone agriculture) to grow if tariffs rise. Rather the reverse: in aggregate, manufacturing is likely to contract relative to other industries. The reason for this is that a tariff is, again, a tax on purchases of goods. A higher tariff will mean higher prices for goods, influencing Americans to buy fewer goods, and foreigners to purchase less U.S.-produced goods. We can perhaps see this in the data, as the U.S.’ manufacturing sector accounted for 10.9% of GDP before the “232” and “301” tariffs, and now accounts for only 10.0%.¹³

Within these big categories, of course, there will be individual winners and losers. The example of the 2018 steel and aluminum tariffs — somewhat more metals production, offset by larger declines in auto parts, tools, machinery, and other metal-using industries — is a likely foreshadowing of the larger effects of an overall tariff increase.

III. CONSTITUTIONAL TAX POWERS AND THE RISK OF CORRUPTION

Finally, apart from the real-world economic effects of a higher tariff, it is troubling to hear that an incoming administration might be considering an attempt to raise tariff rates without Congressional approval.

The Constitution's Article I, Section 8, language is very clear: "Congress has the power to lay and collect Taxes, Duties, Imposts, and Excises." Nothing in the Constitution gives any hint that a president might decide entirely on his own what tariff rates should be, in general, or as applied to different countries and products. The Constitution designers had good reason to avoid giving presidents (or any single individual) that sort of power, as doing so would raise the risk of impulsive and unsound decisions, and create temptations to use tariffs in corrupt ways to reward family members, cronies, and supporters, and to punish business rivals, political critics, and parts of the country unhappy with a president's policies. If it is legally correct that the International Emergency Economic Powers Act, or Sections 232, 301, and 330 of U.S. trade law, could be used for this purpose, this seems to me at least Constitutionally inappropriate and systemically risky in ways that go beyond strictly economic harms.

CONCLUSION

To conclude, Mr. Chairman, in some unusual cases, specific tariffs have a useful rationale. The Biden administration imposed high tariffs on Russian goods (with the support of Congress) after the invasion of Ukraine. I believe this was the right decision. Section 201 of trade law authorizes temporary tariffs under certain conditions to help struggling industries to restore their competitiveness, which is also a valid goal. The tariffs imposed on Chinese electric vehicles last year can be seen as meant for this sort of purpose, though using a different law.

But a general tariff increase is a poor policy choice. It would diminish American family living standards, weaken American industry, and put exporters, including many of the U.S.' most productive and successful industries, at risk. We do, of course, have many problems to address. But large new taxes on the food, clothes, appliances, medicines families need and the luxuries they enjoy, and the inputs and raw materials farmers and factories need to produce high-quality goods at low cost, are more likely to inflame than ease these problems. We have no need or reason to make such a choice, and I hope we will avoid it.

Thank you again for inviting my testimony this afternoon, and I welcome any questions the Committee may have.

¹ Or in some cases a specialized agent such as a freight forwarder, acting as an expert on the behalf of small businesses or individuals.

² The Harmonized Tariff Schedule, known for short as “HTS,” is kept by the U.S. International Trade Commission and is available at <https://hts.usitc.gov>. It divides goods into 11,414 different “HTS lines” from 01012100 for breeding horses to 97069000 for antiques 100 to 250 years old, and gives each line a tax rate known as the “Most Favored Nation” or “MFN” tariff. Individual lines may have many exceptions due to special treatment under a Free Trade Agreement, the “232” and “301” tariffs imposed in 2018 and 2019, or other reasons, but these do not affect the basic responsibilities for paying tariffs or the way they affect American buyers, consumers, and industry.

³ “Economic Impact of Section 232 and 301 Tariffs on U.S. Industries,” U.S. International Trade Commission, March 2023, pg. 124, at <https://www.usitc.gov/publications/332/pub5405.pdf>

⁴ Data from U.S. International Trade Commissions “Dataweb,” at dataweb.usitc.gov/.

⁵ “U.S.-China Trade: USTR Should Fully Document Internal Procedures for Making Tariff Exclusion and Extension Decisions,” Government Accountability Office, July 28, 2021, page 43, at <https://www.gao.gov/products/gao-21-506>

⁶ “Economic Impact of Section 232 and 301 Tariffs on U.S. Industries,” U.S. International Trade Commission, March 2023, pp. 124-134, at <https://www.usitc.gov/publications/332/pub5405.pdf>

⁷ State export figures from Department of Commerce “TradeStats Express” database, at <https://www.trade.gov/report/tradestats-express-national-and-state-trade-data>

⁸ Agricultural export data from US Department of Agriculture’s Global Agricultural Trade System (GATS) database, at <https://apps.fas.usda.gov/gats/default.aspx>. Export share of farm income from USDA’s Economic Research Service, at <https://www.ers.usda.gov/topics/international-markets-u-s-trade/u-s-agricultural-trade/u-s-agricultural-trade-at-a-glance/>.

⁹ “U.S. Exporting Firms By Demographics: 2022 Tables,” Census and Bureau of Economic Analysis, Table 1, at <https://www.census.gov/data/tables/2021/econ/abs/2021-abs-exporting-firms.html>.

¹⁰ “President’s Trade Agenda 2017,” Office of the U.S. Trade Representative, page 7, at <https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/Chapter%20-%20The%20President%27s%20Trade%20Policy%20Agenda.pdfv>.

¹¹ Rates from U.S. International Trade Commission, “U.S. Imports for Consumption, Duties Collected, and Ratio of Duties to Value, 1891-2023,” Table 1, at https://www.usitc.gov/documents/dataweb/ave_table_1891_2023.pdf.

¹² Trade balance data from USITC Dataweb.

¹³ Bureau of Economic Analysis, “GDP by Industry” database, at <https://www.bea.gov/itable/gdp-by-industry>



Brendan Duke

Senior Director for Economic Policy, Center for American Progress

Testimony Before the Joint Economic Committee Hearing on "Trade Wars & Higher Costs: The Case Against Trump's Tariffs"

December 18, 2024

Thank you, Representative Beyer, Vice Chairman Schweikert and members of the Committee.¹

My name is Brendan Duke, and I am Senior Director for Economic Policy at the Center for American Progress. The Center for American Progress is an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans through bold, progressive ideas, as well as strong leadership and concerted action.

I'm honored to submit this testimony about President-elect Donald Trump's tariff proposals. I will make the following points:

- The sweeping, across-the-board tariffs Trump has proposed are not an effective manufacturing strategy. They are unlikely to lead to an increase in U.S. manufacturing employment, build out of key strategic industries, or create domestic supply chains that can improve our national security or economic competitiveness.
- Targeted tariffs, on the other hand, that focus narrowly on national security and key strategic aims can be combined with public investments as part of a larger industrial strategy to improve resilience by reducing excessive reliance on unreliable trading partners, as the Biden administration has emphasized.
- In contrast, the proposed across-the-board tariffs are intended to raise trillions in federal revenue. But they would cost families thousands of dollars and make the tax system more regressive. The combination of the 2017 tax law and its extensions along with 20 percent across-the-board tariffs would only benefit Americans in the top 1 percent.
- The across-the-board tariffs Trump has proposed would lead to a one-time burst of inflation at a time Americans are struggling with high prices. They would be 4 to 10

¹ I would like to thank Kimberly Clausing, Emily Gee, Ryan Mulholland, and Ernie Tedeschi for thoughtful feedback.

times larger than the ones he enacted during his first term so the effects would be far larger than Americans experienced.

- Trump has floated using his considerable executive authority to enact tariffs without additional Congressional approval. Enacting unilateral tariffs along a similar size to the Trump tax cuts undermines the spirit of the separation of powers and could lead to rewarding politically connected companies, as the experience of his first term in office shows.

Trump's tariff proposals

It is first helpful to review the various tariff proposals Trump has floated during the campaign and the transition. These include:

- A 10 percent across-the-board tax on all imported goods entering the United States.ⁱ He later stated, "We're going to have 10 to 20 percent tariffs on foreign countries that have been ripping us off for years."ⁱⁱ
- A special 60 percent tax on all imported goods from China.ⁱⁱⁱ
- A few weeks after the election, he vowed to "sign all necessary documents to charge Mexico and Canada a 25% Tariff on ALL products coming into the United States, and its ridiculous Open Borders" if the governments did not agree to demands around border policy. One the same day, he threatened an additional 10 percent tax on all imported goods from China.^{iv}
- His latest post stated that BRICS (Brazil, Russia, India, China, and South Africa) countries "will face 100% Tariffs" unless they make a "commitment from these Countries that they will neither create a new BRICS Currency, nor back any other Currency to replace the mighty U.S. Dollar."^v

My remarks will focus on the across-the-board and China proposals because there has been far more analysis of them than the others. He has not also tied them to other specific demands as he has with the Canada, Mexico, and BRICS tariffs.

Across-the-board tariffs are a revenue, not a manufacturing, policy

Trump and incoming Trump administration officials have provided varied justifications for his tariff proposals, sometimes stating that they are a tool for raising revenue while other times stating that they will reinvigorate U.S. manufacturing.^{vi} But a tariff cannot simultaneously and effectively raise revenue and promote manufacturing.

A tariff that successfully increases U.S. manufacturing in a specific sector causes U.S. producers and consumers to switch from imported to U.S. produced goods. That very reduction in imported goods subject to the tax, however, causes the tariff to fail as a revenue collection

mechanism. Similarly, a tariff that raises significant revenue fails to meaningfully promote production in the United States over production elsewhere since, by definition, raising revenue would mean the United States continues to import goods subject to the tax. A tariff can, of course, do a middling job at both simultaneously, which itself highlights the tension between the policy's opposing objectives.

The design of an across-the-board tariff is consistent with the purpose of raising revenue and fails to incent U.S. manufacturing for three reasons. First, it would apply to imported goods that the United States does not produce and does not have any reasonable hope of producing to meet domestic demand, such as coffee or bananas. Even some goods we can produce, such as tomatoes, would likely require high production costs like significant greenhousing, labor in an economy at full employment, and suitable farmland, so the United States would continue to mostly rely on imports. This failure of the tariff to promote U.S. production and reduce imports means it would succeed in raising revenue.

Second, it is not even clear that an across-the-board tariff would increase U.S. manufacturing, particularly if not supported by federal investment in U.S.-based production. Economic theory suggests and empirical evidence show that tariffs do not change the size of a country's trade balance because they also cause the currency to appreciate—the initial reduction in imports causes the value of the dollar to rise, which partially offsets the price increase and causes imports to fall less than they would without those currency effects.^{vi} In fact, Trump's Treasury secretary nominee, Scott Bessent, has stated "historically 40-50% of the tariff is recovered in currency appreciation."^{vii} At the same time, dollar appreciation makes U.S. exporters less competitive with foreign producers and causes exports to fall. Exports and imports as a share of the economy would both fall, but the trade balance would remain roughly the same.^{ix}

U.S. exporters would also become less competitive with foreign producers because the across-the-board tariff would still raise the cost of the imported inputs they rely on for their U.S.-based production. More than half our imports are intermediate goods used by U.S. businesses.^x Their input costs would rise as they paid the tariff or moved to more expensive domestic suppliers. One study found that the 2018–2019 Trump tariffs' increase in U.S. exporters' costs was the equivalent of an almost 2 percent tariff on U.S. goods abroad.^{xi}

Finally, the across-the-board tariff would hurt U.S. exporters if it produces significant retaliation from our trading partners. An analysis by the Budget Lab at Yale found that a 10 percent across-the-board tariff and a 60 percent tariff on Chinese goods would reduce U.S. GDP by 0.5 percent, and retaliation would raise the negative GDP impact to 0.64 percent, with much of the additional impact felt directly by the U.S. exporters facing retaliation.^{xii}

The main result of the across-the-board tariff is that—in addition to significant revenue—it reduces imports and exports as a share of the economy. By its very nature, it ignores many of the key rationales U.S. policymakers have for imposing tariffs such as protecting or growing a key industry on national security or economic competitiveness grounds. It does not exempt the

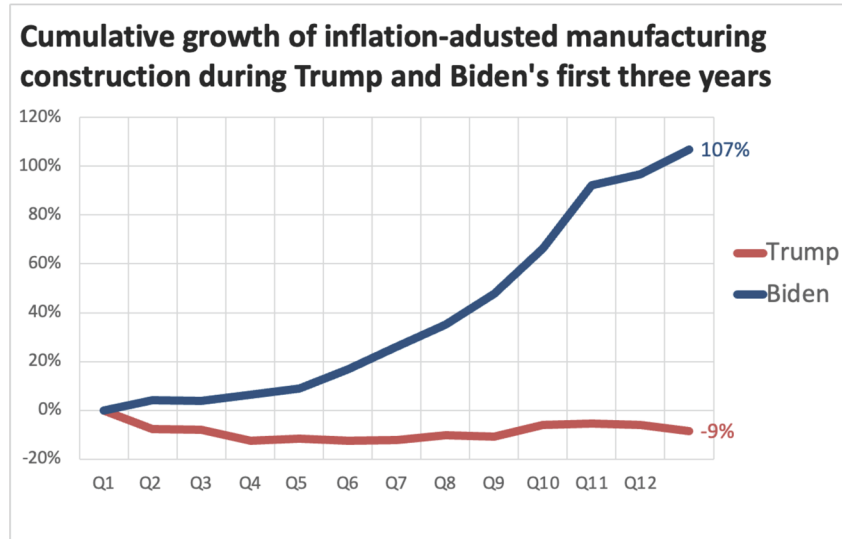
imported inputs that U.S. manufacturers require to be competitive globally. It instead “lets the market decide” which imports and exports to reduce, almost certainly leaving these strategic rationales completely unfulfilled.

Strategic tariffs in carefully chosen sectors can be a useful tool as part of a country’s larger national security or industrial strategy. The Biden administration’s approach is a good template for how this can work: focusing on incentivizing industries of the future, like electric vehicles, with targeted tariffs and significant investment. This approach has resulted in a historic manufacturing construction boom.

More targeted tariffs recognize the fact that tariffs cannot change the size of the U.S. trade deficit but *can* shape its composition to fit our national security and economic competitiveness needs. Moreover, tariffs limited to specific categories of imports—instead of literally all of imports, which is what an across-the-board tariff does—do not have anywhere near the magnitude of currency appreciation that across-the-board tariffs do, sparing exporters much of the ensuing loss of competitiveness. Moreover, the currency appreciation affects all imports—not just the targeted ones—so avoids the problem of currency appreciation undoing a large part of the work of the more targeted tariff.

Importantly, tariffs alone are far less effective at reinvigorating manufacturing without domestic investment since then a “protective” tariff has little to actually protect. Even Trump’s tariffs during his first term—which were significantly more targeted than the ones he now proposes—failed to durably increase U.S. factory construction (Figure 1). In fact, the United States was already in a “manufacturing recession” before the COVID-19 pandemic.^{xiii} Narrowly focused strategic tariffs can be a piece of the puzzle, but the Trump and Biden experiences show that they need investment to work.

Figure 1



Source: Center for American Progress analysis of Federal Reserve Economic Database, "Real private fixed investment: Nonresidential: Structures: Manufacturing," <https://fred.stlouisfed.org/series/C307RX1Q020SBEA#0>. Growth is measured relative to the fourth quarter of 2016 and 2021.

Across-the-board tariffs are a regressive form of revenue

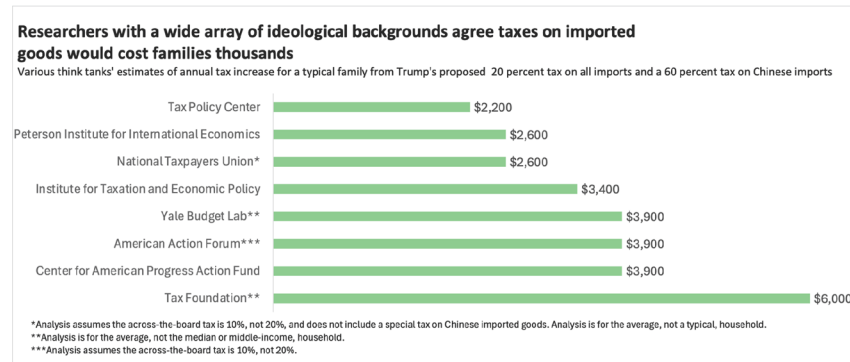
Given that the across-the-board tariffs would do so little to achieve manufacturing goals, it is proper to then move to discussing them as tax policy.

The across-the-board tariffs Trump has proposed will bring in significant amounts of revenue. Estimates by the Tax Policy Center suggest that a 10 percent tax on all imported goods and a 60 percent tax on all imported goods from China would raise \$2.8 trillion over 10 years.^{xiv} Doubling the across-the-board tariff to 20 percent would raise \$4.5 trillion over 10 years, which is enough to offset the expiring provisions of the 2017 tax law. Importantly, these estimates do *not* account for revenue losses from retaliation. Estimates from the Budget Lab at Yale suggest that retaliation could reduce the revenue raised by about 15 to 25 percent without accounting for negative macroeconomic effects.^{xv} These retaliatory effects are a reason why tariffs—even across-the-board tariffs—are a poor source of revenue: other countries do not retaliate when we raise our individual income tax rates, but they historically have when we raised tariffs.

Trump has repeatedly stated that other countries pay the tariffs.^{xvi} Based on his statements, it would be easy for Americans to believe that the finance ministries of other countries would write a check to the U.S. government paying the tariffs. But the actual statutory payor of the tariff is the U.S. company importing the good. In theory, foreign companies could still bear the economic burden of the tariff in the form of lower export prices, but empirical analysis of Trump's tariffs during his first term demonstrates that U.S. firms and consumers bear the burden.^{xvii} Moreover, if it is indeed the foreign exporter that "pays" the tariff then U.S. companies likely pay the tariff when other countries retaliate.

A wide range of researchers across the ideological spectrum have produced estimates of how much the most aggressive tariff Trump has laid out—the 20 percent across-the-board tariff—would cost the typical family. Each of these estimates suggest that a tariff of that magnitude would more than offset the \$1,000 tax cut a typical family would receive from extending the expiring portions of the 2017 tax law.

Figure 2



The reason taxes on imported goods should only be used to achieve strategic trade goals and not as a source of revenue is that they are one of the most regressive types of taxes.^{xviii} For example, the Treasury Department assumes that the bottom 90 percent only pay about 20 percent of individual income taxes and about 30 percent of corporate taxes, but more than half of taxes on imported goods and excise taxes. Importantly, the Treasury Department's methodology is actually conservative in terms of describing the regressivity of tariffs since it does not account for the fact that, in the short run, the tariff would disproportionately harm those consuming today, and lower-income and elderly families spend a higher share of their income in a given year.^{xix}

A key reason for their regressivity is, unlike the income tax, the tax is flat and does not allow policymakers to set different rates to ensure high-income families pay a higher rate than lower-

income families. This makes the Trump tax plan of essentially swapping income tax cuts in exchange for higher taxes on imported goods even more regressive than tariffs on their own. Figure 3 displays the cumulative effect of the permanent tax provisions of the 2017 tax law (the cut in the corporate tax rate and slower adjustment of tax brackets for inflation), extending the expiring provisions, and a 20 percent tax on all imported goods. The cumulative result is a tax cut for the top 1 percent and tax increase for every income group in the bottom 99 percent.

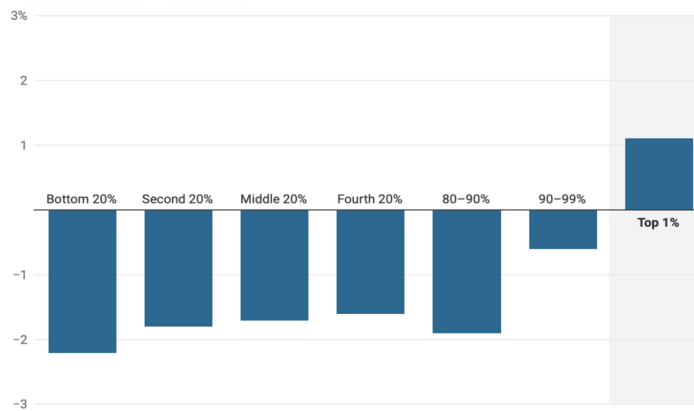
Figure 3

Every income group outside of the top 1% would experience a tax increase from the combination of Trump's tax cuts and tariff proposals

Percentage change in after-tax income from the permanent provisions of the 2017 tax law; the expiring provisions; and a 20% across-the-board tax on imported goods and a 60% tax on imported goods from from China

[Click for detailed view:](#)

Combined values Breakdown



Source: Center for American Progress analysis of data from Tax Policy Center, "Table T17-0316 - Conference Agreement: The Tax Cuts and Jobs Act; Baseline: Current Law; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2027," December 18, 2017; Tax Policy Center, "Table T24-0037 - Make Certain Individual Income, Payroll, and Estate Tax Provisions in the 2017 Tax Act Permanent, by ECI Percentile, 2027," July 8, 2024; Tax Policy Center, "T24-0079 - Enact 60 Percent Tariff on Imports from China and 20 Percent Tariff on Imports from All Other Countries, Distribution by ECI Percentile, 2025," October 25, 2024.

Tariffs and inflation

Another way of viewing the effect of tariffs on Americans is how much they would increase prices—in other words how much they would increase inflation. Several analyses by think tanks and Wall Street firms have estimated the effect of the tariffs on inflation:

- The Budget Lab at Yale estimates that a 10 percent across-the-board tariff combined with a 60 percent tariff on Chinese goods would increase PCE—the Fed’s preferred gauge of inflation—by 1.6 percent. Doubling the across-the-board tariff to 20 percent would raise it to 2.4 percent.^{xx}
- Goldman Sachs estimates that a 10 percent across-the-board tariff would increase PCE by 1.8 percentage points.^{xxi}
- The Capital Group has estimated that Trump’s 10 percent across-the-board tariff and 60 percent China tariffs would lead to a 2.5 percent increase in prices in 2025 (as measured by the Consumer Price Index).^{xxii}
- Bloomberg Economics similarly estimated that both sets of Trump-proposed tariffs would ultimately raise consumer prices by 2.5 percentage points, pushing up the inflation rate (as measured by core PCE) to 3.7 percent by end of 2025. This is compared to expected inflation of 2.1 percent in 2025 according to a Bloomberg survey of economists.^{xxiii}
- Even a former chief economist of the Trump White House Council of Economic Advisers, Casey Mulligan, estimated that just the across-the-board tariff would add 1 percentage point to inflation.^{xxiv}

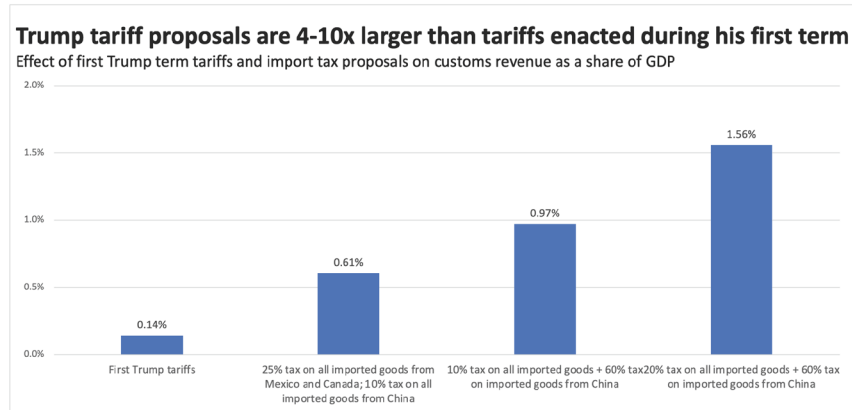
These analyses assume that this is a temporary inflationary burst, resulting in a one-time increase in the price level as opposed to a persistent increase in the inflation rate.

Some have argued that tariffs are not inflationary because they depend on how the Federal Reserve responds to them—the Fed could tighten monetary policy to leave the overall price level unchanged as imported goods’ prices rise while other goods and services’ prices fall.^{xxv} The Fed typically does not respond to one-time price increases so would likely let prices rise, but would face the challenge of figuring out what portion of inflation next year emanates from the tariffs—especially given that inflation remains above its 2 percent target—while being mindful of their effects on inflation expectations.^{xxvi} Moreover, even if the Fed *did* try to offset the burst of inflation, there would still be significant costs to Americans due to higher interest rates and the resulting slowdown of economic activity. Many estimates assume that the overall price level does not rise, but Americans’ nominal wages and investment income fall as a result of the tariff.

Another common argument is that inflation was low during his first term, which proved tariffs are not inflationary. This argument normally ignores the sheer magnitude of tariffs Trump is

proposing, which are about 4 to 10 times the size of those he enacted during his first term (Figure 4). Evidence suggests that the first term's tariffs did raise prices, but the effects were likely too small to show up in an inflation reading—the sheer increase in magnitude being discussed would make them large enough to show up.

Figure 4



Center for American Progress analysis of Census, CBO, and Tax Policy Center data. First term Trump import taxes are the increase in customs revenue as a share of GDP between Obama's second term and 2019. The across-the-board proposals use TPC revenue estimates excluding income and payroll tax offsets. The Mexico/Canada/China tariffs use an import elasticity of -1.

Tax policy by executive action is open to corruption and undermines Congressional authority

We do not yet know precisely how President Trump plans to enact his tariffs. While there have been some reports that congressional Republicans will try to enact the tariffs in legislation as a formal offset for extending the expiring portions of the Trump tax cuts, this is unlikely given their small margin in the House of Representatives.

Trump himself has directly stated that he could pursue the tariffs using his substantial existing executive authority.^{xxvii} Legal analysts believe that he could attempt to use the sweeping powers of the International Emergency Economic Powers Act to enact a single across-the-board tariff or use several versions of the Section 301 tariffs he used during his first term to effectively tax imported goods from a wide array of countries.^{xxviii}

The executive branch has significant unilateral power to impose tariffs because these provisions were designed to be trade enforcement tools, not revenue raising tools. But the tariffs Trump has proposed have the revenue effect of a similar magnitude to a large tax bill: a 20 percent across-the-board tariff combined with a 60 percent tariff on Chinese imports would raise about

as much revenue as extending the Trump tax cuts would lose. This would represent a significant shift in power over federal budget authority from Congress to the executive branch that undermines at least the spirit of the separation of powers in the Constitution.

Using existing tariff authority as a revenue tool is an especially flawed idea because it would introduce executive branch discretion into revenue collection that is unprecedented in modern America. This opens the door to using that discretion to favor politically aligned firms, giving them a leg up over their competitors. It is easy to imagine a major corporation with access to the Trump Administration petitioning for tariff exclusions that its competitors do not receive. Executive discretion is antithetical to good tax policy, which is why it is critical that revenue collection be carried out without the exemptions that are part of tariff policy.

Using tariffs primarily for revenue also opens the door to pay-for-play. A recent political science study found that this may have occurred during the first Trump administration when 50,000 applications for tariff exemptions were filed.^{xxix} 7,000 exemption applications were filed by public companies and over 1,000 exemptions were granted. The article found that \$35,000 in donations to Republican candidates by a company's PAC and executives increased the odds of an application being granted from roughly one in seven to one in five. A contribution of just \$4,000 to Democrats, on the other hand, reduced the odds of success from one in seven to under one in 10. At stake were billions of dollars—an extra \$57 billion in market capitalization for firms that succeeded in obtaining an exemption.

Expanding the scope of this revenue collection 4- to 10-fold as Trump has proposed would dramatically increase the opportunities for his administration to reward political allies while punishing enemies. Americans deserve a revenue collection system that is progressive and professionally administered, as opposed to the regressive and potentially politicized one Trump has proposed.

ⁱ Jeff Stein, "Donald Trump is preparing for a massive new trade war with China," *The Washington Post*, January 27, 2024, <https://www.washingtonpost.com/business/2024/01/27/trump-china-trade-war/>

ⁱⁱ Jeff Stein, Marianne LeVine, and Isaac Arnsdorf, "Trump, in North Carolina speech, signals openness to expanding tariff plans," *The Washington Post*, August 14, 2024, <https://www.washingtonpost.com/politics/2024/08/14/trump-rally-speech-north-carolina-economy-id-vance/>

ⁱⁱⁱ Stein 2024.

^{iv} Evelyn Chang, "Trump vows an additional 10% tariff on China, 25% tariffs on Canada and Mexico," *CNBC*, November 25, 2024, <https://www.cnn.com/2024/11/26/trump-vows-an-additional-10percent-tariff-on-china-25percent-tariffs-on-canada-and-mexico.html>

^v Megan Cerullo, "Why is Trump threatening a 100% tariff on the BRICS nations?," *CBC*, December 2, 2024, <https://www.cbcnews.com/news/trump-tariffs-brics-nations-china-russia-brazil/>

^{vi} Jeff Stein, "Trump vows massive new tariffs if elected, risking global economic war," *The Washington Post*, August 2022, 2024, <https://www.washingtonpost.com/business/2023/08/22/trump-trade-tariffs/>; Andrew Duehren, "Trump Flirts With the Ultimate Tax Cut: No Income Taxes at All," *The New York Times*, October 24, 2024 <https://www.nytimes.com/2024/10/24/us/politics/donald-trump-tax-policy.html>

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- ^{vii} Davide Furceri, Swarnali A. Hannan, Jonathan David Ostry, and Andrew K. Rose, "Macroeconomic Consequences of Tariffs," International Monetary Fund, January 2019, <https://www.imf.org/en/Publications/WP/Issues/2019/01/15/Macroeconomic-Consequences-of-Tariffs-46469>; Johannes Eugster, Florence Jaumotte, Margaux MacDonald, Roberto Piazza, "Economic Forces, Not Tariffs, Drive Changes in Trade Balances," International Monetary Fund, April 3, 2019, <https://www.imf.org/en/Blogs/Articles/2019/04/03/blog-weo-ch4-economic-forces-not-tariffs-drive-changes-in-trade-balances>
- ^{viii} <https://www.youtube.com/watch?si=BeOfyJX-RemfK93&v=D18lRACRjio&feature=youtu.be>
- ^{ix} The exception is if the tariff revenue was put toward deficit reduction, which would increase government and overall saving thus reducing the gap between savings and investment that drives the trade deficit. Yet, Trump's policy proposals would increase 10-year deficits by \$1.7 trillion to \$16 trillion, so the net result of his policy would likely raise the trade deficit.
- ^x Mihir Torsekar, "Intermediate Goods Imports in Key U.S. Manufacturing Sectors," U.S. International Trade Commission, 2017, https://www.usitc.gov/research_and_analysis/trade_shifts_2017/specialtopic.htm
- ^{xi} Kyle Handley, Fariha Kamal, and Ryan Monarch, "Rising Imports Tariffs, Falling Export Growth: When Modern Supply Chains Meet Old-Style Protectionism," International Finance Discussion Papers 1270, <https://www.federalreserve.gov/econres/ifdp/files/ifdp1270.pdf>
- ^{xii} The Budget Lab at Yale, "Fiscal, Macroeconomic, and Price Estimates of Tariffs Under Both Non-Retaliation and Retaliation Scenarios," October 16, 2024, <https://budgetlab.yale.edu/research/fiscal-macroeconomic-and-price-estimates-tariffs-under-both-non-retaliation-and-retaliation>
- ^{xiii} Louis Jacobson, "Was U.S. manufacturing in recession before the pandemic, as Pete Buttigieg said?," Politifact, July 31, 2024, <https://www.politifact.com/factchecks/2024/jul/31/pete-buttigieg/was-us-manufacturing-in-recession-before-the-pande/>
- ^{xiv} Tax Policy Center, "Table T24-0077 Options to Increase Tariffs," October 25, 2024, <https://taxpolicycenter.org/model-estimates/t24-0077-options-increase-tariffs>
- ^{xv} Budget Lab 2024.
- ^{xvi} Trump War Room, X, October 24, 2024, 3:58 PM, <https://x.com/TrumpWarRoom/status/1849541060709712272>
- ^{xvii} Alberto Cavallo et al, "Tariff passthrough At the Border and At the Store: Evidence from U.S. Trade Policy," October 2019, https://www.nber.org/system/files/working_papers/w26396/w26396.pdf; Mary Amiti, Stephen J. Redding and David E. Weinstein, "The Impact of the 2018 Tariffs on Prices and Welfare," Journal of Economic Perspectives, Fall 2019, <https://www.aeaweb.org/articles?id=10.1257/jep.33.4.187>; Pablo D. Fajgelbaum et al, "The Return of Protectionism," October 2019, https://www.nber.org/system/files/working_papers/w25638/w25638.pdf
- ^{xviii} Kimberly Clausing and Mary E. Lovely, "Why Trump's tariff proposals would harm working Americans," Peterson Institute for International Economics, May 2024, <https://www.piie.com/publications/policy-briefs/2024/why-trumps-tariff-proposals-would-harm-working-americans>
- ^{xix} Clausing and Lovely, 2024; John Horowitz et al, "Methodology for Analyzing a Carbon Tax," U.S. Treasury Office of Tax Analysis, January 2017, <https://home.treasury.gov/system/files/131/WP-115.pdf>
- ^{xx} Budget Lab 2024. These are the effects before substitution, which is the proper way to view the effects of the tariffs on Americans' welfare.
- ^{xxi} Alec Phillips, David Mericle, and Tim Krupa, "The Election and the Economy: Estimating Immigration, Trade, and Fiscal Effects," Goldman Sachs, September 3, 2024.
- ^{xxii} Julian Evans-Pritchard and Zichun Huang, "Trump tariffs: round two would be more damaging," Capital Economics, February 23, 2024, <https://www.capitaleconomics.com/publications/china-economics-focus/trump-tariffs-round-two-would-be-more-damaging>

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- ^{xxiv} Jeff Stein, "Trump promises to stop inflation. But would his plans actually help?," January 7, 2024, The Washington Post, <https://www.washingtonpost.com/business/2024/01/07/trump-economy-inflation-biden-campaign/>
- ^{xxv} Matt Egan, "'Huge relief.' CEOs exhale after Trump taps Scott Bessent to lead Treasury," CNN, November 25, 2024, <https://www.cnn.com/2024/11/25/business/ceos-react-bessent-trump-treasury-pick>
- ^{xxvi} Jerome Powell, "By inflation, we mean year after year after year prices go up. If something is a one-time price increase... you wouldn't react to something that is likely to go away," <https://www.pbs.org/newshour/economy/watch-live-fed-chair-powell-to-testify-on-inflation-state-of-economy>; Nick Timiraos, "Economists Warn of New Inflation Hazards After Election," The Wall Street Journal, October 28, 2024, <https://www.wsj.com/economy/trump-harris-election-inflation-0797554a>
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Testimony Before the US Joint Economic Committee
Alternatives to Tariffs to Boost US Competitiveness

December 18, 2024

Erica York

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Chairman Heinrich, Vice Chair Schweikert, and members of the committee, thank you for the opportunity to discuss tariffs and better alternatives to boost US competitiveness. My name is Erica York, and I am a Senior Economist and Research Director at the Tax Foundation, a nonprofit think tank dedicated to studying tax policy at all levels of government.

The goals of boosting productivity, opportunities for workers, and US competitiveness on the global stage are all worthy. Tariffs, however, are not well-suited to meet any of those goals for the US economy. In this testimony, I will focus on three key ideas to illustrate why an alternative to tariffs is needed in the context of tax reform: the negative impact of the 2018-2019 tariffs on the US economy and manufacturing, the interconnectedness of US manufacturing with the global economy, and how moving to a consumption tax base away from an income tax base can better meet the goals of greater productivity and investment.

The 2018-2019 Trade War Tariffs Did Not Deliver Manufacturing Jobs or Higher Output

Debates about American manufacturing often focus on manufacturing jobs rather than manufacturing output and productivity. It is true that manufacturing employment has declined, but that decline follows broad global and historical trends in which workers shift from agriculture to manufacturing in early stages of development, then from manufacturing to services in later stages of development.

The US has followed this path, primarily driven by growing manufacturing productivity and by increases in consumer spending on services too. As technology advances, fewer workers are needed to produce the same quantity of goods. The result is a negative relationship between manufacturing productivity and manufacturing employment. That is why manufacturing output in the United States has continued to grow even as the share of workers in the manufacturing sector has shrunk. In other words, the blame lies not with trade or other economic policies, but with greater productivity, often through automation, and greater consumer spending on services.

One economist recently concluded that it is “difficult to imagine any policy or technological changes, short of turning back the clock on U.S. manufacturing productivity (e.g. smashing all the machines), that can bend this curve in a way that reverses the long-run decline in the U.S. employment share of manufactur-

ing.”¹ Instead of focusing on employment shares, the most relevant policy question for the manufacturing sector is what can be done to boost productivity.

Rather than boosting productivity, tariffs forfeit productivity and output to preserve jobs at firms and in industries that are relatively less productive. According to a review of the economic studies on the 2018-2019 trade war tariffs conducted by the Office of the United States Trade Representative, the tariffs in aggregate have had a small negative effect on US economic welfare and incomes, increased prices of imported goods into the United States due to nearly complete pass-through of the tariffs to US importers, decreased overall manufacturing employment, and depressed investment growth.² While imports from China fell, they were largely replaced by greater imports from countries such as Mexico, Korea, and Taiwan, resulting in no meaningful change in the overall balance of trade.

The story that plays out with tariffs is one of redistribution and reallocation. As tariffs increase the price of foreign-produced goods, they incentivize buyers to switch to domestically produced goods and provide domestic producers room to increase their prices. Domestic producers benefit from higher prices and sales, but their benefit comes at the expense of other people and businesses in the domestic economy. For this reason, tariffs are redistributive, taking income from some and giving it to protected businesses and pulling resources from where they are productively employed and reallocating them to less efficient producers. While tariffs create benefits for protected industries, higher input costs and retaliatory tariffs fully offset the benefits of protection, resulting in net losses in production and employment in the US economy overall.³

The United States International Trade Commission (USITC) found a similar outcome in an industry-level analysis of the tariffs on steel and aluminum, estimating an average of \$2.8 billion in production increases enabled by the higher prices from the tariffs but a larger \$3.4 billion in production decreases in certain downstream industries, like construction and equipment manufacturers, that rely on steel and aluminum as inputs.⁴

The decline in the share of workers employed in the manufacturing sector has continued apace with tariffs (largely retained, and in some cases increased, by President Biden) as well as with new US subsidies for certain manufacturers under the Biden administration.⁵ We should expect a similar reallocation effect from protectionist subsidies as we expect from protectionist tariffs: tax cuts aimed at narrow subcategories mostly shift investment to that sector, instead of driving aggregate investment growth. While it remains too soon to tell how this reallocation of investment will affect overall productivity growth, we have plenty of reasons to be pessimistic that it will prove successful.⁶

¹ Kyle Handley, “What happened to U.S. manufacturing?” Economic Innovation Group, July 2024, <https://eig.org/wp-content/uploads/2024/07/TAWP-Handley.pdf>.

² US Trade Representative, “FOUR-YEAR REVIEW OF ACTIONS TAKEN IN THE SECTION 301 INVESTIGATION: CHINA’S ACTS, POLICIES, AND PRACTICES RELATED TO TECHNOLOGY TRANSFER, INTELLECTUAL PROPERTY, AND INNOVATION,” May 14, 2024, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2024/september/ustr-finalizes-action-china-tariffs-following-statutory-four-year-review>.

³ Aaron Flaen and Justin Pierce, “Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected U.S. Manufacturing Sector,” Finance and Economics Discussion Series 2019-086, Washington: Board of Governors of the Federal Reserve System, December 2019, <https://doi.org/10.17016/FEDS.2019.086>.

⁴ United States International Trade Commission, “Economic Impact of Section 232 and 301 Tariffs on U.S. Industries,” March 2023, https://www.usitc.gov/publications/332/pub5405.pdf?source=govdelivery&utm_medium=email&utm_source=govdelivery.

⁵ Martin Wolf, “Manufacturing fetishism is destined to fail,” *Financial Times*, Nov. 12, 2024, <https://www.ft.com/content/aee57e7f-62f1-4a57-a780-341475cd8f89>.

⁶ Alex Muresianu, Alex Durante, and Erica York, “Leveraging Tax Policy to Bolster US Economic Growth Amid Competition with China,” Tax Foundation, Oct. 9, 2024, <https://taxfoundation.org/research/all/federal/us-chinese-economy-investment-manufacturing/>.

Doubling down on broad-based tariffs is particularly problematic given the interconnected nature of US trade relationships today.

US manufacturers rely on a complex web of global relationships and value chains to source parts, materials, and equipment in order to produce and create jobs in the United States. From 1997 through 2017, multinational firms accounted for 65 percent of US goods exports and 60 percent of US goods imports, on average.⁸ In 2022, 33.7 percent of US exports and 46.6 percent of US imports constituted within-firm trade, or trade between a parent firm and an affiliate or related party.⁹

Indeed, in the most recent round of tariffs, firms that eventually faced tariff increases on their imports accounted for 84 percent of all exports and represented 65 percent of manufacturing employment. For all affected firms, the implied cost was \$900 per worker in new duties, or the equivalent of placing a tariff on US exports of 2 percent for the typical firm and 4 percent for products with higher exposure to tariffs.¹¹

The United States is currently the second largest goods exporter in the world overall; for instance, the US leads the world in aerospace exports and is the second largest auto exporter.¹³ US manufacturing value-added is the second largest in the world, larger than the manufacturing value-added of the next three nations—Japan, Germany, and India—combined.¹⁴ And value-added per worker far outpaces any other nation, revealing the global dominance of US manufacturing productivity.¹⁵

[illegible]

8 White House, "Economic Report of the President," March 2024, <https://www.whitehouse.gov/wp-content/uploads/2024/03/ERP-2024-CHAPTER-5.pdf>.
9 Ibid.
10 Mary Amiti, Matthieu Gomez, Sang Hoon Kwon, and David E. Weinstein, "Do Import Tariffs Protect U.S. Firms?," *Liberty Street Economics*, Dec. 5, 2024, <https://libertystreeteconomics.newyorkfed.org/2024/12/do-import-tariffs-protect-u-s-firms/>.

11 Kyle Handley, Fariba Kamal, and Ryan Monarch, "Rising Imports Tariffs, Falling Export Growth: When Modern Supply Chains Meet Old-Style Protectionism," International Finance Discussion Papers 1270, February 2020, <https://doi.org/10.17016/IFDP.2020.1270>.

12. Erica York and Nicolo Pastrone, "How Do Import Tariffs Affect Exports?," Tax Foundation, Aug. 28, 2024, <https://taxfoundation.org/blog/import-tariffs-affect-exports/>.

13 Statista, "Leading countries with the highest aerospace exports in 2023" <https://www.statista.com/statistics/263290/aerospace-industry-revenue-breakdown/>; International Organization of Motor Vehicle Manufacturers, "2021 Production Statistics," <https://www.oica.net/category/production-statistics/2021-statistics/>.

14 World Bank, "Manufacturing, value added (current US\$)," World Bank national accounts data, and OECD National Accounts data files, https://data.worldbank.org/indicator/NV.IND.MANF.CD?end=2022&most_recent_value_desc=true.

15 Colin Grabow, "The Reality of American 'Deindustrialization,'" Cato Institute, Oct. 24, 2023, <https://www.cato.org/publications/reality-american-deindustrialization>.

US dominance, however, is not guaranteed to continue if the US does not continue to reinvest and grow. A tax reform strategy that prioritizes incentives for investment and growth, rather than a tariff strategy that reallocates investment and reduces productivity, is needed.

Removing the Tax System's Bias Against Production Supports All Businesses, Including Manufacturing

Many members of Congress may be concerned about the way our trading partners tax goods and services that cross the border. All other nations in the Organisation for Economic Co-operation and Development (OECD) levy a national-level value-added tax (VAT), but the United States, with no VAT, remains an outlier in the world.¹⁶

VATs are border-adjusted, meaning they rebate tax on exports and impose tax on imports, while the income tax system in the United States is origin-based, meaning it taxes all domestic production, even production for export.¹⁷ Despite the appearance of subsidizing exports, however, a border-adjusted VAT is trade neutral. A border adjustment would allow producers to reduce the prices they charge overseas. In turn, demand for dollars would rise to purchase those goods, increasing the value of the dollar relative to foreign currencies and offsetting any perceived trade advantage.¹⁸ Thus, adopting a VAT, or any other form of consumption tax, will not permanently boost exports and reduce imports. Ultimately, a border-adjusted tax falls equally on goods consumed within a country, whether the goods were produced domestically or imported; exports are exempt because they are not consumed within a country.

The economic and administrative case for moving to a consumption tax base does not rest on an argument about boosting exports but instead is based on boosting investment and capital accumulation by removing income tax biases and simplifying the complexities of the current income tax system.

Income taxes apply when taxpayers earn money and when they see changes in their net worth, such as returns from saving and investment. Changes in net worth, however, usually become consumption later. That's because income is either consumed immediately when it is earned or, if consumption is deferred by saving, income is consumed in the future after it has been saved.

As such, an income tax system double taxes or places a higher tax burden on future or deferred consumption. Because of that, income taxes create a tax penalty on saving and investment, depressing levels of capital accumulation, productivity, and output. Taxing income also requires complicated determinations on how to define income, which increases the complexity of the tax code and results in billions of hours of lost productivity each year.

In contrast, a consumption tax only taxes income once, whether it is consumed right away or saved and consumed in the future. A consumption tax base removes the tax penalty on saving and investment created by an income tax. Removing that tax penalty means people save and invest more, resulting in higher

¹⁶ Daniel Bunn, Cristina Enache, and Ulrik Boesen, "Consumption Tax Policies in OECD Countries," Tax Foundation, Jan. 26, 2021, <https://taxfoundation.org/research/all/global/consumption-tax-policies/>.

¹⁷ Alan D. Viard, "Border Tax Adjustments Won't Stimulate Exports," American Enterprise Institute, Mar. 2, 2009, <https://www.aei.org/articles/border-tax-adjustments-wont-stimulate-exports/>.

¹⁸ Kyle Pomerleau and Stephen J. Entin, "The House GOP's Destination-Based Cash Flow Tax, Explained," Tax Foundation, Jun. 30, 2016, <https://taxfoundation.org/blog/destination-based-cash-flow-tax-explained/>.

capital accumulation, productivity, and output. That is why a long academic literature has found consumption taxes to be maximally economically efficient and simpler to administer.¹⁹

The four primary approaches to taxing consumption are the retail sales tax, the value-added tax, the Hall-Rabushka flat tax or Bradford X tax, and the consumed-income tax. While each design is different, all four approaches achieve neutral tax treatment between saving and consumption.²⁰

An alternative to tariffs that follows consumption tax principles and would succeed in boosting productivity, opportunities for workers, and US competitiveness would be an earlier version of the 2017 tax law prior to its passage—the destination-based cash flow tax (DBCFT). Despite significant improvements made by the 2017 Tax Cuts and Jobs Act, the US maintains an origin-based income tax system that places a disproportionate burden on saving, investing, and producing in the United States. The result is a tax system that depresses the levels of investment, capital accumulation, worker productivity and wages, and saving compared to a consumption tax system. The US tax system is also still plagued by complexity, with multiple provisions designed around cross-border transactions and limiting profit shifting.

While similar to a VAT, a DBCFT differs in one major respect by allowing firms to deduct payroll expenses, giving it a different tax base. A DBCFT would entail three primary reforms to our current business tax system.

A DBCFT would reform the base of business income taxes by permitting businesses to immediately deduct costs for capital and research and development (R&D) investments and eliminating interest deductions for nonfinancial firms. And a DBCFT would border-adjust the resulting cash flow tax: the cost of goods purchased from foreign sellers (imports) would not be deductible and the revenue from sales to customers abroad (exports) would not be taxable.

Adopting a DBCFT would directly confront the problems that remain with the current US income tax system and achieve the goals of higher productivity, more opportunities for workers, and a competitive advantage for US businesses that tariffs cannot.

The border adjustment would also address the problems of profit shifting and burdening domestic production—a DBCFT would impose no penalty on firms for being a US tax resident and would be neutral toward trade.²¹ By ignoring the transactions firms use to shift profits, a DBCFT would virtually eliminate the problem of profit shifting. As in the case of a VAT, a border-adjusted business cash flow tax would not permanently alter the balance between imports and exports because of its offsetting effects on currency values.

As previous Tax Foundation research explains,²² applying the tax to imports increases their cost. As Amer-

19 Anthony Atkinson and Joseph Stiglitz, "The design of tax structure: Direct versus indirect taxation," *Journal of Public Economics* 6 (1976): 55-75; Louis Kaplow, "On the undesirability of commodity taxation even when income taxation is not optimal," *Journal of Public Economics* 90 (2006): 1235-1250; Joseph Bankman and David Weisbach, "The Superiority of an Ideal Consumption Tax over an Ideal Income Tax," *Stanford Law Review* 58 (2005): 1413-1456.

20 For a detailed discussion on the different approaches to consumption taxation, see Erica York, Garrett Watson, Alex Durante, and Huaqun Li, "How Taxing Consumption Would Improve Long-Term Opportunity and Well-Being for Families and Children," Tax Foundation, Oct. 12, 2023, <https://taxfoundation.org/research/all/federal/us-consumption-tax-vs-income-tax/>.

21 Alan J. Auerbach, "Demystifying the Destination-Based Cash-Flow Tax," University of California, Berkeley, Sep. 22, 2017, <https://eml.berkeley.edu/~auerbach/Demystifying%20the%20DBCFT%209%2022%2017.pdf>.

22 Kyle Pomerleau, "Exchange Rates and the Border Adjustment," Tax Foundation, Dec. 15, 2016, <https://taxfoundation.org/blog/exchange-rates-and-border-adjustment/>.

icans demand fewer imports, they exchange fewer dollars, pushing up the value of the dollar relative to other currencies. Exempting exports from the tax allows US producers to drop their prices in foreign markets, increasing demand for US exports and dollars, which also increases the value of the dollar. Together, the currency appreciation from the border adjustment offsets any impact on trade.

Thus the economic case for the DBCFT is the same as for other consumption taxes: full expensing of capital investment would encourage capital formation and is one of the most cost-effective tax reforms available to boost investment,²³ and eliminating interest deductibility would place firm financing decisions on equal ground.²⁴ Removing the income tax biases against investment by adopting a DBCFT would lead to higher capital accumulation, productivity, and output.

Conclusion

In conclusion, while tariffs are often presented as tools to enhance US competitiveness, a long history of evidence and recent experience shows they lead to increased costs for consumers and unprotected producers and harmful retaliation, which outweighs the benefits afforded to protected industries. As an alternative, reforms such as a DBCFT present a more promising path to achieving higher productivity, better opportunities for workers, and enhanced global competitiveness. By addressing remaining tax biases against investment and production, and creating a neutral framework for trade, a DBCFT would foster broad economic growth.

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

²³ Gabriel Chodorow-Reich, Owen M. Zidar, and Eric Zwick, "Lessons from the Biggest Business Tax Cut in US History," *Journal of Economic Perspectives* 38:3 (2024): 61–88, <https://www.aeaweb.org/articles?id=10.1257/jep.38.3.61>.

²⁴ Garrett Watson, "Unequal Tax Treatment Is Contributing to Rising Debt Levels for Entrepreneurs," Tax Foundation, Dec. 13, 2018, <https://taxfoundation.org/blog/unequal-tax-treatment-entrepreneurs/>.



Joint Economic Committee:

Hearing: “Trade Wars & Higher Costs: The Case Against Trump’s Tariffs”

Congressional Testimony

Mr. Jeff Ferry, Chief Economist

Coalition for a Prosperous America

December 18, 2024

Introduction

I am Jeff Ferry, the Chief Economist at the Coalition for a Prosperous America (“CPA”). I have held this position for nearly six years. CPA is a bipartisan national nonprofit research and advocacy organization representing domestic producers and workers across many sectors and industries of the U.S. economy. We are an unrivaled coalition of manufacturers, workers, farmers, and ranchers working together to rebuild America for ourselves, our children, and our grandchildren.

I joined CPA as its first economist in 2016 and subsequently established CPA’s economic research team. Our team launched an economic modeling initiative to model impacts of trade policy including tariffs, tax credits, and currency adjustments on the U.S. economy. One of our modeling papers won the 2019 Mennis Award for “Outstanding Paper of the Year” from the National Association of Business Economists. While at CPA, I have published nine papers in peer-reviewed journals covering topics such as economics, trade, and taxation. I also routinely author and contribute to articles for CPA’s website and other outlets containing economic analysis of trade and tax policies.

Prior to joining CPA, I founded multiple companies within the technology space. I received my bachelor’s degree in economics from Harvard University in 1975 and my Master of Science degree in economics from the London School of Economics and Political Science in 1976.

Dual Purposes of Tariffs: Revenue & Protection

From its beginning, the United States Congress believed that tariffs should be used for both (1) federal revenue purposes, and also (2) to protect domestic production. This consensus was embodied in the first sentence of the first U.S. Tariff Act, passed on July 4, 1789.

In 1815, at the request of the House of Representatives, U.S. Treasury Secretary Dallas authored a report on how to design tariffs for both revenue and protection. Dallas was charged with raising \$24 million in annual revenue to fund the federal government, while also promoting industrial self-reliance. Congress set a target for 70% of federal revenue to

come from tariffs. Dallas' plan guided America's industrialization, making it the world's factory by 1900, with the highest wages and individual prosperity the world had ever seen.

President-elect Trump campaigned on restoring tariffs for both purposes: as a major revenue generator and to protect American workers from direct labor competition with workers in poorer countries. See Agenda47: President Trump's New Trade Plan To Protect American Workers.

Tariffs for Revenue

In Fiscal Year (FY) 2024, the federal government spent \$6.75 trillion yet collected only \$4.92 trillion in revenue, resulting in a deficit of \$1.83 trillion. While CBP has not yet published its Travel and Trade Report for FY 2023 or FY 2024, in FY 2022, \$104.6B in tariffs were collected. This \$104.6B was just 2.1% of the \$4.9 trillion of federal revenue.

Despite this modest number, the \$104.6B in tariffs for FY2022 was a dramatic increase supported by the supplemental China tariffs launched in 2018. In FY2017, tariff revenue was only \$34.8B.

The China tariffs proved to be a tremendous source of revenue, bringing in approximately \$50B annually. This is approximately the same amount of revenue that the Treasury collects from the bottom fifty percent of American income tax payers.

Which is more regressive? Taking money directly out of the paychecks of the bottom of half of American tax payers, or charging a toll on imports from China?

In the leadup to the 2018 tariffs, the media was full of dire warnings about consumer price increases. These never happened. To take one high profile example, on June 16, 2018, Bloomberg published an article titled "A Buick SUV May Cost an Extra \$8,000 After China Tariffs". The article was referring to the Buick Envision, which GM has imported into the United States from China since 2015.

General Motors itself petitioned for a tariff exclusion for the Buick Envision, but was denied.

Despite all the warnings, the price of the Buick Envision didn't increase, even after its tariff went from 2.5% to 27.5%. In fact, as China rapidly devalued its currency, the Envision got cheaper. The Buick Envision Preferred Trim went from \$38,645 pre-tariff to \$34,695 post-tariff, and then, yet again for the 2021 model year, it fell another \$1,700 to an MSRP of \$32,995.

Some may pounce, claiming the tariff thus 'failed' because GM kept importing the Buick Envision from China. But this is not the case when you recognize the dual benefits and purpose of protection and revenue.

Indeed, the Buick Envision proved to be a tremendous example of a successful revenue tariff. It is very unlikely that GM absorbed the cost of the tariff and decided to continue with the imports. Ford was about to start importing its competitor, the EcoSport, from China, but cancelled that plan after the tariff. Much more likely is that GM's Joint Venture partner in China, SAIC Motors Inc., a Chinese state-owned enterprise (SOE), took the

margin hit. The tariff fell not on any American consumer nor American business, but rather on a Chinese SOE.

The 27.5% proved to be a mixed revenue and protective tariff. While GM continued its imports, and Ford cancelled its EcoSport import plans, Volvo discontinued its imports of the S60 from China, and after a brief stint of importing from Europe, moved production to South Carolina.

Before proceeding to discuss tariffs for protection in more detail, CPA is compelled to alert this Committee regarding the catastrophic expansion of the de minimis loophole.

In the government's FY 2023, CBP collected \$92.3 billion in duties, taxes, and other fees, a 17.46% decline from FY2022's \$111.9B.

This is a startling \$19.6B loss in revenue for the Treasury, and deserves scrutiny because merchandise imports were essentially the same: \$3.35T in FY 2022, then \$3.33T in FY2023 (a drop of 0.01%).

The most likely explanation for the drop in revenue collection is the volume of de minimis shipments which almost doubled, from 685M to 1,066M.

Under the de minimis loophole, imported merchandise is exempt not only from tariffs but also basic CBP user fees that go to the agency's operation costs.

De minimis is lawless anarchy at the ports, and it appears to have cost the Treasury almost \$20B in FY2023. This is a \$20B subsidy for Chinese e-commerce platforms like Shein and Temu, to the detriment of every American retailer who imports via normal, secure channels.

Tariffs for Protection and Production

Universal tariffs - that apply to all or most imports - protect American workers from being forced into unfettered wage competition with impoverished societies around the world. In so doing, tariffs boost domestic production, stimulate investment, create jobs, and facilitate long-term economic growth. Country-specific tariffs provide less protection, but can help foster more resilient supply chains.

Recent history demonstrates success with both. A 2023 report from the U.S. International Trade Commission (USITC) examined 12 industrial sectors affected by tariffs imposed during the Trump administration and found that domestic production increased across all sectors, ranging from 1.2% for computer equipment to 7.5% for household furniture. Collectively, these industries accounted for \$931 billion in output in 2021, with an average production increase of 4.1%.

One of the primary methods tariffs achieve this domestic production boost is through "tariff-jumping investments". High tariff rates effectively incentivize international companies to locate production within a country's borders.

For example, even though the Section 301 Tariffs were limited to a single country (China), they were still successful in driving investment in reshoring in certain manufacturing industries. Examples include:

- **Generac:** In 2021, this generator manufacturer shifted production of home generators from China to Trenton, South Carolina, creating 750 jobs.
- **GE Appliances:** This company relocated the production of four-door refrigerators from China to Louisville, Kentucky, adding 245 jobs.
- **Williams Sonoma:** In response to the tariffs, invested in expanding its Tupelo, Mississippi facility, creating 350 jobs to produce upholstered furniture previously manufactured in China. Between 2017 and 2023, Williams Sonoma's profits tripled, from \$309 million to \$950 million.

The goal of industrial policies like targeted tariffs are always primarily to build domestic industries to create growth, investment, employment, and an upward trend in worker incomes. To do this and address the U.S.'s cost disadvantage against most major competitors, tariffs should be applied globally and monitored to ensure they lead to increased domestic production. Global tariffs, like those applied to steel, have proven much more successful in stimulating U.S. industrial reshoring, investment, and job creation. Broader application of tariffs would amplify their impact, providing a competitive environment for U.S. manufacturers to thrive.

Economic Foundation

Criticism of tariffs often hinges on the belief that free trade inherently fosters economic growth. This assumption conflates short-term economic theories of free trade, developed by David Ricardo in 1817, with the long-term requirements for sustained national growth. Ricardo's theory assumes full employment and prioritizes immediate output maximization based on existing capabilities.

However, in reality, employment and industrial capacity are malleable and can be significantly boosted by effective trade policies. Long-term growth depends on strategically protecting and investing in industries that propel development over decades. The U.S. historically rejected strict adherence to free trade principles to prioritize long-term growth, exemplified by tariffs imposed during the 19th century, which spurred industrialization and ultimately positioned America as a global superpower.

Strategic use of tariffs would enable the U.S. to protect key manufacturing and technology industries from foreign competition, giving them time to mature or reshore and achieve economies of scale. For example, the information technology and semiconductor sectors benefited from early government interventions, subsidies, and protectionist policies, which laid the groundwork for U.S. dominance in these fields today.

Historical Success of Tariffs

The United States has a long and successful history in utilizing tariffs. In the 19th century, instead of relying only on its large expanse of arable land and comparative advantage in agriculture, the United States also invested in key industrial industries of the future.

Hostile actions of Britain and France during the Napoleonic wars led Presidents Jefferson and Madison to impose an embargo, followed by tariffs, in order to block British imports and stimulate U.S. development of industry. This not only allowed the United States to equip its army and navy with weapons and ships to defend itself, it also launched the U.S. into industrialization which made us the world's richest nation and a superpower.

This policy continued in the 1860s with tariffs on iron and steel. These tariffs protected nascent U.S. iron and steel manufacturers from dominant British competition. A \$28 per ton tariff on British steel enabled U.S. producers to innovate and eventually surpass British capabilities. By 1897, U.S. steel was not only cheaper but globally competitive, leading to exports back to Britain. Tariffs allowed industries to develop, pay higher wages, and create thousands of jobs.

According to economist [Frank Taussig](#), British steel rails sold in the U.S. at that time for \$31 a ton, about half the U.S. price of \$61 a ton. Britain was the world leader in steel technology and production. However, a U.S. tariff of \$28 a ton reduced imports and enabled U.S. producers to catch up, investing heavily in domestic production, technology, and economies of scale. By 1897, steel in the U.S. was down to \$19 a ton, \$2 cheaper than British steel, despite the fact that Carnegie Steel paid higher wages than its British competitors.

The agricultural sector also provides examples of tariff-driven growth. In the early 20th century, protective tariffs on farm equipment facilitated the rise of U.S. manufacturers like John Deere and International Harvester, which innovated machinery that revolutionized farming. These policies not only benefited manufacturers but also enabled farmers to access affordable and reliable equipment domestically.

China Shock Import Surge

This tariff industrial policy that built America was increasingly abandoned after the Second World War, with increasing trade liberalization leading to a wide-spread deindustrialization of the economy and the loss of millions of jobs.

As manufacturing jobs were outsourced in favor of cheaper production overseas, Americans lost millions of good-paying manufacturing jobs. According to a study by the National Bureau of Economic Research (NBER), much of this decline in manufacturing employment is directly caused by import competition. The study states, "Our central estimates suggest net job losses of 2.0 to 2.4 million stemming from the rise in import competition from China over the period 1999 to 2011."

While free trade economists argue that losses from free trade are offset by gains in 'comparative advantage' sectors, reality shows otherwise. Job losses were heaviest in industries most exposed to surging imports, and workers who lost their jobs found little to no good employment alternatives. According to the same NBER study, "Our estimates show

sizable job losses in exposed industries, and few if any offsetting job gains in non-exposed industries.”

These job losses were especially detrimental to U.S. income inequality due to the high wages of manufacturing jobs, especially compared to alternative jobs for those workers. This growing inequality also exacerbates other societal issues. The Institute for Fiscal Studies study also found that, “Regions with greater exposure to import competition experienced higher crime rates, a deterioration of health outcomes, [and] a dissolution of traditional family structures.”

However, despite the massive losses suffered by U.S. industry over the past decades, tariffs can successfully reshore American manufacturing, boost domestic investment, and recapture manufacturing jobs. And we’ve already begun to see some of the success of these policies.

2018 Section 232 Steel Tariffs

The 2018 steel tariffs led to significant investment in the U.S. steel industry. The steel tariffs led U.S. steel companies to invest in some 15 new steel facilities including steelmaking and steel mills, all over the U.S. Those new facilities have taken on thousands of new employees, mostly in “heartland” America, the very places where the local economies were blindsided by the surge in imports from China and other low-wage nations in the years after 2000.

Of all the Trump tariffs, the steel tariffs are the best example of the effect broad sector-wide tariffs can have. According to the ITC study on the Section 232 Steel tariffs, the 25% steel tariffs led to an increase in domestic steel output by \$1.5 billion. Furthermore, this manufacturing shift back to the U.S. did not significantly affect prices, which only increased 2.4% from 2018 to 2021, a fraction of the actual tariff rate. Overall, the steel tariffs led to a substantial rise in domestic market share as imports fell from over 30% of the market to 21%.

More significantly, in the wake of the tariffs, U.S. steel companies opened around 15 new mills and steelmaking facilities, at locations ranging from Florida to Texas to Arizona. Steel Dynamics’ new Sinton, Texas facility will employ 3,000 when it is fully operational. It is already producing steel, with some 600 employees working there. The resulting local economic benefits are evident. Local developers are planning to build some 400 new houses in the Sinton area to accommodate steelworkers and employees of the supplier firms setting up in the area. According to the company’s SEC filings, the median pay for a Steel Dynamics employee last year was \$119,460.

Solar Industry

The history of U.S. solar policy highlights the ability of tariffs and industrial policy to drive domestic investment but also reveals how damaging loopholes and exemptions can be to domestic producers, leading to surging imports and market distortions. In 2012, the Obama administration imposed 36% tariffs on Chinese solar panels, initially reducing imports by 15% between 2012 and 2014. However, the narrow focus on China prompted Chinese

manufacturers to shift production to Southeast Asia, circumventing the tariffs and causing imports to surge again. In 2018, the Trump administration implemented 30% global tariffs to address this surge. Unfortunately, these tariffs exempted bifacial solar panels (which capture sunlight on both sides of the panel). This led the industry to shift wholesale to importing and selling bifacial panels as they are only slightly more expensive than monofacial. As a result, the exemption significantly lowered the effective tariff rate to 11.71% in 2019, with further declines in subsequent years as bifacial imports soared.

In April 2022, the Department of Commerce initiated a circumvention investigation against solar producers in Cambodia, Malaysia, Thailand, and Vietnam. Producers in these four countries, which accounted for 75% of U.S. solar imports in 2020, were found to be circumventing the antidumping and countervailing duties imposed on Chinese cells and modules due to substantial supply chain links to Chinese solar production. However, in June 2022, President Biden announced a 24-month moratorium on new tariffs, allowing imports from these nations to continue tariff-free. This caused the effective tariff rate to plummet to 0.43% and imports to surge 86% in 2023. Consequently, solar panel imports exceeded total installations by 15.7 GW in 2023 and are projected to surpass installations by about 50% in 2024. This oversupply, driven by Chinese overproduction and subsidies, has flooded U.S. warehouses with cheap foreign solar panels, creating a supply glut that threatens domestic producers for years to come.

Despite these challenges, the Inflation Reduction Act of 2022 has provided a counterweight by incentivizing domestic solar manufacturing through Production Tax Credits (PTC) under Section 45X and Investment Tax Credits (ITC). These credits, tied to the production of solar panels, cells, wafers, and polysilicon, have sparked significant investment in domestic solar infrastructure, catalyzing a \$13 billion wave of solar manufacturing projects. While these measures have bolstered U.S. solar production, the industry's growth remains vulnerable to the continuing influx of imports.

The solar industry's experience demonstrates that while tariffs and industrial policies can drive substantial domestic investments, their effectiveness is easily undermined by loopholes and exemptions. To ensure sustainable growth, the U.S. must adopt robust, broad, and consistent tariffs, paired with effective policies like the 45X tax credits, to enable the domestic solar industry to compete globally and thrive long-term.

Washing Machine Industry

Tariffs imposed on large residential washing machines in 2018 provide another example of the success of tariffs. In January 2018, President Donald Trump imposed tariffs of 20% to 50% on large residential washing machines. The tariffs expired in February 2023. Six years later, we can make an assessment: the tariffs created over 2,000 jobs and provided economic growth for the two communities where Korean appliance makers built factories. They also provided economic support for Whirlpool, the leading U.S.-headquartered appliance maker and employer of 23,000 Americans, as well as GE Appliances, which is today Chinese-owned and employs 16,000 Americans at Louisville, Kentucky and other facilities.

In 2018, LG Electronics completed an investment of \$360 million in a new “smart factory” in Clarksville, Tennessee. LG hired 700 employees and began building washing machines there. In April 2021, it announced that it had produced 1 million washing machines at Clarksville. It said it was investing a further \$20.5 million and hiring 300 more employees, to bring its Clarksville headcount to “about 1,000.” In 2017, recognizing that the Trump administration was determined to clamp down on washer imports, Samsung announced plans to invest \$350 million to build a manufacturing facility in Newberry, South Carolina with 1,000 employees. In 2020, Samsung invested an additional \$120 million to expand the facility, which now employs 1,200.

We can also see the minimal impact tariffs have on prices with washing machines. Following the imposition of the washing machine tariffs, fearing high prices and potential shortages, the market panicked and sought to build up inventories. Because of this panic between January 2018, when the tariffs were imposed, and June, the Bureau of Labor Statistics’ price index for laundry equipment rose by 12.4%, a large jump. However, in the next 14 months, the index tumbled by 10.7%, until it was at almost the same level (91.1) as it was in January 2018. By January 2020, the CPI price index for laundry equipment was even down by 2.1%, even as total CPI inflation rose by 4.1% from January 2018 to January 2020. Even non-tariffed items such as new vehicles saw a larger increase in prices.

In short, sanity returned to the market, and all participants, from the manufacturers to the distributors to the retailers, saw that the tariffs would have almost no effect on the U.S. retail price for washers. In fact, washing machine prices are now below pre-tariff levels.

The appliance industry highlights how tariffs can compel foreign companies to establish domestic operations. This benefits U.S. workers, reduces supply chain vulnerabilities, and contributes to local economies. Over time, as domestic production scales up, efficiencies and competition drive prices back down.

Price Impacts

Critics often claim that tariffs drive up prices. However, actual data tells a different story. Between 2018 and 2020, after tariffs were introduced, consumer price increases were modest, with the CPI rising only 1.8% in 2019. Studies indicate that tariffs typically have minimal effects on retail prices, contributing to only 10-20% of the tariff value. This effect is well demonstrated in our previous two examples of steel and washing machines.

Tariffs have minimal long-term impacts on prices because they boost domestic production and enhance domestic manufacturing efficiency. Tariffs are not just a tax on goods. They are an incentive to invest and produce in America. As this effect begins to take place, increased domestic production leverages increasing economies of scale and greater technological investments to increase the efficiency of domestic manufacturing. This increased economies of scale and manufacturing efficiency holds down domestic prices as domestic supply replaces imports.

By contrast, recent inflationary pressures are primarily driven by supply chain disruptions and excessive fiscal and monetary policies, not tariffs. In fact, tariffs can greatly reduce the risk of these supply chain disruptions by relocating supply chains domestically. For

example, the COVID-19 pandemic exposed the risks of dependence on Chinese manufacturing for critical goods like personal protective equipment (PPE). Tariffs and other trade policies can mitigate such vulnerabilities by incentivizing local production.

Economic Modeling and Potential

CPA's modified GTAP model incorporates the discussed realities of tariffs, including their impact on employment and domestic production. Primarily, our model removes the misleading assumptions that insist on full employment both before and after a change in trade policy. Since almost all trade policies impact employment and unemployment, this assumption that trade does not impact employment is misguided. Our model also shows tariffs for what they truly are, an incentive to increase domestic production.

We used this economic model to simulate the effects of a 10% universal tariff on all U.S. imports. Our simulation suggests such a policy could significantly boost domestic production, real wages, and employment. The model forecasts:

- Economic growth of \$728 billion. (2.9%)
- 2.8 million additional jobs.
- Increased manufacturing output by 4.8%.
- A 5.7% rise in real household incomes, equivalent to \$4,252 per household.
- Modest price increases, much lower than income gains (equating to 0.5% per year over 6 years).

These effects mirror what the United States experienced during previous tariffs, most recently with the 2018 tariffs on steel and washing machines. The tariffs boosted manufacturing output, jobs, incomes, and total economic growth.

Our model also estimates that a 10% global tariff would generate \$263 billion in revenue, enabling a wide range of fiscal options for Congress. For example, the tariff revenue from a 10% global tariff would be enough to provide substantial tax cuts for lower- and middle-income households. The annual tariff revenue could provide a \$1200 tax refund to lower-income households and refunds of 3%-4% of income for middle-income households.

Conclusion

Tariffs are an essential tool for rebuilding the U.S. industrial base, fostering long-term economic growth, and reducing dependence on foreign imports. The evidence underscores their ability to create jobs, spur investment, and support American communities. Policymakers should consider expanding tariffs globally and ensuring they are carefully monitored to maximize their benefits for the domestic economy.

Historically and today, tariffs demonstrate their ability to shield nascent industries, recapture lost industries, create jobs, and strengthen national security. By implementing thoughtful tariff policies alongside complementary industrial measures, the U.S. can secure its industrial future, enhance economic independence, and build a more resilient economy for generations to come.

Joint Economic Committee

“Trade Wars & Higher Costs: The Case Against Trump’s Tariffs”

December 18th, 2024

Questions for the Record

Senator Amy Klobuchar

Questions for Mr. Ed Gresser, Vice President and Director for Trade and Global Markets,
Progressive Policy Institute

1. After the Trump Administration imposed tariffs in 2018, trading partners retaliated, significantly impacting sectors like agriculture, with U.S. exports falling by \$27 billion. Across-the-board tariffs could provoke similar retaliation, with potentially greater economic effects.
 - What scale of retaliation would you expect from the across-the-board tariffs that have been proposed, and how might it impact U.S. exporters and access to foreign markets?
 - What sectors might be most vulnerable to retaliation?
2. In November 2024, President-elect Trump proposed a 25 percent tariff on imports from Canada and Mexico, potentially violating the United States-Mexico-Canada Trade Agreement (USMCA). Canadian and Mexican leaders have warned of retaliatory actions, including cutting critical supplies and imposing counter-tariffs.
 - How would such tariffs affect North American production, which relies on integrated supply chains?

Joint Economic Committee

“Trade Wars & Higher Costs: The Case Against Trump’s Tariffs”

December 18th, 2024

Questions for the Record

Senator Amy KlobucharQuestions for Mr. Ed Gresser, Vice President and Director for Trade and Global Markets,
Progressive Policy Institute

1. After the Trump Administration imposed tariffs in 2018, trading partners retaliated, significantly impacting sectors like agriculture, with U.S. exports falling by \$27 billion. Across-the-board tariffs could provoke similar retaliation, with potentially greater economic effects.

- *What scale of retaliation would you expect from the across-the-board tariffs that have been proposed, and how might it impact U.S. exporters and access to foreign markets?*
- *What sectors might be most vulnerable to retaliation?*

Agriculture and manufacturing are the sectors usually selected as targets for retaliation. They are easy to identify, and governments can often (though not always) design retaliations against them in ways that minimize harm to their own economies and publics. Natural resource products are less often chosen, but also vulnerable. Some services industries, intellectual property holders, and even consumers can also be targets.

Foreign governments frequently retaliate against U.S. tariff increases, especially when a U.S. government raises tariffs outside the scope of, or directly in violation, of trade agreements both countries have approved. The easiest and most visible targets of retaliation are U.S. exports, which made up \$3.2 trillion worth of goods and services or about 11% of all U.S. economic output in 2024. This includes about 20% of all net U.S. farm income, and over \$1 trillion in earnings for American manufacturers.

Canada, China, and the European Union have already retaliated against the Trump administration’s imposition of new tariffs in this way – Canada and the EU for new tariffs on steel and aluminum, and China for an increase in the ‘301’ tariffs imposed during in 2018 and 2019. Their retaliations cover \$80 billion in American-made and American-grown exports, include computers, metals, soybeans, meat, chicken, textiles, motorcycles, whisky, and other products. Data will come in over time on the effects of these steps, but in 2018/2020 American farmers lost approximately \$27 billion to Chinese retaliation alone, with soybeans the largest single target.

Minnesota products are already subject to some of these retaliations, and more are at risk. According to the Commerce Department, Minnesotans exported \$26.6 billion worth of goods last year, including \$4 billion in medical equipment and scientific instruments, \$1.3 billion in semiconductors, \$9 billion in [food and farm goods](#), \$776 million in auto parts, \$494 million in minerals and ores, and so on. Customers in Canada, Mexico, and China bought \$11.7 billion of Minnesota's goods, or nearly half the total, and the European Union another \$4 billion. Should the Trump administration add new tariffs to those it has already imposed on these countries, or target more countries, we should expect more retaliations against our own products.

Nor are exports the only potential targets of retaliation. Canada has unique options given its large role as a supplier of energy to the United States. For example, the Premier of Ontario has suggested a 25% export tariff or an actual cutoff of electricity sales to American customers in New York, Michigan, and Minnesota. The European Union's "[Anti-Coercion Instrument](#)", meanwhile, authorizes weakened protection of intellectual property rights held by individuals or countries which attempt to use 'economic coercion' tactics against the EU or EU member states. In this regard, I note that Minnesota (per data from the U.S. Patent and Trademark Office) ranks fifth in the U.S. for per capita patent awards.

All these options illustrate the way in which ill-considered trade wars can leave both the U.S. and our partners worse off – even before taking into consideration the higher prices the U.S. tariffs themselves impose directly on American families, and the higher production costs they entail for farms, manufacturers, and construction firms. It is particularly striking that the Trump administration has responded angrily to the Ontario Premier's threat of an electricity tariff, as its effect of higher electricity prices on American households and businesses are exactly those of the U.S. tariff the Trump administration itself proposed in February.

2. *In November 2024, President-elect Trump proposed a 25 percent tariff on imports from Canada and Mexico, potentially violating the United States-Mexico-Canada Trade Agreement (USMCA). Canadian and Mexican leaders have warned of retaliatory actions, including cutting critical supplies and imposing counter-tariffs.*

- *How would such tariffs affect North American production, which relies on integrated supply chains?*

North America is a largely integrated market. The \$3 trillion in trade we did with Canada and Mexico includes American utilities buying Canadian energy, community grocery stores selling winter vegetables grown in Mexico, Minnesota auto parts plants shipping components to Mexican car factories, New Mexico and Texas semiconductor fabs providing inputs to Mexican appliance-assembly sites, and more across. Large-scale imposition of tariffs on goods from our two large neighbors – even if they do not retaliate – would raise the cost of all these transactions. As prices of goods rise for consumers, tariffs on inputs such as fertilizer, metal ores, energy, and components would rise for farmers and manufacturers, and American goods – along with Mexican and Canadian goods – would lose competitiveness vis-à-vis Asia and Europe.

As one example, Minnesota exported \$774 million worth of auto parts last year. Mexican customers bought about 90% of this – \$641 million – and Canadians another \$66 million. A 25% tariff on Mexican and Canadian-made products, and retaliation in in kind, would create an auto-industry chain of event as follows:

- * As Mexico and Canada retaliate in kind against the Trump administration's 25% tariff on autos and parts, Mexican and Canadian buyers pay more for Minnesota-made parts.
- * The cost of producing these parts in Minnesota, meanwhile, would rise too, as tariffs on Canadian oil and electricity raise factory energy costs.
- * With parts costing more, car will cost more to build in Mexico and Canada, and then face a 25% tariff in the United States.
- * Mexican and Canadian auto production therefore declines, and factories in these countries buying Minnesota parts reduce their orders. The Minnesota producers then lose business and start laying off workers. The same process happens in reverse, as U.S. auto firms pay 25% tariffs on Mexican- and Canadian-made parts.
- * The more frequently parts and semi-finished automobiles move back and forth across borders, the more these tariffs will accumulate and drive up costs further.
- * With all cars made in North America now more expensive, and most Americans looking for new cars [hoping to pay less than \\$50,000](#), Asian and European manufacturers become more attractive to car buyers throughout North America, and also more competitive vis-à-vis the more expensive U.S./Mexican/Canadian cars in Latin America, Africa, and other growing markets.

In effect, in an integrated supply chain tariffs hit multiple junctures, driving up production costs and consumer costs at the same time. The result is a costlier and less successful North American supply chain. The automotive industry is particularly large and well-integrated, but similar effects are very likely to appear in appliances, electronics, textile products, food, airplanes, and other products.

Joint Economic Committee

“Trade Wars & Higher Costs: The Case Against Trump’s Tariffs”

December 18th, 2024

Questions for the Record

Senator Amy Klobuchar

Questions for Mr. Brendan Duke, Senior Director for Economic Policy, Center for American Progress

1. Incoming President Trump has proposed across-the-board tariffs of 10 percent to 20 percent on all imports, with a 60 percent tariff on all imports from China. Studies estimate that such broad, universal tariffs could raise consumer prices and overall costs on American households.
 - How would tariffs applied so widely across all imports impact prices and inflation in the United States?
2. You have noted that targeted tariffs, when paired with strategic investments, can effectively strengthen key industries and enhance national security, unlike across-the-board tariffs, which often lack focus and increase costs broadly.
 - Would you elaborate on how targeted tariffs differ in their economic impact from sweeping tariffs?
 - How can a more strategic approach to tariffs and industrial policy better support U.S. manufacturing and competitiveness?

International Association of Machinists and Aerospace Workers

IAM Union Applauds Biden Administration's Bold Actions to Protect U.S. Shipbuilding, Steel Workers from China's Unfair Practices

April 17, 2024

WASHINGTON, April 17, 2024 – The 600,000-member International Association of Machinists and Aerospace Workers (IAM) is applauding the Biden-Harris administration's historic actions to protect U.S. shipbuilding and steel manufacturing workers, including launching a U.S. Trade Representative (USTR) investigation into China's unfair trade practices in shipbuilding.

The actions are the result of a petition filed by the IAM and four other unions calling on the USTR to initiate an investigation of Chinese commercial shipbuilding.

Over the past two decades, the People's Republic of China has enacted a comprehensive strategy to dominate global transportation and logistics networks, including employing an array of non-market policies. Meanwhile, U.S. shipbuilding capacity continues to diminish.

The IAM represents thousands of members in the shipbuilding and steel industries, including at Bath Iron Works in Maine and Cleveland-Cliffs in Ohio.

"The Biden Administration rightfully knows that the decline of American shipyards and steel manufacturing is about more than just jobs – it weakens our national defense," said IAM International President Brian Bryant, who began his career as an IAM Local S6 shipbuilder at Bath Iron Works. "These robust actions by the Biden Administration, aimed at curtailing Chinese unfair trade practices in these vital industries, are a strong step toward giving American workers a level playing field."

The Biden Administration's actions include:

- The USTR is initiating an investigation into China's unfair trade practices in the shipbuilding, maritime and logistics sectors.
- Calling on the USTR to triple the existing 301 tariff rate on Chinese steel and aluminum tariffs to 7.5%.
- Investing in clean American-made steel, such as a \$500 million Department of Energy grant to reduce greenhouse gas emissions at the IAM-represented Cleveland-Cliffs facility in Middletown, Ohio.

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)

Steel and Aluminum Tariffs Good for Working People

March 1, 2018

AFL-CIO President Richard Trumka issued the following statement on President Trump's decision to impose tariffs of 25 percent on steel imports and 10 percent on aluminum imports:

For years, we have called attention to the predatory practices of some steel exporting countries. Such practices hurt working people and cheat companies that produce in the U.S. We applaud the administration's efforts today to fix this problem. Effective enforcement of trade laws, including section 232, is critical to leveling the playing field and ensuring that U.S. steel producers and their employees have a fair shot in the global economy. Secretary Ross, Ambassador Lighthizer and Director Navarro have rightly advocated for these actions despite opposition from the Wall Street wing of the administration. This is a great first step toward addressing trade cheating, and we will continue to work with the administration on rewriting trade rules to benefit working people.

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)

USW to House: Properly-Used Tariffs Protect Working People

July 24, 2018

The following testimony was provided to the House Ways and Means Committee:

My name is Roy Houseman and I am here on behalf of the United Steelworkers union, which is the largest industrial union in North America, representing workers not just in steel and aluminum but in many other industries too.

United Steelworkers sees first hand that the steel and aluminum 232's are providing essential relief from global overcapacity, ensuring the domestic industry will be able to supply the necessary materials for our national security and critical infrastructure needs. The domestic, privately-owned industry in the world's largest free market can remain competitive if we guide a course against an onslaught of what is all-too-often government-planned and financed, non-market driven expansion of steel and aluminum production.

The steel and aluminum tariffs are working as intended. According to the American Iron and Steel Institute, 1.4 (1,401,000) million more tons of domestic steel have been produced so far this year than the year prior. In aluminum, our members and other workers are on track to aid in a domestic aluminum production increase of 60% by the end of year. While the increase in domestic operating capacity cannot all be attributed to just the tariffs, they are having the intended effect.

More personally, it is good to hear from local union leaders like James Sanderson at Steelworkers local union 7898 in Georgetown, South Carolina. After a three-year idle, their wire rod facility has restarted putting 125 workers back to work and producing up to 750,000 tons of steel per year. As orders rise, the company says another 195 people will be hired at the mill.

The same goes for Dan Simmons at USW Local Union 1899 in Granite City, Illinois. After more than two years, their facility is in the process of restarting both of their basic oxygen furnaces with 800 union members getting recalled and bringing close to 3 million tons of additional slab capacity for the domestic market.

These are local leaders striving to do the best for their communities and membership. They want to ensure we produce the steel and aluminum products this country needs to supply our defense and critical infrastructure needs while being commercially competitive. I highlight these sites because, the union also helped draft and secure their Trade Adjustment Assistance petitions not that long ago when they were idled, submitting them into a bureaucratic process that often takes months but can even go years to work

through. So we can sympathize with businesses as they work through the exclusion process but we are quite frankly tired of being told that unilateral action to protect American industry from global overcapacity is a bridge too far.

And, as a TAA recipient myself, I know the pain and uncertainty that they have experienced.

From day one, the union has said that where there is insufficient domestic capacity or undeveloped market potential exclusions will be necessary. The last review of exclusion requests the union has seen indicates that close to 200 requests have been granted and just under 400 requests have been denied by the Department of Commerce. Our member companies have filed objections to product lines they know they have the capacity and capability to produce. Additional business opportunities are being pursued by our member companies and we welcome the opportunity to compete for that work.

And where products to meet our nation's needs are truly unavailable, we do not object to waivers. Our members not only produce steel, but they are also users of that steel in fabrication and other downstream facilities.

The Department of Commerce still faces tens of thousands of exclusion requests and we support continued efforts to increase staffing and resources at the Department of Commerce to process these requests.

However, I do not work at the Commerce Department and USW urges the committee to bring in administration witnesses to give detailed updates on the exclusion process and use the oversight role this committee has over trade. USW does believe many of the issues related to 232 implementation can be remedied through providing additional resources.

The USW disagrees with the administration's policies in a number of areas, but undermining the domestic steel and aluminum industry and our security interests by allowing a flood of excess capacity and foreign imports wash away our member's jobs and devastate communities is not a solution. We will be the first to agree that the process must improve, but the union also cautions against efforts to undermine 232 tariff relief. We have been, and will continue to be a willing partner in seeking a solution to global overcapacity in steel and aluminum while ensuring a timely and fair exclusion process.

International Brotherhood of Teamsters

Teamsters Applaud Protecting American Autoworkers from China Act

March 6, 2024

(WASHINGTON) – The International Brotherhood of Teamsters applaud the introduction by U.S. Senator Josh Hawley (R-Mo.) of the Protecting American Autoworkers from China Act, new legislation that would raise tariffs on autos imported from China and deter Chinese automakers from trying to evade U.S. trade laws.

China currently leads the global market for electric vehicles and their component parts. The proposed legislation would prioritize the American auto industry and American workers, and would be an integral part of the conversation on the economic impacts of Chinese manufacturing, including ongoing efforts of Chinese state-owned enterprises to dominate domestic markets.

Regardless of origin, it is critical that inevitable growth in the electric vehicle industry promotes and protects American workers, including the thousands of carhauleders represented by the Teamsters who are increasingly asked to transport such vehicles.

Electric vehicles often weigh 30 percent more than gas-powered cars and trucks, creating serious safety concerns for Teamsters carhauleders. Heavier trailers are harder to stop, roll over more easily, and carry a higher risk for fatalities.

In addition to supporting worker-forward bills like the Protecting American Autoworkers from China Act, the Teamsters are fighting for legislation to ensure the number of electric vehicles sold in the U.S. does not result in unsafe increases to existing weight restrictions on automobile transporters.

Congressman Jared Golden

Golden introduces bill to restore American manufacturing with 10 percent tariff on all imports
September 26, 2024

WASHINGTON — Congressman Jared Golden (ME-02) today introduced the BUILT USA Act, to incentivize American manufacturing and job creation and address the nation’s ballooning trade deficit by levying a 10 percent tariff on all imports.

“America must once again become a nation of producers, not just consumers,” Golden said. “Decades of globalization have transformed our country from an industrial superpower to one that relies on other countries for basic goods. To secure our future in an increasingly competitive world, we must move toward self-sufficiency, industrial strength and the homegrown innovation that goes hand-in-hand with a strong, productive economy. These tariffs put us on a path to that future.”

Upon enactment, the BUILT USA Act (formally the Balance Unequal International Labor and Trade for the United States of America Act) would assess a ten percent tariff to all goods and services imported into the United States. Each subsequent calendar year, this duty would increase or decrease by 5 percent depending on whether America maintains a trade deficit or surplus, respectively.

Tariffs have been embraced by presidents of both parties, with former President Donald Trump setting new tariffs on Chinese imports, which were kept on the books and in some cases expanded under President Joe Biden.

“Recent history is bipartisan recognition that the era of free-wheeling free-trade that cost Maine so much must come to an end, as a matter of both national security and economic interest,” Golden said. “We must act to reposition ourselves in the world economy, to a place of strength and self-sufficiency.”

The trade balance — the difference between U.S. exports and U.S. imports — has been in deficit since the mid-70s. In recent years, the figure has approached nearly \$1 trillion.

“America’s ever-expanding trade deficit is a clear sign that the current global trade regime is stacked against U.S. workers, industries, and communities,” Oren Cass, founder and chief economist of American Compass, said. “Rep. Golden’s BUILT USA Act will address this global trade imbalance head on, reassert

U.S. economic interests, and help reestablish the industrial base that made America the most innovative, prosperous, and resilient nation in the world.”

“This bill is a win for revenue, growth, and the revitalization of our domestic industries,” Michael Stumo, CEO of Coalition for a Prosperous America said. “The American System of economics is centered around making the middle class wealthier and boosting economic growth by selling to our own middle class. In contrast, countries like China overproduce and displace American workers and manufacturers, leading to massive trade deficits that drain U.S. demand for American-made products. We’ve been trying to compensate for these deficits with fiscal spending that only increases our unsustainable debt. By addressing the trade deficit, we can not only strengthen our domestic industries but also dramatically reduce the nation’s debt burden. Tariffs, like the ones proposed in this bill, are a crucial tool to ensure that our economy works for American workers and producers, not foreign adversaries.”

Background:

Seventy years ago, employment in manufacturing made up over 40 percent of nonfarm jobs in Maine, according to the Maine Department of Labor. Today, it’s less than 10 percent. The losses accelerated in the 1990s with the signing of NAFTA, after which Maine lost one in three manufacturing jobs — with 25,000 lost to outsourcing alone. Forty percent of those who lost jobs had to take new ones with lower pay.

Golden has been a leading voice for reconfiguring U.S. trade policy in favor of American industry and workers. In May, he introduced legislation that would raise tariffs on Chinese imports of automobiles and energy components to ensure America’s industrial base, and thus its future, is strong. He published an essay the same month on the importance of a robust production economy for national security and middle-class prosperity.

In 2019, he was one of only 41 House members to vote against the United States-Mexico -Canada Agreement, which he called “a missed opportunity to deliver real and lasting change” to the North American Free Trade Agreement (NAFTA).

Congressman Jared Golden

Golden introduces bills to protect America’s energy independence, auto industry with increased tariffs on China

May 10, 2024

WASHINGTON — Congressman Jared Golden (ME-02) today introduced legislation to safeguard America’s energy independence and protect America’s auto industry with increased tariffs on the importation of Chinese renewable energy products and autos.

“Our country imports far more goods than it exports, a trade imbalance that threatens our future and leaves us dependent on the productive capacity of our competitors. When it comes to our manufacturers and energy independence, Congress should privilege American industry and be relentless champions for America and our workers,” Golden said. “But industrial and trade policy aren’t just about our economy. They’re about our ability to write our future on our own terms. Raising tariffs on Chinese autos and green energy technology will ensure our industrial base, and thus our future, is strong.”

The two bills are:

- The Declaring Our Energy Independence from China Act, which would require the President to apply additional tariffs to all battery components, solar energy components, and wind energy components imported from China at a 25 percent rate. The rate would rise by an additional five percent each of the following five years, for a final rate of 50 percent. The bill also would require the United States Trade Representative to submit to Congress a report detailing the extent to which China has, during the preceding 15 years, provided industrial subsidies to its battery, solar energy, and wind energy sectors.
- The Protecting American Autoworkers from China Act, which would increase the current tariff on Chinese auto imports to 125 percent of the base rate. The higher tariff rate would apply to all imported autos manufactured by Chinese automakers, regardless of where the vehicle is manufactured, so that Chinese manufacturers cannot use other nations, such as Mexico, as a backdoor to avoid the tariffs. The bill is endorsed by the International Brotherhood of Teamsters.

China in 2023 overtook Japan as the largest auto exporter in the world and leads the global market in electric vehicle cars and parts. Meanwhile, a global glut of Chinese clean energy products undermines America's domestic energy sector.

The bills are companion bills to legislation introduced in the Senate by Sen. Josh Hawley (R-Mo.) in March.

The White House

WHAT THEY ARE SAYING: Labor, Business, and Elected Leaders Praise President Biden's Actions to Protect American Workers and Businesses from China's Unfair Trade Practices

May 16, 2024

This week, President Biden took action to protect investments in America by increasing tariffs on \$18 billion of imports from China. This action will combat China's unfair trade practices and support the President's historic investments in American steel and aluminum, semiconductors, electric vehicles, batteries, solar, and other strategic sectors. President Biden's actions are pro-worker, pro-union, and pro-investment, which is why they were praised by a range of labor, business, environmental, and elected leaders.

Leaders across the country are celebrating the announcement. Here's what they're saying:

Union and Labor Leaders

President Liz Shuler, AFL-CIO: "The AFL-CIO strongly supports President Biden's announcement that, after a thorough investigation, he will maintain or increase tariffs on a range of unfairly traded products from China. This will help to revitalize our domestic manufacturing capacity, create new jobs, and advance our national and economic security. President Biden once again is standing up for American workers." [Statement, 5/14/24]

International President David McCall, United Steelworkers Union (USW): “The USW is the largest industrial union in North America, and flawed Chinese trade policies have had an outsized negative impact on our members,”

“Now, the Biden administration’s work to strengthen relief measures shows we’re not backing down. Instead, we’re backing up our domestic producers and workers.”

From the CHIPS and Science Act to the Inflation Reduction Act, from new approaches on outbound investment to today’s tariff announcements and more, President Biden is addressing trade through an integrated set of solutions,”

“And moving forward, we know this administration will continue to show this same grit and ingenuity in standing up for workers, including the investigation it initiated last month into China’s transportation, logistics and maritime policies.” [Statement, 5/14/24]

International Vice President Roxanne Brown, United Steelworkers Union (USW): “The key to President Biden’s success in building a worker-centered trade policy is his multi-pronged approach. His administration has been diligently confronting foreign unfair trade using established trade tools to stand up to the unfair and anticompetitive policies of trading partners like China. But just as importantly, President Biden has been strategically using investments here at home to reignite and renew America’s manufacturing capacity.” [Statement, 5/14/24]

International President Brian Bryant, International Association of Machinists and Aerospace Workers (IAM): “As International President of one of the largest manufacturing unions in North America, I’ve seen first-hand the negative impacts of the Chinese government’s anti-competitive trade practices, such as dumping heavily subsidized imports,” said Bryant. “The IAM has been a leader over the years in sounding the alarm on unfair trade practices that cost North American jobs. Tariffs aren’t an end goal but a very important tool to end trade practices that kill good American jobs and drive down American pay. They are coupled with President Biden’s historic investment policies, which continue to build and grow an economy that benefits working families nationwide.

“The Biden Administration has been willing to challenge the disastrous effects of Chinese economic policies on American manufacturing and trade and enact policies to make a difference.

“We thank President Biden for standing up for union workers and creating policies that build and grow an economy that works in the best interest of working families,” added Bryant. “We will continue to work with the Biden Administration and Ambassador Tai on rewriting trade rules to benefit working people.” [Statement, 5/14/24]

International President Kenneth W. Cooper, International Brotherhood of Electrical Workers (IBEW): “I am proud to have joined President Biden today as he announced new protections for American workers against unfair Chinese trade practices. For too long, U.S. manufacturers, especially those in advanced electrical and energy technologies, have been undercut by cheap Chinese exports.

“This move will help level the playing field for both businesses and workers, further boosting domestic manufacturing.

“The Biden-Harris administration has made rebuilding America’s manufacturing sector a priority, and we’re already seeing results as high-tech semiconductor and EV battery plants set up shop in communities across the United States.

“President Biden’s decision means more investments and jobs in America’s manufacturing and clean energy sectors. The men and women of the IBEW are committed to working with his administration to restore America’s role as the world’s manufacturing and technological leader.” [Statement, 5/14/24]

United Auto Workers (UAW): “The UAW applauds today’s decisive action from the White House on ensuring that the transition. We have warned for many months that, left to the forces of corporate greed, the EV future was threatened by a race to the bottom, from China to Mexico to right here in the United States. Making sure that major corporations have to pay a price for pitting worker against worker, pushing wages lower and lower, is a key part of a pro-worker trade policy. America’s autoworkers, our families, and working-class communities across this country want a trade policy that puts workers first. Today’s announcement is a major step in the right direction” [Statement, 5/14/24]

Teamsters: “#Teamsters applaud @POTUS and @USTradeRep @AmbassadorTai for taking action to maintain and expand the current Section 301 tariffs on Chinese imports. Raising tariffs on electric vehicles and other products from China is essential to protecting American workers from China’s unfair trade policies.” [Statement, 5/14/24]

Business and Industry Leaders

President Scott Paul, Alliance for American Manufacturing: “Enhancing the Section 301 tariffs to counter China’s unfair trade practices is absolutely the right thing to do for America’s future. We commend Ambassador Tai and the Biden administration for defending American workers and industries.

“AAM supported the original initiation of the Section 301 tariffs and urged this administration to both extend and enhance the relief measures. Decades of unfair trade by the People’s Republic of China have devastated American communities and weakened our economic security.”

“We are particularly pleased to see enhanced Section 301 tariffs on steel, aluminum, electric vehicles, semiconductors, the battery supply chain, and certain essential PPE products. We have called the introduction of Chinese EVs into the United States a potential ‘extinction-level event’ for our vital auto sector. While the nature of China’s unfair trade practices shifts from time to time, the goals are always clear: to disrupt global norms, weaken American economic security, and seek growth at the expense of others.

“The Section 301 tariffs, together with investments in industry and infrastructure, and Buy America domestic preferences, form the framework of an effective 21st century industrial policy for America. We look forward to working with the Biden administration and Congress to build on these achievements.” [Statement]

President and CEO Rich Nolan, The National Mining Association (NMA): “

“From minerals to batteries, China already has a decades long global start, and its dominance of the world’s supply chains shows it. It’s encouraging to see the Biden administration take bold action to

counter the forceful hold China has on these markets, but this action must be coupled with support for, and approval of, U.S. mining projects. We need more domestic sources that can responsibly feed our manufacturing supply chains. Without them, we're simply shifting our import reliance from China to adversarial foreign sources, action that may derisk our supply chains, but doesn't truly strengthen them." [Statement, 5/14/24]

President and CEO Abigail Ross Hopper, Solar Energy Industries Association (SEIA): "SEIA commends the Biden administration for taking action to support the continued build out of U.S. solar and storage manufacturing. We are evaluating the announcement to determine its full impact, but it's clear that several of these decisions will help improve the business conditions for American manufacturers.

"The Administration was thoughtful to include a tariff exclusion process for key machinery that companies need to manufacture solar components in the United States. A temporary tariff exclusion will help reduce production costs and incentivize increased investment in domestic manufacturing.

"We are also pleased that the Administration will delay the tariff increase on batteries for energy storage systems. This move provides a runway for continued production and deployment of energy storage to meet growing demand for electricity.

"We need an American-made solar and storage economy, and the Inflation Reduction Act (IRA) has brought us closer to that vision than any policy in history. Today's announcement from the Biden administration will continue this progress, and SEIA is committed to finding additional solutions and equitable trade policy to establish the United States as the new global leader for clean energy manufacturing." [Statement, 5/14/24]

Executive Director Mike Carr, Solar Energy Manufacturers for America (SEMA) Coalition: "The Administration made the right decision to strengthen protections for solar components we seek to build in the U.S. While no one action can unwind the years of a concerted effort to dominate this industry, including in manufacturing equipment and heavily subsidized production by Chinese-headquartered firms in Southeast Asia, we are encouraged by this indication of the Biden administration's commitment to use all the tools at their disposal in a targeted and strategic way." [Statement, 5/14/24]

Executive Director Eric Axel, American Medical Manufacturers Association (AMMA): "The White House understands that domestic manufacturers face an onslaught of underpriced, subpar Chinese imports. By sidelining high-quality American manufacturers, cheap Chinese imports threaten the safety of our healthcare workers and patients. [...] The White House's bold proclamation is significant for everyone who favors fortifying domestic PPE and medical product manufacturing. AMMA anticipates the measures announced by President Biden having a transformative impact, invigorating the domestic manufacturing base and safeguarding our nation's health and security." [Statement, 5/14/24]

President and CEO Jesse Gary, Century Aluminum: "Today's actions are critical for the U.S. aluminum industry. President Biden's decisive leadership on Sec. 301 tariffs and to invest in the resurgence of U.S. manufacturing, shows this Administration's commitment to U.S. primary aluminum production.

"Thanks to the President's leadership, Century is planning to build a new greenfield facility that will double existing domestic capacity. The smelter would not only be the first new American aluminum smelter in 45 years, but also one of the 'greenest' smelters in the world, powered with cutting edge

technology and renewable energy. This Administration announced a \$500 million grant which will help to facilitate this investment in our future.” [Statement, 5/14/24]

MP Materials: “This action will help level the playing field for domestic producers, giving U.S. industry the time it needs to scale and develop in a manner that aligns with America’s vital national interest. In the long term, these measures will foster greater balance and resiliency across the global supply chain, ultimately benefiting producers and consumers worldwide. By enhancing our domestic capabilities, we not only secure our economic future but also contribute to a more balanced and robust global market.” [Statement, 5/14/24]

President and CEO John Bozzella, Alliance for Automotive Innovation: “Automakers embrace fair competition. We’re not shrinking from it, but China’s EV overcapacity and subsidy issue is real. The competitiveness of the auto industry in the U.S. will be harmed if heavily subsidized Chinese EVs can be sold at below-market prices to U.S. consumers.”

“It’s appropriate for the White House to be looking at tools to prevent the U.S. from becoming a dumping ground for subsidized Chinese EVs. We can’t let China’s EV overcapacity problem turn into a U.S. auto industry problem.” [Statement, 5/14/24]

Climate and Economic Leaders

Executive Director Jason Walsh, BlueGreen Alliance: “President Biden’s industrial policies have targeted federal investment to the sectors that are vital to the economic and energy security of the United States, manufacturing workers and communities, and the fate of the planet. The tariff actions announced by the president are a forceful complement to these investments in American manufacturing and a strong statement that the United States will not engage in a race to the bottom when it comes to clean technologies.

“We should be building our clean energy future here at home. We applaud the action President Biden has taken today.” [Statement, 5/14/24]

Chairman Zach Mottl, Coalition for a Prosperous America (CPA): “On behalf of our members that are committed to producing in the U.S. and creating high-paying American jobs, we applaud President Biden and Ambassador Tai for taking this important action to increase Section 301 China tariffs in these critical industries.”

“There is overwhelming evidence, including from the USITC, that proves what CPA has been saying for more than a decade: tariffs are a critical reshoring tool to stimulate domestic production, avoid future inflation, and to reduce dependence on foreign supply chains. Importantly, the Biden administration’s action to increase the China tariffs is a strong signal that we are in a new bipartisan era of utilizing tariffs and industrial policy to promote fair and balanced trade, and to protect American workers and manufacturers from China’s illegal, predatory trade activity.” [Statement, 5/14/24]

Executive Director Ben Jealous, Sierra Club: “We cannot trade a dependency on foreign oil for a clean energy future reliant upon China. We must continue to invest and build our clean energy future in America. The Sierra Club welcomes the Biden administration’s increase in tariffs on imports from China, which pushes back on its monopolization of clean energy goods, benefitting American workers.”

“[...] These climate-forward tariffs make clear to China and allies that countries that make critical products and enforce environmental and labor standards will have a competitive advantage. We look forward to continuing our work with President Biden and Congress to use the full range of trade tools available to [...] unlock the full potential of the Inflation Reduction Act. The swift transition to clean energy will be manufactured in the U.S.” [Statement, 5/14/24]

Senior fellow Ryan Mulholland, Center for American Progress (CAP): “These tariffs are an appropriate and necessary step to combat China’s unfair trade practices and ensure that American workers remain at the forefront of the clean energy transition. In the auto sector, the protection provided by these increased tariffs must not be an excuse for firms to slow their deployment of high-quality and affordable EVs. The domestic manufacturers that benefit from tariff protection should use this opportunity to boost their production of EVs, continue to invest in new U.S.-based production, offer their employees better compensation, and allow workers to fairly and freely join unions.” [Statement, 5/14/24]

Roosevelt Institute: “Today, the US government announced 100 percent tariffs on electric vehicles imported from China, along with other restrictions on inputs into clean energy supply chains. This action offers critical support to the historic public and private sector decarbonization investments under the Inflation Reduction Act (IRA), CHIPS and Science Act, and Bipartisan Infrastructure Law, ensuring they will not be threatened by imports that violate fair trade laws and will be viable in the future” [Statement, 5/14/24]

Congressional Leaders

Majority Leader Chuck Schumer, New York: “The Chinese Communist Party has shown they will stop at nothing to steal our intellectual property and undermine the American economy, including providing deep subsidies to their companies. Because the CCP does not compete fairly, imposing new tariffs is a necessary step towards addressing the unfair imbalance of China’s trade relationship with the United States. This action is vital to protect American workers, American manufacturers, American innovation, and our national security.” [Statement, 5/14/24]

Senator Bob Casey, Pennsylvania: “When we hold trade cheats accountable, we put American workers in the best position to outcompete anyone in the world. I have urged presidents of both parties to maintain and increase Section 301 tariffs to level the playing field for Pennsylvania workers and protect our jobs and our national security.” [Statement, 5/14/2024]

Senator Debbie Stabenow, Michigan: “I was pleased to join the President today for his announcement of new trade measures to protect American manufacturers and workers. Chinese electric vehicles are heavily subsidized by the Chinese government. With a level playing field, our auto industry and our workers can compete with anyone and win. But that means competing with companies, not countries. Michigan has seen the impacts of China’s unfair trade practices on our jobs. I appreciate the President’s leadership and strong support for our shared goal of ensuring that the electric vehicle transition is led by American workers.” [Tweet, 5/14/2024]

Senator Gary Peters, Michigan: “I support the Administration’s decision to raise tariffs on China across key manufacturing sectors. They will help keep our auto industry competitive, support good-paying, union jobs here at home, and protect our economic & national security.”

A flood of heavily subsidized electric vehicles from China would undercut Michigan's automakers and workers. Today's announcement is a necessary response to combat the Chinese government's unfair trade practices that endanger the future of our auto industry. It will help level the playing field, keep our auto industry competitive, and support good-paying, union jobs here at home by ensuring that American workers and companies are leading the way in both gas-powered and electric vehicle manufacturing. This action will also help offset the harmful impact of Chinese steel and aluminum subsidies that have affected jobs and businesses in manufacturing hubs like Michigan.

This effort will also help address national security vulnerabilities posed by Chinese electric vehicles and protect Americans' personal data and our roadways from Chinese Communist Party-backed companies. I welcome this important step, and I look forward to continue working with the Administration on additional steps we must take to combat the economic and national security threats posed by Chinese electric vehicles." [Statement, 5/14/24]

Senator Ron Wyden, Oregon: "I'm pleased President Biden is taking steps to fight back against China's predatory trade practices in key sectors, as well as continuing to combat China's IP theft and forced technology transfer. There's no question that the Chinese government intends to monopolize the production of solar panels, batteries, and other climate-related technologies that are crucial to the future of manufacturing and good-paying jobs in Oregon and nationwide. However, tariffs are only one pressure point, and I hope to work with the administration to further support U.S. workers in these industries and others facing China's unfair trade practices." [Statement, 5/14/2024]

Senator Elizabeth Warren, Massachusetts: "President Biden and USTR @AmbassaorTai are standing up for American workers and against unfair trade policies from China. With strong trade enforcement + big investments in our economy, we're bringing back American manufacturing jobs." [Tweet, 5/14/2024]

Senator Chris Murphy, Connecticut: "Good news. China is a global trade cheater. They shouldn't get free access to our markets. Decades of manufacturing flight to low cost countries decimated our economy and our families. Joe Biden is making the hard choices to rebuild American manufacturing." [Tweet, 5/14/2024]

"Europe is prepared to sit back and let China control the supply chain for every major technology we will rely upon to run our 2050 economy. Bad idea." [Tweet, 5/14/24]

Congressman Dan Kildee, Michigan: "We must do more to combat unfair trade practices that hurt American workers, including by the Chinese Communist Party. I applaud President Biden's decisive actions that will benefit Michigan workers.

China continues to rely on unfair trade practices, including forced labor, intellectual property theft, and state-sponsored subsidies for critical industries. By flooding the U.S. and global markets with goods, China is seeking to control the market in critical industries like semiconductors, electric vehicles, steel and aluminum and solar panels. China's unfair trade practices are driving down wages and contributing to a race to the bottom for American workers. These tariffs announced by President Biden will help to boost American manufacturing and protect American jobs.

I will continue to work with President Biden to support a pro-worker trade agenda that ensures we make things in America, not in China.” [Statement, 5/14/2024]

Congresswoman Debbie Dingell, Michigan: “I strongly support @POTUS decision to increase tariffs to strengthen domestic automotive manufacturing, protect American jobs, and safeguard our global leadership in the auto industry. We aren’t competing on a level playing field, and we have seen the impact of unfair trade practices in the past. The Chinese Communist Party’s use of aggressive subsidies doesn’t protect living wages, fair labor practices, occupational safety standards for workers, or environmental standards. We must compete in a fair marketplace. I look forward to continuing to work closely with the Administration and my colleagues in Congress to protect American jobs and competitiveness, and our economic and national security.” [Statement, 5/14/24]

Congresswoman Elissa Slotkin, Michigan: “As a former CIA officer and Pentagon official, I’ve been sounding the alarm on the threats Chinese vehicles pose to our national and economic security, and the tariffs announced today are an important step forward. The production of these vehicles and products is subsidized by the Chinese Communist Party. Positioning them to flood our markets and kill American jobs in our own manufacturing sector. Today’s announcement targets China’s long standing unfair trade practices, and begins the process of pushing back on their flooding markets with subsidized goods that undercut good old fashioned American competition.” [Tweet, 5/14/2024]

Congresswoman Haley Stevens, Michigan: “When trade is fair, American workers succeed. Today, surrounded by the men and women of the steelworkers, autoworkers, and so many other labor unions – President Biden did what he does best, lead for the American people. I was honored to join the President on behalf of Michigan’s 11th District at the White House as he signed a new executive order to protect American manufacturing from the Chinese Communist Party’s unfair, uncompetitive policies. For too long, the Chinese Communist Party has deployed unfair manufacturing and trade practices to undercut American labor, threatening our economic and national security. I strongly support the tariffs announced on Chinese electric vehicles, chips components, and critical minerals. I commend President Biden for taking action – no one else has done more for American manufacturing and the domestic auto industry. Thank you, Mr. President for ensuring that the future is built in America by union workers.” [Statement, 5/14/2024]

Congressman Chris Deluzio, Pennsylvania: “Protecting Made-In-America manufacturing is a no-brainer: it’s growing strong jobs at home and standing strong against globalization’s gutting of American industry. Great to see @POTUS take action against Communist China and put workers at the center of his trade policy.” [Tweet, 5/14/24]

Congressman Raja Krishnamoorthi, Illinois: “President Biden’s targeted actions on behalf of American workers, farmers, and businesses will protect our economy from the brazenly predatory and unfair trade practices of the Chinese Communist Party. This new action was developed through a thorough and thoughtful review conducted in coordination with our allies under Ambassador Tai’s leadership. Working in tandem with our ongoing investments in our infrastructure, research, and workers, it will bolster American manufacturing and competitiveness. For decades, the CCP has engaged in anticompetitive trade practices, flooding global markets with artificially cheap products to wipe out competition while stealing technology and other intellectual property. As the CCP seeks to expand these predatory tactics, President Biden’s policies will help to level the playing field. I look forward to continuing to collaborate with the

Administration to help American workers and businesses prove yet again that they can out-compete anyone.” [Statement, 5/14/2024]

Congresswoman Frank Pallone, New Jersey: “In order to bolster our domestic manufacturing and support American jobs, the federal government needs to take action to curb the import of cheap Chinese goods. I support the Biden Administration’s efforts to respond to China’s aggressive trade policies.” [Tweet, 5/11/2024]

Senator Sherrod Brown

Brown, Senators Push Administration to Keep 301 Tariffs in Place on Chinese Imports

May 2, 2024

WASHINGTON, D.C. – Today U.S. Senator Sherrod Brown (D-OH) led colleagues in calling on the president to maintain Section 301 tariffs, which are currently under interagency review by the Biden Administration. The U.S. imposed Section 301 in 2018, following an investigation by the United States Trade Representative, to combat China’s unfair anticompetitive policies. In a letter, the senators warn that China’s cheating remains as pervasive as ever, and that any reduction in the size or scope of the tariffs would undermine American producers and their workers.

Brown was joined by U.S. Senators Bob Casey (D-PA), Tammy Baldwin (D-WI), John Fetterman (D-PA), Gary Peters (D-MI), Chuck Schumer (D-NY), and Debbie Stabenow (D-MI).

“Generations of free trade agreements that prioritize multinational corporations have devastated our communities, harmed our economy, and crippled our job market. Keeping the 301 tariffs in place and increasing the tariffs where necessary maintains a critical piece of a pro-worker trade agenda,” wrote the senators. “Any reduction in the 301 tariffs allows China to gain a competitive advantage over hardworking Americans. American workers can compete with anyone if they have a level playing field, and now is not the time to roll back support. We strongly urge you to maintain or increase the 301 tariffs to stand with American workers and hold China accountable.”

Section 301 tariffs were instituted by the Trump Administration in 2018 on goods imported from China in response to its unreasonable and discriminatory policies and practices regarding technology transfer, intellectual property, and innovation. At the time, Brown welcomed the tariffs as a tool to level the playing field for Ohio workers. Last fall, Brown raised concerns about potential tariff reductions, including 301 tariffs.

A 2022 report from the United States Trade Representative on China’s compliance with the World Trade Organization underscored that the underlying economic reasons and market conditions for why the tariffs were imposed have not changed. In addition, a March 2023 report from the United States International Trade Commission (USITC) showed that Section 301 and 232 tariffs led to significant increases in domestic production in the tariffed industries that were analyzed.

Last month, Brown supported efforts by U.S. solar manufacturers to hold China accountable for its unfair trade practices in the industry, and successfully pushed the Biden Administration to investigate unfair trade practices in shipbuilding under Section 301, the first step toward measures to level the playing field for U.S. manufacturers.

The full letter is available [HERE](#) and below:

Dear President Biden and Ambassador Tai:

As the Administration continues its interagency review of Section 301 tariffs, we write to express the critical need to maintain or increase the tariffs to address China's continued actions to cheat and undermine our national security. Maintaining the scope and impact of these tariffs benefits American workers, manufacturers, and their communities, and holds China accountable for the country's continued anti-competitive practices. We welcome your diligence to protect American steel from China's cheating and urge you to apply the same diligence to all 301 tariffs.

Section 301 tariffs were imposed in 2018 after an investigation by the United States Trade Representative (USTR) to address China's implementation of a policy agenda that was, and remains, detrimental to the United States. China's policies regarding intellectual property, technology transfer, and innovation discriminate against the United States, creating trade barriers that negatively impact American commerce. Tariffs are an important tool to level the playing field and combat anti-competitive practices from non-market economies and trade cheats, and they must remain in place.

China has continued to cheat, circumvent, and manipulate to artificially strengthen its economy and harm the United States. Across sectors like steel, solar products, and electric vehicles, China employs tactics to distort markets and create artificially low prices by illegally subsidizing its industries and producing to overcapacity. These practices disrupt global product demand and supply chains and threaten the goals of the United States' industrial policy. Our communities are left reeling from the impact.

Generations of free trade agreements that prioritize multinational corporations have devastated our communities, harmed our economy, and crippled our job market. Keeping the 301 tariffs in place and increasing the tariffs where necessary maintains a critical piece of a pro-worker trade agenda. Any reduction in the 301 tariffs allows China to gain a competitive advantage over hardworking Americans. American workers can compete with anyone if they have a level playing field, and now is not the time to roll back support.

We strongly urge you to maintain or increase the 301 tariffs to stand with American workers and hold China accountable. Thank you for your attention to this urgent matter.

Sincerely,

U.S. House Committee on Ways and Means

Neal Statement on Biden Administration's Action to Protect American Workers and Hold China Accountable for Unfair Trade Practices

May 14, 2024

SPRINGFIELD, MA—Ways & Means Committee Ranking Member Richard Neal (D-MA) released the following statement after the Biden Administration announced action to safeguard American workers and businesses while bolstering domestic manufacturing and holding China accountable for unfair trade practices:

“Kicking off the Infrastructure Week of the decade, President Biden is once again showing the world that there is nothing he won’t do to put American workers and businesses first. After conducting a thorough and thoughtful review, the tariffs announced today are well-justified, targeted, and will protect our people and economy from China’s brazenly unfair trade practices. The Investing in America agenda has already unlocked hundreds of thousands of manufacturing jobs, supercharged domestic development, and shored up supply chains, and as evidenced today, Democrats aren’t slowing down.

“The Biden Administration put action over rhetoric, and workers and businesses alike will benefit. Ways and Means Democrats are committed to standing strong for our workers and holding any bad actors to account alongside the Administration and will continue reviewing the full report.”

U.S. House Committee on Ways and Means

Neal Statement on Biden Administration’s Finalized Action to Protect Workers and Crack Down on China for Unfair Trade Practices

September 13, 2024

SPRINGFIELD, MA—Ways and Means Committee Ranking Member Richard E. Neal (D-MA) released the following statement after the Biden-Harris Administration finalized action to hold China accountable for unfair trade practices:

“Standing up for American workers and protecting them from unfair trade practices has been among the hallmark achievements of the Biden-Harris Administration, and today’s action shows that even after House Republicans’ China Weak, Democrats will once again put our workers and businesses first. United States Trade Representative Ambassador Katherine Tai’s steady, thoughtful leadership has garnered well-justified, targeted results as we take more fulsome action to protect our people and our economy from China’s brazen abuses.

“The Biden-Harris Administration stepped in today to make a needed first step in closing the de minimis loophole, but danger remains. The American people need comprehensive action from Congress. The reality is Trade Subcommittee Ranking Member Earl Blumenauer’s de minimis proposal passed the House of Representatives and the same cannot be said about others currently being discussed. Any bipartisan, bicameral de minimis solution should match the heft of the Ranking Member’s bill because anything short of that will leave the American people wondering, ‘Who are they protecting over me?’

“Until my Republican colleagues can put solutions over political talking points and fearmongering, and get tough on the fentanyl and guns that we know are coming into the country from China, the American people will be worse off.”

Office of the United States Trade Representative

U.S. Trade Representative Katherine Tai to Take Further Action on China Tariffs After Releasing Statutory Four-Year Review

May 14, 2024

WASHINGTON – U.S. Trade Representative Katherine Tai today released the following statement concerning the statutory review of the tariff actions in the Section 301 investigation of China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation:

“After thorough review of the statutory report on Section 301 tariffs, and having considered my advice, President Biden is directing me to take further action to encourage the elimination of the People’s Republic of China’s unfair technology transfer-related policies and practices that continue to burden U.S. commerce and harm American workers and businesses,” said Ambassador Katherine Tai.

“As the President recognizes in his memorandum, while the tariffs have been effective in encouraging the PRC to take some steps to address the issues identified in the Section 301 investigation, further action is required.

“In light of President Biden’s direction, I will be proposing modifications to the China tariffs under Section 301 to confront the PRC’s unfair policies and practices. From the beginning of the Biden-Harris Administration, I have been committed to using every lever of my office to promote American jobs and investments, and these recommendations are no different. Today, we serve our statutory goal to stop the PRC’s harmful technology transfer-related acts, policies, and practices, including its cyber intrusions and cyber theft. I take this charge seriously, and I will continue to work with my partners across sectors to ensure any action complements the Biden-Harris Administration’s efforts to expand opportunities for American workers and manufacturers.”

The Section 301 statute directs that the four-year review includes a consideration of: the effectiveness of the tariff actions in achieving the objective of the investigation; other actions that could be taken; and the overall effects of the tariff actions on the U.S. economy. The Office of the U.S. Trade Representative’s (USTR) Report addresses the statutory elements of the review, suggests modifications to strengthen the actions, and makes certain recommendations.

To encourage further elimination of the PRC’s technology transfer-related acts, policies, and practices, Ambassador Tai has recommended that products from the PRC currently subject to Section 301 tariffs should remain. Additionally, in light of the increased burden on U.S. commerce, President Biden is directing Ambassador Tai to take action to add or increase tariffs for certain products. As the Report details, Ambassador Tai will propose the following modifications in strategic sectors:

Battery parts (non-lithium-ion batteries)	Increase rate to 25% in 2024
Electric vehicles	Increase rate to 100% in 2024
Facemasks	Increase rate to 25% in 2024
Lithium-ion electrical vehicle batteries	Increase rate to 25% in 2024
Lithium-ion non-electrical vehicle batteries	Increase rate to 25% in 2026
Medical gloves	Increase rate to 25% in 2026

Natural graphite	Increase rate to 25% in 2026
Other critical minerals	Increase rate to 25% in 2024
Permanent magnets	Increase rate to 25% in 2026
Semiconductors	Increase rate to 50% in 2025
Ship to shore cranes	Increase rate to 25% in 2024
Solar cells (whether or not assembled into modules)	Increase rate to 50% in 2024
Steel and aluminum products	Increase rate to 25% in 2024
Syringes and needles	Increase rate to 50% in 2024

The Report also makes recommendations for: (1) establishing an exclusion process targeting machinery used in domestic manufacturing, including proposals for 19 exclusions for certain solar manufacturing equipment; (2) allocating additional funds to United States Customs and Border Protection for greater enforcement of Section 301 actions; (3) greater collaboration and cooperation between private companies and government authorities to combat state-sponsored technology theft; and (4) continuing to assess approaches to support diversification of supply chains to enhance our own supply chain resilience.

President Biden is also directing Ambassador Tai to establish an exclusion process for machinery used in domestic manufacturing and to prioritize, in particular, exclusions for certain solar manufacturing equipment.

Next week, USTR will issue a Federal Register notice announcing procedures for interested persons to comment on the proposed modifications and information concerning an exclusion process for machinery used in domestic manufacturing.

Background

In May 2022, USTR commenced the statutory four-year review process by notifying representatives of domestic industries that benefit from the tariff actions of the possible termination of those actions and of the opportunity for the representatives to request continuation. In September 2022, USTR announced that because requests for continuation were received, the tariff actions had not terminated and USTR would conduct a review of the tariff actions. USTR opened a docket on November 15, 2022, for interested persons to submit comments with respect to a number of considerations concerning the review. USTR received nearly 1,500 comments.

As part of the statutory review process, throughout 2023 and early 2024, USTR and the Section 301 Committee (a staff-level body of the USTR-led, interagency Trade Policy Staff Committee) held numerous meetings with agency experts concerning the review and the comments received.

Specifically, the Report concludes:

- The Section 301 actions have been effective in encouraging the PRC to take steps toward eliminating some of its technology transfer-related acts, policies, and practices and have reduced some of the

exposure of U.S. persons and businesses to these technology transfer-related acts, policies, and practices.

- The PRC has not eliminated many of its technology transfer-related acts, policies, and practices, which continue to impose a burden or restriction on U.S. commerce. Instead of pursuing fundamental reform, the PRC has persisted, and in some cases become aggressive, including through cyber intrusions and cybertheft, in its attempts to acquire and absorb foreign technology, which further burden or restrict U.S. commerce.
- Economic analyses generally find that tariffs (particularly PRC retaliation) have had small negative effects on U.S. aggregate economic welfare, positive impacts on U.S. production in the 10 sectors most directly affected by the tariffs, and minimal impacts on economy-wide prices and employment.
- Negative effects on the United States are particularly associated with retaliatory tariffs that the PRC has applied to U.S. exports.
- Critically, these analyses examine the tariff actions as isolated policy measures without reference to the policy landscape that may be reinforcing or undermining the effects of the tariffs.
- Economic analyses, including the principal U.S. Government analysis published by the U.S. International Trade Commission, generally find that the Section 301 tariffs have contributed to reducing U.S. imports of goods from the PRC and increasing imports from alternate sources, including U.S. allies and partners, thereby potentially supporting U.S. supply chain diversification and resilience.

Reuters

USTR Tai calls U.S. tariffs on Chinese goods 'significant' leverage

June 22, 2022 — by David Lawder

WASHINGTON, June 22 (Reuters) - U.S. Trade Representative Katherine Tai on Wednesday said that she views tariffs on Chinese goods as "a significant piece of leverage" in the U.S.-China trade relationship and removing them would likely have a limited effect on controlling short-term inflation.

In testimony before a U.S. Senate Appropriations subcommittee, Tai said that it was important to focus on protecting American trade interests against China's plans to dominate important industries such as semiconductors.

"We need to be keeping our eye on the ball on this bigger picture," Tai said.

Tai's comments indicated that she was still pushing for U.S. President Joe Biden to maintain tariff leverage over China as he deliberates over whether to lift some of the so-called Section 301 duties on Chinese imports as a way to try to ease high inflation.

"The China tariffs are, in my view, a significant piece of leverage - and a trade negotiator never walks away from leverage," Tai said.

Tai added that the key challenge for Biden's administration was converting "this leverage into a strategic program that will strengthen American competitiveness and defend our interests in a global economy in which China will continue to play."

Tariffs and other trade tools can help improve the competitive position of the U.S. economy in the medium and long term, Tai said, adding: "With respect to short-term challenges, there is a limit to what we can do with respect to, especially, inflation."

Biden is intensifying White House discussions on whether to scrap tariffs on a range of Chinese goods to curb inflation, but no decision is likely before next week's Group of Seven leaders summit, people familiar with the matter have told Reuters.

The cuts are potentially substantial, but the scale has not been decided, according to the sources.

Punitive U.S. duties of up to 25% remain on Chinese goods valued at some \$370 billion when they were imposed in 2018 and 2019 - years with low inflation. Only about \$50 billion of the total was directly tied to the Section 301 investigation pursued by former President Donald Trump's administration into China's misappropriation of U.S. technology and intellectual property.

Testifying on her office's \$76.5 million fiscal 2023 budget request - a \$6.5 million increase from the prior year - Tai said that inflation pressures will eventually subside, but the United States will still face long-term strategic challenges from China's state-dominated economic policies.

"We will one day find ourselves on the other side of these challenges. And I think it is very, very important that what we do now not undermine the need that we have to make ourselves more competitive and to defend our economic interests in a global system that for the past several decades has eroded our leadership in many, many different areas in the economy," Tai said.

Submissions of articles from Vice Chairman Schweikert – December 18, 2024

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<https://golden.house.gov/media/press-releases/golden-introduces-bill-to-restore-american-manufacturing-with-10-percent-tariff-on-all-imports>

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<https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/16/what-they-are-saying-labor-business-and-elected-leaders-praise-president-bidens-actions-to-protect-american-workers-and-businesses-from-chinas-unfair-trade-practices/>

<https://www.brown.senate.gov/newsroom/press/release/sherrod-brown-senators-push-administration-keep-301-tariffs-in-place-chinese-imports#:~:text=Section%20301%20tariffs%20were%20imposed,detrimental%20to%20the%20United%20States.>

<https://democrats-waysandmeans.house.gov/media-center/press-releases/neal-statement-biden-administrations-action-protect-american-workers>

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<https://www.reuters.com/business/ustr-tai-says-us-tariffs-chinese-goods-are-significant-leverage-2022-06-22/>

