

Testimony by Jared Bernstein

The Effects of Tariffs on U.S. Agriculture and Rural Communities
Committee on Ways and Means, Trade Subcommittee

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Introduction

Chairman Reichert, Ranking Member Pascrell, members of this subcommittee, I thank you for the opportunity to testify today on troubling developments in international trade.¹ With no input and too little substantive pushback from Congress, the Trump administration is actively engaged in an escalating trade war, by which I mean the imposition of new tariffs by both the U.S. and, in retaliation, our trading partners.

I have long argued that, while expanded trade is a net positive for both us and our trading partners, there are people, places, and industries that have been hurt by the trade liberalization that has taken place since the 1980s. China, for example, has often engaged in unfair trading practices, including currency suppression and the dumping of steel onto world markets. I credit the Trump administration for raising these issues.

But his administration has not done nearly enough to ameliorate the problems they've raised, and their escalating trade war is likely to do more harm than good to American production, prices, investment, growth, and employment. The Trump administration is not helping those hurt by trade, and these latest actions are likely to hurt those helped by it.

That is, by imposing a tax on and thus raising the price of imported inputs into U.S. production, and by inviting retaliatory tariffs, U.S. businesses that have fruitfully tapped the benefits of globalization now face rising barriers to trade, barriers that are becoming steeper with each new round of tariffs and counter-tariffs.

Regarding the subject of today's hearing, based on evidence of the number of jobs by industry and area exposed to China's retaliatory tariffs, I argue that the trade war will hurt farmers and rural communities. Already, prices for U.S. soybean, one of our main agricultural exports, have fallen sharply, while prices in Brazil, our main competitor for global market share in soybean exports, have climbed equally sharply.

To be clear, the overall, macroeconomic impacts of the trade war are thus far economically small, as I show below, in the sense that the tariffs will likely only slightly boost inflation and lower growth. But in targeted industries, these effects are already meting out pain to exporters facing retaliatory tariffs and importers of inputs facing new tariffs on incoming intermediate goods. Also, the trade war is actively escalating, and the extent to which its impacts will remain macroeconomically small is yet to be seen.

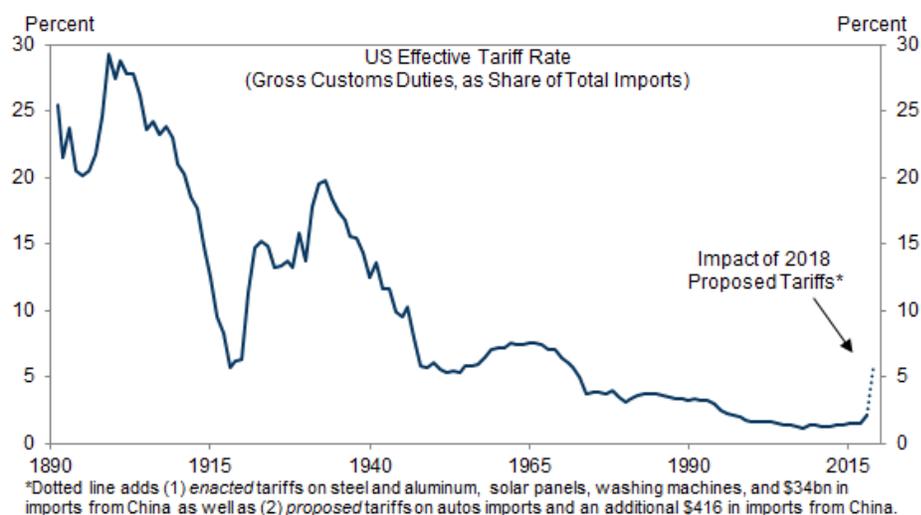
But whatever their magnitude, for most industries, they push in the wrong direction. Those hurt by trade really do need help, but as I stress in my conclusion, while our steel industry may get some necessary relief, tariffs generally won't provide those whose economic prospects have been hurt by globalization with the economic opportunity they lack. Thus, I urge Congress, and especially the

¹ My testimony and comments today do not reflect the views of my employer, The Center on Budget and Policy Priorities.

Republican majority, as they hold the legislative cards, to claim back its Constitutional role to set tariffs. I recognize that there are some efforts afoot to do so, but they have been demonstrably toothless and ineffective thus far. While I welcome and appreciate the opportunity to raise my concerns about the trade war today, this hearing is no substitute for the type of Congressional action that the founders of our nation clearly articulated in the Constitution for moments like the present, where presidential overreach would be misguided and damaging.

Economic Impacts: Small magnitudes so far, but all pushing in the wrong direction

Though many U.S. tariffs were in place before the Trump administration's actions, the overall effective tariff rate (customs duties as a share of the value of imports) in the U.S. before Trump's trade war was, as the figure below shows, at historical lows of just around two percent. As the dotted line at the end of the figure shows, recently enacted and proposed tariffs raise that effective rate to over five percent.



Source: USITC, Goldman Sachs Global Investment Research

To be sure, estimates of the economic impact of the tariffs are, as yet, economically small. To date, the Trump administration has levied tariffs on about \$85 billion worth of goods, less than five percent of our \$2.4 trillion in imports [last year](#). Adding in the value of our trading partners' retaliation takes that the sum of our imports and exports to \$165 billion, still less than one percent of U.S. GDP.

Researchers at Goldman Sachs (GS) offer a handy rule of thumb for mapping tariffs onto macroeconomic outcomes: for every percentage point increase in the effective tariff rate, the level of US real GDP would be reduced by 1-2 basis points, or hundredths of a percent. GS goes on to point out that "the total tariffs proposed, which would cover roughly \$775 billion in US imports, would lower the level of US GDP by 0.1 percentage point compared with no tariff increases." Inflation, by their estimates, could increase by 20 basis points if all of Trump's threats come to fruition. Especially given the current solid condition of the U.S. macroeconomy and labor market, none of these estimates are large enough to come anywhere close to derailing the solid, ongoing expansion.

But the economic impact of the trade war is, by its nature, a moving target, and this creates an uncertain climate not picked up by the models from which the above results are derived. Moreover, as

per the topic of today's hearing, some of the actual and potential impacts on farming and rural areas have been considerably more noticeable than the overall, economy-wide impacts.

For example, [Muro et al](#) of the Brookings Institution have examined how China's retaliatory tariffs might affect workers in targeted industries by state and county. To do so, they looked at China's list of targeted products and determined the industry that produce these exports. While every job in the industry is, of course, not at risk, this exercise shows the base employment exposed to China's tariffs. Note that this list was produced before the Trump administration's latest threat to significantly ramp up the amount of Chinese goods facing U.S. tariffs.

Their analysis finds about 2 million jobs in 40 industries that produce the products on China's list. Given total employment of 150 million, this exposed share is small relative to the total workforce. But, as the table below shows (a subset of the study's findings), many of these industries are in farming. For example, corn farming (18,000 jobs), soybeans (5,000), and hog production and slaughter (147,000); fruit and nut production (187,000), wineries (60,000), and distilleries (12,000).

Farm jobs exposed to China's retaliatory tariffs	
Farming industry	Number of exposed jobs
Fruit and Nut Tree Farming	193,000
Animal (except Poultry) Slaughtering	135,000
Hog and Pig Farming	33,000
Corn Farming	18,000
Cotton Farming	14,000
Wheat Farming	6,000
Soybean Farming	5,000
All Other Graming Farming	4,000
Tobaco Farming	3,000

Source: Muro, Whiten, Maxim; 2018

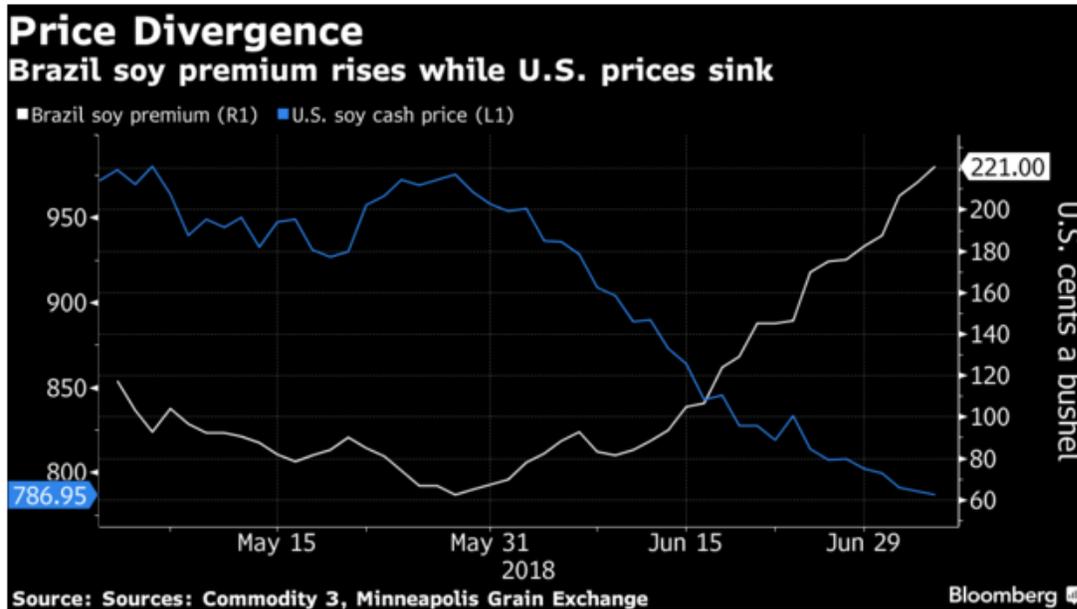
In a section highly germane to this hearing, the Brookings authors characterize the geographical distribution—places with jobs exposed to China's tariffs—as follows (their bold):

“Immediately the classic heartland manufacturing base jumps out, anchored by auto, SUV, and RV assembly plants in the **Midwest** and **upper South** along Interstate 65. Likewise, the familiar **Midwestern** agricultural complex is visible, with counties dedicated to corn and soybeans, and led by the highly visible rural counties in the Midwest and South that are dominated by slaughter houses...Similarly, rural fruit- and nut-growing counties of the Northwest stand out as exposed as does **Snohomish County, Wash.**, with its 38,000 aircraft manufacturing jobs mostly at Boeing.”

In fact, in a finding that I thought might catch your attention, Chair Reichert, the Brookings data find that Washington is the state with the largest share of exposed workers: 154,000 almost 5 percent of the total.

Sticking with China trade, the U.S. exports nearly \$20 billion of agriculture goods to China, and more than half of those exports are soybeans. In retaliation for Trump's enacted and threatened tariffs on China's exports to the U.S., the Chinese have placed a 25 percent tax on U.S. soybean exports (along with over 100 other products). This has reduced demand for American soybeans, while boosting that for

our main competitor in this space, Brazil (together, the U.S. and Brazil supply 80 percent of soybean exports). The figure below, from July 6th, shows U.S. soybean prices falling sharply with those of Brazil rising just as quickly. It presents a clear and unsettling picture of the comparative disadvantage invoked by the trade war.



Source: <https://www.bloomberg.com/news/articles/2018-07-05/u-s-soy-prices-are-crumbling-as-trade-war-sparks-brazil-rally>

Summarizing, the magnitudes of the economic impacts of the trade war thus far are small relative to the macroeconomy, but that finding provides little solace in subindustries, products (like soybeans and washing machines) and geographical areas where they are concentrated. Moreover, the war is escalating, and the magnitude of its ultimate impact is unknowable. What is knowable is that from the perspective of exporters facing retaliatory tariffs and importers facing higher prices for imported inputs, the results thus far and in the medium-term future are damaging to commerce, employment, prices, and real incomes.

Congressional Inaction

It is thus essential that the Congressional majority stands up to President Trump's destructive actions.

The very existence of this sub-committee relates to the intention of the framers of the Constitution that the Congress determine tariffs and regulate trade. This, in turn, relates to Congress's "power-of-the-purse" role, as tariffs played a key role in financing our young nation. Of course, over the years, Congress has ceded much of that power back to the president, through measures like Section 232 that allow the president to raise tariffs without Congressional approval by invoking risks to national security.

One has to look no further than Canada—it is implausible that Canada poses a security risk to the U.S.—to recognize that President Trump is abusing that privilege and, in so doing, is in clear violation of the spirit of the law and the intentions of the framers. In this regard, it has been notable to see members of

the Congressional majority reassert Congressional prerogatives and demand a role in counteracting President Trump's unilateral actions.

However, excepting a nonbinding resolution passed overwhelmingly in the Senate, one the President can ignore and is actively doing so, none of these measures appear to have legislative traction. A key reason for this appears to be the Republican leadership's view that Trump would veto any such bill. This is certainly true, but the Constitution also foresaw that possibility as well, of course, and provided the opportunity for Congress to override vetoes in cases such as this with a two-thirds majority in both chambers.

Legislation to push back on the abuse of presidential trade authority could be tailored to ensure that the administration still had the authority to impose, without Congressional approval, countervailing duties and anti-dumping cases at the request of industries and with the approval of the International Trade Commission. Instead, Congress could reclaim its authority regarding sweeping tariffs, particularly regarding the potential for unjustified use of section 232. As noted, legislation to achieve these types of goals has been introduced in this Congress in both chambers, but Republican leadership has consistently failed to take action on it.

A recent article in the National Review, a conservative publication, was [entitled](#): *Will Congress Reassert Its Constitutional Authority to Impose Tariffs?* The article's subhead read: "It should, but lawmakers are more likely to wring their hands..." and complain without taking decisive action. I challenge the members of the trade subcommittee to prove that article to be wrong.

Conclusion

One reason Donald Trump is president today is because he correctly identified something many political and policy elites had long denied: by significantly increasing global competition and allowing U.S. firms largely unfettered access to cheap labor through outsourced production, the increase in trade has hurt certain workers and their communities in the U.S. The result has been the loss of high value-added jobs for many Americans, with little by way of policy to ameliorate their economic losses or prepare them for new opportunities.

But Trump's identification of this significant problem was purely political. Neither he nor his team have suggested a policy agenda that would help those hurt by trade. To the contrary, the large, regressive, unpaid-for tax cut they passed leads to budget deficits that they and members of the Congressional majority now point to as a rationale for cutting programs that could help economically vulnerable Americans.

The administration's escalating trade war is likely to hurt many producers and exporters now facing retaliatory tariffs. To be clear, there is a role for tariffs when trading partners engage in unfair practices, such as China's dumping of steel in world markets. But even here, this administration's haphazard application of those tariffs to allies such as Canada, combined with the lack of any strategy regarding next steps, casts serious doubt on their provision of effective relief.

At least for now, the macroeconomic damage from the trade war is likely to be small, especially given the U.S. economy's strong trajectory. But these actions push in the wrong direction, and even while their impact may be small in a macro context, various groups, including farmers and those in rural areas,

will be—already are being—disproportionately hit by these new taxes on their exports (from retaliatory tariffs) and their production inputs.

I therefore urge the Congressional majority to take substantive, as opposed to unenforceable, steps to reclaim their Constitutional role of setting tariffs and regulating trade. Not only would such actions help those being hurt by the trade war, but they would show the American people that this body can work together to promote what's best for our country and our economy, and in so doing, is willing to stand up to a reckless President who is clearly not concerned about abusing his power.