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United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

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June 14, 2019

Memorandum

To: Members, Committee on Financial Services

From: FSC Majority Staff

Subject: June 19, 2019, Subcommittee hearing entitled, "Promoting Economic Growth: Exploring the Impact of Recent Trade Policies on the U.S. Economy"

The Subcommittee on National Security, International Development, and Monetary Policy will hold a hearing entitled, "Promoting Economic Growth? Exploring the Impact of Recent Trade Policies on the U.S. Economy," at 10:00 a.m. on Wednesday, June 19, 2019, in room 2128 of the Rayburn House Office Building. This will be a single-panel hearing with the following witnesses:

- **Laura Baughman,** President, The Trade Partnership
- **C. Fred Bergsten, Ph.D.** Senior Fellow and Director Emeritus, Peterson Institute for International Economics
- **John Boyd,** President, National Black Farmers Association
- **Ronnie Russell,** Missouri Farmer, At Large Member, American Soybean Association
- **Gordon Gray,** Director of Fiscal Policy, American Action Forum

Overview

When domestic governments levy restrictions on international trade, such as a tariff on imported goods, such restrictions increase the domestic price for goods and services and diminish total economic surplus.[1] Traditionally, tariffs have been used by domestic governments to generate revenue, [2] but more recently tariffs have been employed as leverage in trade disputes and to influence foreign policy goals.[3] Tariffs are assessed on imported goods and paid by the importer to the United States government, which is collected by the U.S. Customs and Border Protection (CBP).[4] Current and historical tariff rates can be found in the Harmonized Tariff Schedule (HTS) kept by the International Trade Commission (ITC). Under

[1] Paul Krugman and Robin Well, Macroeconomics, 4th ed (New York: Worth Publishers), pp. 148-149.
[2] On the use of tariffs for revenue by the United States, see Douglas A. Irwin, *Clashing Over Commerce* (Chicago: University of Chicago Press, 2017), pt. 1.
[3] See, e.g., Statement from the President Regarding Emergency Measures to Address the Border Crisis (May 30, 2019), available at: https://www.whitehouse.gov/briefings-statements/statement-president-regarding-emergency-measures-address-border-crisis/.
[4] 19 C.F.R. §§ 24 *et seq.*

various authorities,[5] President Donald Trump has increased trade restrictions, ranging from tariffs to quotas.[6]

Background on Tariffs

In the 1930s, the Congress authorized the President to modify tariffs as part of a negotiated trade agreement. In the Trade Act of 1974, the Congress formalized a process for negotiating trade agreements wherein Congress would establish a set of parameters and requirements for the President to follow in such negotiations and, in exchange, Congress would hold an expedited vote on implementing legislation without amendment. That process, now known as Trade Promotion Authority (TPA), was reauthorized in 2015 until June 2021. Other statutes further empower the President to control tariffs based on issues related to foreign policy and national security.

Traditionally, the U.S. has used its trade policy to encourage international trade liberalization. For example, from 1934 until the current Administration, the U.S. sought to reduce trade restrictions through bilateral and multilateral trade agreements, many of which are being reconsidered by President Trump. Beginning in 1947, the U.S. paved the way for global trade liberalization by participating in the establishment of the global rules-based trading system following World War II. The General Agreement on Tariffs and Trade (GATT), which would later evolve into the World Trade Organization (WTO), focused on reducing tariff restrictions and preventing trade wars in order to increase economic growth. As such, global tariff rates have dropped, global trade has increased, and the total value of U.S. exports has increased. Over the last seven decades, tariff revenue has not represented about 2 percent of total federal revenue.

Current U.S. Tariff Actions

To date, President Trump has used four authorities to increase tariffs on imported goods from certain countries:[7]

1. **Section 201 of the Trade Act of 1974 (Section 201)** authorizes the President to provide temporary import relief from injurious surges of imports resulting from fairly traded goods from all countries, if the ITC concludes such goods are the substantial cause of serious injury or threaten of serious injury to domestic industry.[8]

2. **Section 232 of the Trade Expansion Act of 1962 (Section 232)** allows the President to curb imports if the U.S. Department of Commerce determines that certain imports are a threat to national security.[9]

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[5] See, e.g., Proclamation 9705, Presidential Proclamation on Adjusting Imports of Steel into the United States (March 8, 2018); Notice of Action and Request for Public Comment Concerning Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, 83 Fed. Reg. 28,710 (June 20, 2018).

[6] A quota is a restriction on the amount of good allowed to be imported based on either quantity or value of the imported goods.

[7] See generally, CRS Report R45529, *Trump Administration Tariff Actions (Sections 201, 232, and 301): Frequently Asked Questions*, by Brock R. Williams, *et al*.

[8] Codified as amended at 19 U.S.C. §§ 2251 *et seq*. See CRS In Focus IF10786, *Safeguards: Section 201 of the Trade Act of 1974*, by Vivian C. Jones.

[9] Codified as amended at 19 U.S.C. § 1862. See CRS Report R45249, *Section 232 Investigations: Overview and Issues for Congress*, by Rachel F. Fefer, *et al.*

3. **Section 301 of the Trade Act of 1974 (Section 301)** enables the United States Trade Representative to impose trade restrictions if it finds that a policy or practice of a foreign trade partner violates or is inconsistent with provisions of a trade agreement or hinders U.S. commerce.[10]

4. **Section 203 of the International Emergency Economic Power Act of 1977 (IEEPA)** allows the President, in the event that the Administration has declared a national emergency, to regulate imports.[11] IEEPA has not previously been used to impose tariffs.[12]

The President has made recent use of such authorities to alter trade and foreign policy practices. The products affected by these increases range from washing machines and solar products to steel and aluminum. President Trump has restricted imports on $267.5 billion in U.S. annual imports based on 2018 import values.[13] Section 201 tariffs (safeguarding domestic industries) have been applied to solar cells, solar modules, large residential washers, and their parts. Section 232 tariffs (national security) have been applied to aluminum and steel. Additional investigations by the ITC on uranium, motor vehicles, and their parts are pending and could result in additional tariff increases. Section 301 tariffs ("unfair" trading practices) have applied 25 percent tariffs on 818 imported Chinese goods beginning July 6, 2018,[14] 25 percent tariffs on 279 imported Chinese goods beginning August 23, 2018[15] and 10 percent tariffs on 5,745 imported Chinese goods beginning September 24, 2018.[16] On May 9, 2019, that 10 percent tariff on the third tranche of imported Chinese goods was increased to 25 percent.[17]

Sections 201 and 232 import restrictions apply to numerous countries affecting $2.7 billion and $25.3 billion of annual imports in 2018 import values, respectively, while Section 301 import restrictions apply entirely to China, affecting $239.5 billion in annual imports.[18]

Current Retaliatory Tariff Actions

U.S. trading partners subject to the aforementioned trade restrictions have put forth or proposed trade restrictions of their own against the U.S. by levying duties on U.S. exports to their countries. In response to Section 201, China and South Korea intend to impose tariffs on U.S. solar and washer exports,

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[10] Codified as amended at 19 U.S.C. §§ 2411-2420. See CRS In Focus IF10708, *Enforcing U.S. Trade Laws: Section 301 and China* by Wayne M. Morrison.
[11] Codified as amended at 50 U.S. Code §§ 1702.
[12] CRS Insight IN11129, *The International Emergency Economic Powers Act (IEEPA) and Tariffs: Historical Background and Key Issues*, by Christopher A. Casey; CRS Report, R45618, *The International Emergency Economic Powers Act: Origins, Evolution, and Use*, by Christopher A. Casey, Jennifer K. Elsea, Ian F. Fergusson, Dianne E. Rennack, pp. 26-27, 44.
[13] CRS Insight IN10971, *Escalating U.S. Tariffs: Affected Trade* by Brock R. Williams, Wayne M. Morrison, and Keigh E. Hammond.
[14] Notice of Action and Request for Public Comment Concerning Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, 83 Fed. Reg. 28,710 (June 20, 2018).
[15] Notice of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, 83 Fed. Reg. 40,823 (August 16, 2018).
[16] Notice of Modification of Section 301 Action: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, 83 Fed. Reg. 47,974 (September 21, 2018).
[17] Notice of Modification of Section 301 Action: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation, 84 Fed. Reg. 20,459 (May 9, 2019).
[18] CRS Insight IN10971, *Escalating U.S. Tariffs: Affected Trade* by Brock R. Williams, Wayne M. Morrison, and Keigh E. Hammond.

and Japan intends to retaliate with increased tariffs on U.S. solar exports. In accordance with WTO guidelines, such impositions will begin three years after the initial action or in 2021. In response to section 232, Canada, China, the European Union, Mexico, Russia and Turkey have imposed restrictions on U.S. steel and aluminum exports. Japan and India have noted their intentions to impose restrictions but have not put such restrictions into effect. Using 2017 export values, approximately $25 billion in U.S. exports could be affected. China has responded in-kind to each U.S. tariff increase, imposing tariffs approximately $84.1 billion using 2017 export values.[19]

Capital goods and industrial supplies, which are approximately 12 percent or $282 billion of annual imports,[20] are the largest categories of goods affected by tariffs suggesting that inputs used for the production of finished goods are pronounced and can result in increased costs for U.S. producers. Food and beverages are the second-largest category facing retaliatory tariffs with $33.3 billion of annual imports[21] being affected.

Economic Impact of Tariff Actions

Tariffs affect economic activity by changing the price and consumption of goods. For consumers, higher tariffs lead to price increases for goods, as input costs rise. Higher prices in turn lead to a decrease in consumption depending on whether consumers will tolerate higher prices (i.e., how elastic is the price) and the availability of substitute goods. For producers who use input products subject to tariff increases, the cost of doing business increases. For example, motor vehicle producers in the U.S. face newly increased steel costs, increased costs from tariffs on other input parts and increased costs on finished motor vehicle exports. U.S. exporters face increased costs to doing business abroad due to retaliatory actions. U.S exporters face a price disadvantage in certain global markets relative to other country exporters as tariffs on U.S. exporters make domestic consumers less inclined to purchase those goods subject to retaliatory tariffs, effectively decreasing demand for those U.S. export goods in certain markets. Since President Trump invoked Section 232, exports of U.S. goods that are subject to retaliatory tariffs have declined compared to their pre-tariff averages by 37 percent in the EU, 23 percent in Canada and 10 percent in Mexico.[22]

In terms of macroeconomic impacts, tariffs directly affect the level of net exports or the U.S. trade deficit (the difference between U.S. goods imported and exported), government revenue and how much consumers buy. The President has argued that tariffs will erase the U.S. trade deficit. This is an unlikely outcome because although tariffs will initially reduce U.S. imports, retaliatory efforts make U.S. exports more expensive to purchase thereby reducing demand for U.S. exports. Additionally, a likely effect of tariffs, particularly if they increase in scale and scope, is an increase in the strength of the U.S. dollar compared to foreign currencies, which further depresses demand for U.S. exports by making them relatively more expensive. Tariffs can have an adverse effect on domestic consumption. As price rises and demand falls, there can be a shift to higher cost substitute goods, if they exist, affecting consumers' income, which can reduce aggregate demand as consumers can consume less.

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[19] CRS Insight IN10971, *Escalating U.S. Tariffs: Affected Trade* by Brock R. Williams, Wayne M. Morrison, and Keigh E. Hammond.

[20] See generally, CRS Report R45529, *Trump Administration Tariff Actions (Sections 201, 232, and 301)*, by Brock R. Williams, *et al*.

[21] *Ibid.*

[22] *Ibid.*