Economic Policy Institute

Testimony before the U.S. Senate Committee on Health, Education, Labor and Pensions on “The Impact of Zero Tariffs on U.S. Autoworkers”

Testimony • By Thea M. Lee • September 5, 2018

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

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

What has actually happened

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

The steel and aluminum tariffs announced by President Trump in March affect only a narrow sliver of the U.S. economy and are quite modest in size. Nevertheless, defenders of the globalization status quo have responded hyperbolically. For instance, many critics of the tariffs have referenced a 2018 study by Francois and Baughman of The Trade Partnership claiming that five jobs will be lost for every new job created in U.S. iron, steel, and nonferrous metals. EPI has already produced a comprehensive report explaining why this study should be considered an outlier and showing that the actual economic impact of the tariffs will be quite minor.[1]

Tariffs as a tool

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

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

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

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

In fact, the current tariff regime is problematic on a number of fronts and does not appear so far to be having the desired effects. The U.S. trade deficit with China is up 8.5 percent through June (year to date, over the same period last year), significantly faster than the overall U.S. goods trade deficit, which increased 7.3 percent, twice as fast as the overall economy is growing. Our trade problems with China are getting worse, not better. And the International Monetary Fund recently projected that the overall U.S. current account deficit will rise from $466 billion in 2017 to $798 billion in 2020, an increase of more than 70 percent within the next three years.[2]

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

Over the past two decades, growing trade deficits with China and other countries have eliminated millions of good manufacturing jobs in the United States. These deficits are the single most important cause of the loss of nearly 5 million manufacturing jobs since 2000, roughly 30 percent of industry employment,[3] and the disappearance of nearly 90,000 U.S. manufacturing plants.[4]

One reason we are so concerned about the loss of jobs caused by flawed trade policies is that the jobs that are directly displaced are often manufacturing jobs, which provide excellent wages and benefits, especially compared with jobs in the service sector, where employment has been growing. These manufacturing jobs have often been unionized, and have generally provided higher wages, on-the-job training, and benefits like health care and retirement security.[5]

And EPI research has shown that the wage-suppressing effects of our poor approach to globalization and trade has hit all workers without college degrees across the country—of all races and ethnicities—not just those in manufacturing who have lost jobs directly to import competition. While trade-displaced workers face the largest individual losses, in the aggregate the costs of these job losses are much smaller than the wider effects of downward pressure on wages.[6]

Manufacturing also supports millions of good jobs in high-wage industries such as law, accounting, and engineering and technical services. And it was also responsible for two-thirds of private-sector R&D in 2015, according to the National Science Foundation.[7]

And yet, instead of striving to create more good jobs with similar qualities in infrastructure or the clean energy sector, or improving the wages, labor standards, and quality of *all* jobs, the Trump administration and Republicans in Congress have repeatedly attempted to repeal or undermine the Affordable Care Act, to actively roll back or stall basic labor standards (including killing a record-breaking number of workplace safety and other labor regulations through unprecedented use of the Congressional Review Act),[8] and have failed to take action on expanding meaningful retirement security for all. This Congress also recently pushed through the Tax Cuts and Jobs Act, which is likely to increase incentives to offshore production and profits of American firms, by providing a major tax advantage for foreign profits over domestic profits.[9]

What we *should* be doing on trade policy

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

The key elements of reform include the following:

Address currency misalignment.

We need to abandon the strong dollar dogma and target a currency that allows for a manageable and stable trade deficit. We absolutely can manage the value of the U.S. dollar, and we need to set it at a level that essentially balances trade. This will give U.S. manufacturing the breathing room it needs to get back a few million jobs. (More information can be found in a 2017 EPI report on the pervasive negative impact currency misalignment has had on American jobs and wages.[10])

Stop seeking additional NAFTA-style trade agreements.

There is no reason to devote policy resources to chasing a “better trade deal”—certainly not by negotiating agreements that incentivize outsourcing and boost the profits of the U.S. pharmaceutical and software companies while actively subverting the bargaining power of American workers. Policymakers who want to work across international borders could instead focus on eliminating tax havens or harmonizing climate policies to ensure that countries do not free ride on others’ efforts to mitigate greenhouse gas emissions. (Recommendations in a 2017 report by EPI address how to reorient national policy toward measures that will benefit the U.S. and other countries.[11])

Make access to the U.S. market contingent on respect and enforcement of internationally recognized core labor rights.

These core labor standards include the right of freedom of association and the right to bargain collectively, as well as freedom from discrimination, forced labor, and child labor. Enforcing these core labor rights is win-win for workers in all countries.[12] While the U.S. has included some labor rights provisions in our trade agreements for many years, these rights have not been effectively and consistently enforced. We need a new approach and commitment. Canadian Prime Minister Justin Trudeau has requested that U.S. “right-to-work” laws meant to thwart collective bargaining be ended as a condition for NAFTA renegotiation.[13] This is the kind of ambitious, big-picture thinking about how to leverage trade policy to boost labor’s bargaining position that we could really use in the United States, and it’s been lacking from the Trump administration and recent Democratic administrations alike.

And finally but just as significantly, we need to develop a real economic plan to help workers in America—by focusing on skills and workforce development, job quality, infrastructure, the clean energy transition, and expanding a strong social safety net.

The U.S. government has its own responsibility to develop and implement a coherent long-term economic strategy with respect to both manufacturing and services, both trade-related and domestic. We have failed to invest adequately in infrastructure and skills for decades, and business has not filled the void. We have a tax system that rewards capital over labor, and outsourcing over domestic production. It remains riddled with unproductive loopholes, and—especially after last year’s changes—it fails to raise adequate revenue to fund needed investments. We must use domestic tax, infrastructure, and workforce development policies to ensure that American workers and businesses have the tools and skills they need to compete successfully.

While textbook trade models show that cutting tariffs is win-win, they also show that the amounts of income redistributed by trade, from workers at the bottom to those at the top, vastly exceed the gains from trade. As EPI's Josh Bivens and Dean Baker of the Center for Economic and Policy Research have explained, the textbook trade models simply imply that the winners from trade gain more than the losers lose, even if the losers far outnumber the winners.[14] A win for everyone from cutting tariffs *only* occurs if the winners compensate the losers. And that is what we have never done in the United States. It is incumbent upon us to develop trade, manufacturing, and labor policies that will create good jobs with rising incomes for all working Americans, especially the 70 percent of the labor force that has experienced wage stagnation during the past four decades of globalization.

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

Endnotes

1. Robert E. Scott, *Estimates of Jobs Lost and Economic Harm Done by Steel and Aluminum Tariffs are Wildly Exaggerated*, Economic Policy Institute, March 21, 2018.

2. The trade deficit projection comes from the IMF's World Economic Outlook Database, April 2018 edition (country-level data). The U.S. trade deficit is expected to rise in the future as a result of recent increases in the value of the dollar, higher rates of growth in the United States relative to our trading partners, and recent increases in the U.S. budget deficits as a result of recent tax cuts and spending increases included in the most recent federal budget, which are expected to surpass one trillion dollars by 2020. The CBO's estimate that the budget deficit will exceed $1 trillion by 2020 comes from Erik Wasson and Sarah McGregor, "U.S. Deficit to Surpass $1 Trillion Two Years Ahead of Estimates, CBO Says," *Bloomberg*, April 9, 2018.

3. Susan N. Houseman, "Understanding the Decline of U.S. Manufacturing Employment," Upjohn Institute working paper, 2018.

4. U.S. Census Bureau, Business Dynamic Statistics.

5. Robert E. Scott, "We Still Haven't Recovered Well-paying Construction and Manufacturing Jobs," Economic Policy Institute, August 16, 2017.

6. Josh Bivens, *Adding Insult to Injury: How Bad Policy Decisions Have Amplified Globalization's Costs for American Workers*, Economic Policy Institute, July 11, 2017.

7. Raymond M. Wolfe, *Business R&D Performed in the United States Reached $356 Billion in 2015*, National Science Foundation, August 22, 2017.

8. Bivens et al., *Ten Actions That Hurt Workers During Trump's First Year: How Trump and Congress Further Rigged the Economy in Favor of the Wealthy*, Economic Policy Institute, January 12, 2018.

9. Josh Bivens and Hunter Blair, "The Likely Economic Effects of the Tax Cuts and Jobs Act (TCJA): Higher Incomes for the Top, No Discernible Effect on Wage Growth for Typical American Workers," Testimony submitted to the House Ways and Means Committee, June 1, 2018.

10. Robert E. Scott, *Growth in U.S.–China Trade Deficit between 2001 and 2015 Cost 3.4 Million Jobs: Here's How to Rebalance Trade and Rebuild American Manufacturing*, Economic Policy Institute, January 31, 2017.

11. Josh Bivens, *Adding Insult to Injury: How Bad Policy Decisions Have Amplified Globalization's*

Costs for American Workers, Economic Policy Institute, July 11, 2017.

12. Thomas I. Palley, "The Economic Case for Labor Standards: A Layman's Guide," *Richmond Journal of Global Law & Business*, vol. 2, issue 2, 2001.

13. Josh Bivens, "A NAFTA Renegotiation Game-Changer, until the Trump Administration Squanders It," *Working Economics* (Economic Policy Institute blog), September 7, 2017.

14. Josh Bivens, *Everybody Wins, Except for Most of Us* (Washington, D.C.: Economic Policy Institute, 2008); Dean Baker, "Six Lies on Trade," *Truthout*, July 8, 2018.