The Daily Dish

SOTU Preview

DOUGLAS HOLTZ-EAKIN | FEBRUARY 5, 2019

Eakinomics: SOTU Preview

And just like that, one of the few tangible benefits of the government shutdown has evaporated — the State of the Union Address (SOTU) is back on for tonight. What can one expect? Well, certainly a surprise, as every White House likes to bask in the attention from an unexpected SOTU announcement. And certainly a few puzzlers, as every White House SOTU production process has a certain amount of undisciplined throwing stuff at the wall to see what sticks. And certainly some discussion of trade — in particular the president's Reciprocal Trade Act (RTA), which would permit the president to impose tariffs on products "if the president determines" that either tariff or non-tariff barriers on the products are higher than those imposed by the United States.

Eakinomics has already given the RTA a thumbs-down on the basis of violations of principle. Now AAF's Jacqueline Varas wades in with a careful analysis of the quantitative implications of the proposed bill. Specifically, she first notes that tariffs increase costs for both American producers and consumers, and she then applies product-specific Most-Favored Nation (MFN) tariff rates of U.S. trading partners to current import levels. The MFN rates are negotiated by each country when they enter the World Trade Organization (WTO) and represent the tariffs that country levies on other WTO members. If a trading partner has higher tariff rates on a product group, the U.S. rate is assumed to rise to an equal level. The upshot is that the RTA could increase nationwide prices by over $60 billion per year, not counting the cost of retaliation. That is quite a blow to the economy.

The basic framework suggests that the United States is the lowest-tariff country in the world, but that is not always true. So, in the spirit of the exercise (but not required by the RTA), what happens when another country's tariffs are lower? For all 16 countries analyzed by Varas combined, the U.S. has higher tariffs for 429 product groupings out of 1536 total groups (28 percent). Looking at bilateral rates, on average, the U.S. has higher tariffs for 27 groups (out of 97). The most extreme case is Canada, for which the U.S. has higher tariffs on 58 product groups. Lowering U.S. tariffs to their levels would amount to $4.8 billion in downward pressure on prices. That's worth thinking about.

Whether you look at gross tariff increases or imagine them net of tariff decreases, the RTA is an entirely inappropriate expansion of presidential power.