June 20, 2018

Secretary Wilbur Ross
Department of Commerce
1401 Constitution Ave NW
Washington, DC 20230

RE: Docket ID DOC-2018-0002 Notice Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Automobiles and Automobile Parts

Dear Secretary Ross,

Thank you for the opportunity to comment on the Department of Commerce's newest investigation under section 232 of the Trade Expansion Act of 1962. Historical evidence suggests that placing additional national security tariffs on imported automobiles and automobile parts will negatively affect the U.S. economy, harming both U.S. consumers and producers. Furthermore, it will undermine recent gains in economic growth spurred by tax reform and deregulation. This comment will describe the economic implications of the tariffs and discuss the likely ramifications for the United States on the global stage.

The Value of Reducing Trade Barriers

Global trade is a major engine of economic growth. It is also one of the most efficient ways to increase the standard of living in the United States. Without it, consumers would be limited to enjoying only goods and services produced within our borders and U.S. producers would not be able to reach consumers around the globe.

The value of exports is somewhat obvious, but the value of imports may be even more substantial: in addition to exposing consumers to a wider variety of goods and services than are produced in the United States, imports also put competitive pressure on producers around the globe. The result is gains in productivity and efficiency, which translate into increased economic activity and job creation. Additionally, imports lower costs for U.S. businesses that rely on international supply chains in their own production.

Alternatively, tariffs inhibit economic growth by restricting international trade, which increases the costs of consumer goods and depresses the economic benefits of competition. A recent report from the National Bureau of Economic Research found that tariffs enacted abroad to curb growing imports led to small improvements in the trade balance, but also to inflation, depressed aggregate demand, lower levels of investment, and lower productivity.[i] Furthermore, every living chair of the Council of Economic Advisers signed a letter last year warning of the economic consequences of steel tariffs.[ii]

Raising new trade barriers will also not reduce the U.S. trade deficit. The trade balance is primarily driven by two macroeconomic factors: national saving and investment. Unless there is an increase in either public or private saving, or a decrease inbound foreign investment, the U.S. trade deficit will not decrease. This is supported by empirical evidence: recent research shows that there is no correlation between higher tariffs and positive trade balances. To the contrary, countries with higher tariffs were found to have larger trade deficits than countries with lower tariffs.[iii]

Section 232 Investigation into Autos

The Section 232 investigation currently underway at the Department of Commerce may lead to the imposition of new tariffs or quotas on automobiles and their parts, including cars, SUV's, vans, and light trucks. This will undoubtedly place upward pressure on vehicle prices in the United States.

If the president's suggested tariff is enacted, the effective tariff rate for imported cars will increase from 1.3 percent to 25 percent. According to the National Taxpayers Union Federation (NTUF), this would cause overall import taxes to triple from $33 billion to $98 million. [iv] It would also increase the average price of imported cars by $4,205 per vehicle and the average price of pickup trucks by $5,089 per vehicle. Furthermore, the price of cars assembled in the United States is expected to increase by at least $1,262 per vehicle.

The increase in vehicle prices would decrease consumers' purchasing power, reducing their disposable income. The Tax Foundation estimates that section 232 tariffs on automobiles would reduce the average after-tax income for all taxpayers by 0.47 percent. [v] This would disproportionally burden individuals with lower incomes: those in the bottom 80 percent of the income distribution would see their after-tax income fall by 0.49 percent, while the after-tax income of individuals in the top one percent would decrease by 0.39 percent. This decrease in income would offset, on average, 16 percent of the gains taxpayers can expect to receive from the Tax Cuts and Jobs Act (TCJA) and nearly 50 percent of the gains going to the bottom 20 percent.

Placing broad tariffs on autos would also have negative implications for the U.S. labor market, trade flows, and economic growth. The Trade Partnership estimates that the section 232 tariffs on autos would reduce Gross Domestic Product (GDP) by $18 billion, reduce exports by 1.9 percent annually, and reduce imports by 2.7 percent annually.[vi] Furthermore, a 25 percent tariff on automobiles and auto parts would result in a net decrease of 157,000 jobs. The services sector would be hit hardest, where nearly 200,000 jobs would be lost. Additionally, over 45,000 jobs would be lost in non-motor vehicle manufacturing.

Another study from the Peterson Institute for International Economics (PIIE) estimates that a 25 percent tariff on automobiles and auto parts would cause production in the auto industry to fall by 1.5 percent, exports to fall by 2.5 percent, and employment to fall by 1.9 percent. This represents a loss of 195,000 jobs. If nations retaliate with proportional tariffs on U.S. auto exports, PIIE estimates that U.S. production would fall by 4 percent, exports would fall by 8.8 percent, and employment in the auto industry would fall by 5 percent, or 624,000 jobs.[vii]

Evidence from Previous Section 232 Action

Section 232 investigations are historically rare. The national security tariffs applied to steel and aluminum imports last March marked the first time since 1982 that section 232 tariffs were enacted. These investigations led to a 25 percent tariff on steel imports and 10 percent tariff on aluminum imports, even as the Department of Defense indicated that U.S. military requirements for steel and aluminum are only three percent of current U.S. production.[viii] The United States also reached agreements with South Korea, Australia, Argentina, and Brazil to place quotas on steel imports, as well as agreements with Argentina and Australia to place quotas on aluminum imports.[ix]

Tariffs on steel and aluminum are already distorting both the prices and the availability of these products. The latest ISM Manufacturing Index shows that the cost of aluminum, aluminum-based products, stainless steel, and steel-based products has increased. Even more, aluminum, steel-based products, and hot rolled steel are in short supply.[x]

Quotas on steel and aluminum may have even worse economic implications. Quotas have the same market-distorting effects as tariffs, such as increasing prices, decreasing the availability of goods, and decreasing welfare, but they do not generate any revenue for the government. Furthermore, artificially restricting imports limits other countries' access to U.S. dollars, which in turn reduces how much the United States can export. A pertinent example of this is the voluntary export restraint agreement on auto exports from Japan to the United States in 1981. This did not improve the bilateral balance of trade, and in fact, the U.S. trade deficit with Japan increased in the following years.[xi] The quota also caused U.S. consumers to experience an estimated welfare loss of $10 to $15 billion from 1982 to 1985.[xii]

Businesses are feeling the brunt of this impact. In the Commercial Construction Index for Q2 2018, 86 percent of contractors surveyed expect the tariffs to have at least moderate to severe impacts on their business in the next three years and nearly two thirds report being concerned about cost fluctuations for steel.[xiii] Similarly, a May survey of all 12 Federal Reserve Districts found that manufacturers are concerned about supply-chain disruptions in steel and aluminum materials markets in response to recent tariffs. They also reported increased input costs for steel, aluminum, and transportation.[xiv]

The harm caused to U.S. businesses is also evident by the flood of companies that have submitted exemption requests, arguing that they will be materially damaged by the tariffs. As of June 20, the Department of Commerce has received 20,003 requests from companies asking to be exempt from the steel tariffs and 2,503 requests to be exempted from aluminum tariffs.[xv] Less than one percent of these requests have been processed to date.[xvi]

Producers are not the only ones at risk from section 232 tariffs. American Action Forum (AAF) research found that tariffs on steel and aluminum have the potential to raise economy-wide prices by $7.5 billion per year, which would severely disadvantage consumers.[xvii] This is reflected in the University of Michigan Survey of Consumers, in which 24 percent of respondents expressed negative opinions of the tariffs and only 1 percent expressed positive opinions.[xviii] Furthermore, the Trade Partnership estimates that tariffs and quotas on steel and aluminum, coupled with retaliation from our trading partners, will reduce GDP by $37 billion annually and reduce net employment by 402,445 jobs. Approximately 16 jobs will be lost for every steel/aluminum job gained.[xix]

Global Implications

In addition to directly harming consumers and producers in the United States, section 232 tariffs on steel and aluminum have also sparked a global wave of retaliation. To date, eight countries have announced retaliatory tariffs against the United States, which together apply to $38.6 billion worth of U.S. exports.[xx] This is roughly equivalent to the impact of the United States' tariffs, which effect $39.8 billion worth of U.S. imports.[xxi]

Section 232 tariffs have also fueled hostile relations between the United States and its allies. Each one of the United States' top ten trading partners have condemned the tariffs, and five nations have filed lawsuits against the United States at the World Trade Organization (WTO). If President Trump's national security tariffs suffer the same fate as President Bush's 2001 safeguard tariffs on steel, they will be ruled illegal at the WTO. If that is this case, the United States will either have to reverse the tariffs or face further retaliation.

Previous section 232 tariffs have not been successful as a negotiating tactic nor in bringing down foreign trade barriers. Their only effect has been to inspire the creation of new trade barriers against the United States, as well as increasing global tensions. There is no reason to think that section 232 tariffs on autos would be any different.

Conclusion

If enacted, section 232 tariffs on automobiles and automobile parts will have numerous harmful effects. History shows that they will not be successful in improving the U.S. economy, creating jobs, or reducing trade barriers abroad. They will only make Americans and the global trading system worse off.

Sincerely,

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Director of Immigration and Trade Policy
American Action Forum

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[iii] Carolina Freund, "Public Comment on Trump Administration Report on Significant Trade Deficits," Peterson Institute for International Economics, May 8, 2017, https://piie.com/blogs/trade-investment-policy-watch/public-comment-trump-administration-report-significant-trade

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[xiv] "The Beige Book: Summary of Commentary on Current Economic Conditions By Federal Reserve District," May 30, 2018, https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20180530.pdf

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