



Department of Commerce

Section 232 National Security Investigation of
Imports of Automobiles and Automobile Parts

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Public Hearing Testimony

Thursday, July 19, 2018

I am here on behalf of the Center for Freedom and Prosperity (CF&P), a Virginia-based taxpayer advocacy group. Our objective is to ensure the interests of consumers are represented, but we also believe that their welfare and the nation's security are deeply intertwined.

Expanding Section 232

Traditionally, Section 232 investigations have been limited to strategic resources and components used for wartime activities, mostly under the assumption that heavy reliance on imports would leave us vulnerable to shortages should they become inaccessible. The nature of global markets today is such that this scenario is likely to occur only in extremely unusual cases. As such, these investigations have been rare and enacted remedies rarer still.

The current investigation represents a radical departure from past practice. There is no clear national security nexus for automobiles or automotive parts, nor any reasonable expectation that modern warfare would necessitate that the industry's infrastructure be rapidly redeployed toward wartime production. The entire investigation, in other words, is based on a primarily economic argument—that global competition weakens American industry. This is not merely a weak basis on which to conduct a Section 232 investigation, but one that is profoundly and dangerously wrong.

Trade Produces Prosperity

The idea that an industry is strengthened by shielding it from global competition is at odds with centuries of experience with tariffs and other failed protectionist policies. As economist and

CF&P Chairman Dan Mitchell highlighted in his submitted comments, jurisdictions that are the most pro-trade, like Hong Kong and Singapore, enjoy rapid growth and very high levels of prosperity. Likewise, nations that imposed high levels of protectionism, like Australia and New Zealand after World War II, stagnated and fell behind. Both have since seen positive results after dismantling trade barriers.

At its core, protectionism harms consumers by making them pay more for goods of equal or lesser quality. While in certain circumstances it can provide short-term benefit to an industry, albeit typically at the expense not just of foreign competitors but also of other domestic industries, in the long-run even the protected industry suffers as reduced competition lessens the need to innovate and adapt.

Protectionism Weakens National Security

To see why tariffs are also harmful to national security, we need only observe the effects already taking place in response to the recent imposition of tariffs on steel and aluminum imports. They have strained relations with key allies, sparked retaliation, harmed other domestic industries, and lowered overall welfare with rising prices on a variety of consumer goods.

These negative economic effects are entirely predictable and are why the bar has always been high for Section 232 investigations. To offset the many downsides, the national security benefit for imposing consumer taxes on imports must be clear and significant. There is no credible argument that tariffs on automotive imports can meet that hurdle.

Far from enhancing our security position, automotive tariffs would undermine national security. America maintains the world's largest and most powerful military force. Thanks to a robust and unmatched economy that has long embraced free trade and today accounts for 25% of global GDP, the US was able to spend more on defense in 2017 than the next seven highest-spending countries combined.

The implications should be obvious. The stronger the economy, the more resources are available for spending on defense. The corollary is that policies which harm the nation's economy weaken its defense by reducing what is available for the defense budget. This is why General Mattis and many other experts argue that the national debt is the nation's greatest security threat.

The Tax Foundation estimates that 25% tariffs on auto imports could amount to as much as \$73 billion in new taxes on consumers, reducing after-tax incomes for the year by almost half a percent. The Peterson Institute for International Economics estimates production in the relevant industries would fall 1.5 percent and cost 195,000 US jobs, or, if other countries retaliate with their own tariffs as all evidence suggests they will, it would be a 4 percent production decline and a loss of 624,000 US jobs.

Thanks to the compounding effect of growth, even modest reductions in economic growth today can amount to potentially hundreds of billions in fewer taxpayer dollars for future defense budgets. For all these reasons and more, this investigation should reject attempts to enact run-of-the-mill protectionism under the guise of advancing national security interests.