Center for Strategic and International Studies

The Trade Guys Podcast

“Are Tariffs the Greatest?”

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SCOTT MILLER: I’m Scott.

WILLIAM ALAN REINSCH: I’m Bill.

MR. MILLER and MR. REINSCH: (Together.) And we’re The Trade Guys.

(Music plays.)

H. ANDREW SCHWARTZ: You’re listening to The Trade Guys, a podcast produced by CSIS where we talk about trade in terms that everyone can understand.

I’m H. Andrew Schwartz, and I’m here with Scott Miller and Bill Reinsch, the CSIS Trade Guys. In this episode we’re talking about one of my favorite subjects, cars.

PRESIDENT DONALD TRUMP: (From recording.) They send the Mercedes. They send BMWs. They send everything. We tax them practically nothing. We can’t send our cars. And if we do, they charge many, many times the tax that we stupidly don’t charge.

MR. SCHWARTZ: At a rally in South Carolina last month, President Trump said that EU duties rob American cars from competing on a level playing field. The president has since proposed to slap a 25 percent tariff on imported cars and car parts, saying that they pose a threat to national security. But at a Commerce Department hearing last week, auto industry representatives appeared universal in their dissent and argued that such tariffs would not be a good thing.

MR. : (From recording.) We’re convinced that the imposition of these tariffs would indeed be harmful and would increase the cost for our companies to build a car in the United States by as much as $2,000.

LINDA DEMPSEY (National Association of Manufacturers): (From recording.) Imports help drive innovation. They help drive production.

JENNIFER THOMAS (Alliance of Automobile Manufacturers): (From recording.) Most of the imported vehicles come from our national security allies and trading partners. We would argue that the supply chain allows us to remain competitive in this global market.

MR. SCHWARTZ: So who’s right? Who wins, and who’s hurt by these proposed tariffs? What happens to foreign companies that make cars in the United States? We put it to The Trade Guys.

Gentlemen, start your engines. We’re talking about cars. (Laughter.) Cars is one of my favorite subjects, and – but we’re talking –

MR. REINSCH: You’ve been planning that intro for the whole week, haven’t you, “start your engines”? (Laughter.)

MR. SCHWARTZ: Yes, “start your engines.” We’re talking about cars because cars are a big deal in the ongoing trade wars. What do you guys think?
MR. MILLER: Well, look, it’s very interesting that this has come up, and it’s a big deal for the president and his administration, and they’re very concerned about tariffs on cars. What’s astonishing is, to the best of my knowledge, the industry has never been concerned about it. And the scene this past week at the public hearing on the action on automobiles at the Commerce Department –

MR. SCHWARTZ: This is the Commerce Department here.

MR. MILLER: Right. They had 47 witnesses; 46 of the 47 opposed the tariffs, including the Detroit Three, all right? So – and –

MR. SCHWARTZ: Right. The Detroit Three being U.S. automakers.

MR. MILLER: Right. So everyone – everyone in the industry who testified was opposed, with the exception – partial exception of the United Auto Workers, which actually hedged on the issue of tariffs. They said some action is needed, but maybe not this. So it was – it was a unified, sort of unanimous negative response to the president’s initiative.

MR. SCHWARTZ: Can you give me an idea of the scope of who was at that hearing? You mentioned the industry. It’s not just car manufacturers. It’s many more people, right, or companies?

MR. MILLER: No, it’s the global automakers who are the importers. It’s the Japan automakers, including their transplant facilities here.

MR. SCHWARTZ: Yes.

MR. MILLER: It is the dealers associations. It is the parts networks. There was – there was testimony given by a man in the – in the classic car business who sells high-end classic cars, many imported from Europe –

MR. SCHWARTZ: I love those.

MR. MILLER: – where the 25 percent tariff on cars and parts would apply.

MR. REINSCH: He pointed out that his million-dollar Bugatti was going to have – cost a million and a quarter because of the tariff.

MR. SCHWARTZ: Oh, wow, that’s sad.

MR. REINSCH: I know you’re broken up about – (laughter) –

MR. SCHWARTZ: I know, feeling really sad for this guy and his Bugatti. (Laughs.)

MR. MILLER: But demand curves do slope, and there’s fewer customers for a $1.25 million car.

MR. SCHWARTZ: Well, can I tell what, I really appreciate those cars, and I always turn my head when they drive by. I mean, I think people love seeing those cars.
MR. MILLER: Oh, there is a role for them. We love automobiles for a good reason. But this was motor and equipment manufacturers. There was an individual who works for a foreign-nameplate automaker in Alabama who testified.

MR. SCHWARTZ: Yeah.

MR. MILLER: So the whole range of people in this industry. It’s a big industry. Just the manufacturing side only employs about a million people. There is a lot of activity in this sector. It’s a very important traded sector. And nobody wants what the president’s offering.

MR. SCHWARTZ: Well, just to give you a little bit of context here, in Spartanburg, South Carolina, where BMW has its biggest auto plant in the world, what that’s done to stimulate the economy in Spartanburg is it’s brought an additional 200 companies from over two dozen countries to Spartanburg and it’s made the Charleston port a hub of global trade.

MR. MILLER: Oh yes, and that plant is actually the leading U.S. export facility. As a single facility, more dollars’ worth of exports are generated at that plant than any other facility in the country.

MR. SCHWARTZ: What is going to happen to that plant if these tariffs on autos go through?

MR. REINSCH: Well, in that particular case, I think as that article pointed out –

MR. SCHWARTZ: Article in The New York Times we saw last week.


MR. SCHWARTZ: Yeah.

MR. REINSCH: – which is interesting because it’s not a Ford or a GM or a Chrysler plant. It’s our biggest exporter, and they have already begun to shift production of some models to China in order –

MR. SCHWARTZ: They also export a lot of BMWs to Bethesda, Maryland.

MR. MILLER: That too, the People’s Republic of Bethesda. (Laughter.)

MR. REINSCH: Not in my driveway, though, I would tell you. (Laughter.)

MR. MILLER: We tend to value those cars. But the export performance is a very important part of that facility’s schedule, and therefore its employment base.

MR. REINSCH: And the thing that’s important about this that Scott mentioned and the article mentioned is the 200 other companies. The investigation the Commerce Department is conducting is not just about finished cars; it’s about auto parts as well. Now, they may come to a different conclusion about parts than they do about cars, but that’s a whole, you know, expansion of what it is that we’re talking about. It’s not just finished vehicles, and it really is hundreds and hundreds of thousands of workers and lots and lots of plants. So the guy in the next state or the next county who
makes rearview mirrors or makes door frames or makes the fabric for the seats, which when I worked for Senator Heinz was a big Pennsylvania industry, they’re all going to be affected by this.

MR. SCHWARTZ: Right. So what you’re saying is that a car that’s ultimately exported from Spartanburg and assembled in Spartanburg, there’s all the parts – all the many, many parts that go into making that car are coming from somewhere else.

MR. REINSCH: Yes. When I teach this subject, I’ve got a wonderful slide that is the rear-axel assembly of a Chevy Equinox, I think.

MR. SCHWARTZ: OK.

MR. REINSCH: And it’s a got little flags because the parts for this – just the rear-axel assembly, not the whole car, comes from I think 13 different locations, five of them in Canada and eight of them in the United States. Different locations – eight different factories in the United States.

MR. SCHWARTZ: For an American-made car.

MR. REINSCH: For what is ultimately an American-made car.

MR. MILLER: Right.

MR. REINSCH: Five of them are in Ontario; eight of them are in Alabama – oh, I don’t know Alabama – yeah, Alabama, Michigan of course, Indiana, Ohio, a number of other places. And this is an assembly that goes back and forth across the Canadian border four or five times before it’s finished – it goes to Canada, pieces are added; it comes back, pieces are added; it goes back – because it’s a supply chain. This is what we’ve been talking about. Companies have figured out the way to get best quality/cheapest price is to move your product around to different places, take advantage of it, and not bring everything in to one giant facility where you make it all in one place.

MR. SCHWARTZ: I’d like to do a graphic for our forthcoming Trade Guys website that shows how many places contribute to making a car and where they come from.

MR. MILLER: Right. Oh yeah. And here’s a couple of ironies in all this. First is that, other than their affinity for the chicken tax – that is, the 25 percent tariff on light trucks – the U.S. auto industry has never really sought trade protection. In fact, since the 1970s regulatory actions, particularly safety and fuel economy regulations, have driven the industry to a far greater extent than trade protection.

But also you got to think this industry evolved and matured in the first half of the 20th century. In the first half of the 20th century, the real trade barrier were the oceans because ocean transport of vehicles was really, really, really expensive. So the Ford Motor Company started building cars in Europe, specifically the United Kingdom, in 1914, OK? So before World War I, Ford was building cars in Europe. And that global outlook has persisted. Now, what happened to the industry is during World War II the idea of a vessel that had roll-on, roll-off capability, which was used in ferries and barges before but not in large scale, was used for troop carriers and equipment carriers in – during World War II, entered the merchant fleet in the ’50s and ’60s. So all of a sudden you had a class of vessels that could transport cars much more efficiently. But by that time U.S. automakers were already
global in their outlook, never really sought trade protection, didn’t in the ’20s and ’30s when that was – that was the thing to do as a domestic industry, is to seek trade protection.

So this has been a global industry really since the World War II recovery. And if you look at it now, there are three big car markets in the world. There is the United States, which is about – North America’s about 18 to 20 million vehicles a year. There is Europe, which is about 16 million vehicles a year. And there’s China, which is 28 million vehicles a year. Now, the U.S. is growing slightly. Europe is stagnant. China will be 32 million vehicles by the year 2020. So those are the three big markets.

Now, Europe has a regional strategy for making cars. It’s called the EU-28 and their partner economies.

MR. SCHWARTZ: Right.

MR. MILLER: China has a regional strategy for building cars. It’s all the free trade agreements where China is sort of at the hub. The United States did have a regional strategy for building cars, called NAFTA.

MR. SCHWARTZ: North American Free Trade Agreement.

MR. REINSCH: It’s still there.

MR. MILLER: It’s still there at the moment.

MR. REINSCH: As of today. (Laughs.)

MR. MILLER: It is not gone. It has zombie status.

MR. SCHWARTZ: But it’s being threatened.

MR. MILLER: But the Trump administration doesn’t see having a regional strategy as important. The rest of the industry obviously does.

MR. SCHWARTZ: Why doesn’t the Trump administration see a regional strategy as important?

MR. REINSCH: The simple answer is I think they’re lost in the ’50s. They still look at trade as you make it here and you ship it there. They don’t think about supply chains. They don’t like supply chains because supply chains mean you’re going to have to invest overseas someplace. So you’ve got American companies entering into relationships or building plants for parts and components somewhere else. They want all that stuff to be here because they want to centralize all the jobs here. It’s a 1950s model of trade when what they were making was far less complex and trade was much less a significant part of our economy.

MR. SCHWARTZ: Well, you know, I like the ’50s and I like romanticizing the ’50s, and would probably dress like The Fonz every day because I like that style.

MR. REINSCH: That would be something to see.
MR. SCHWARTZ: It would be something to see.

MR. REINSCH: Andrew in a leather jacket, yes.

MR. SCHWARTZ: Oh, I have a – I have several. Not Fonzie jackets, but I have a few.

MR. MILLER: But the thing to remember is 1950s economic arrangements would require 1950s living standards.

MR. SCHWARTZ: Right, and we don’t have that.

MR. MILLER: So think of your parents’ one-car garage and 19-inch black-and-white television set, and think of how expensive clothes were. Think about women in the workplace. Think about all the differences of the 1950s economy. And we didn’t live nearly as well in the ’50s as we do today, I guarantee you that.

MR. SCHWARTZ: Right. I’m now thinking of my teenage son, who has his own used car; who wants his own flat-screen TV in his room but isn’t getting it, but could; who has a lot of independence. We have two cars in the garage right now, although my wife does not let me park in the garage. I have to park, like, on the driveway.

MR. REINSCH: You have that problem too?

MR. SCHWARTZ: I do.

MR. REINSCH: My wife makes me park on the street.

MR. SCHWARTZ: Oh wow.

MR. REINSCH: She gets the – we don’t have a garage. She gets the driveway; I get the street.

MR. SCHWARTZ: I get the driveway at least, but –

MR. MILLER: I live by the five words of any successful relationship: “Yes, dear, whatever you say.” (Laughter.)

MR. SCHWARTZ: Well, you know –

MR. REINSCH: Yes.

MR. SCHWARTZ: There’s something to that.

MR. REINSCH: I want to come back to something Scott said because this is – don’t forget the Gephardt bill –

MR. MILLER: Right.

MR. REINSCH: – and don’t forget we did go through –
MR. SCHWARTZ: What’s the Gephardt bill?

MR. REINSCH: In the ’80s we did go through a battle on protection for the American industry –

MR. MILLER: Yes.

MR. REINSCH: – against Japanese cars. And it was instructive because of what happened that tells you a lot about the way the industry’s organized today. There was a movement led by Congressman Richard Gephardt, who was a congressman from the St. Louis area –

MR. MILLER: Missouri, right.

MR. REINSCH: – who was the House majority leader at the time.

MR. MILLER: Majority leader, yep.

MR. REINSCH: And St. Louis is a big center of automobile production.

MR. MILLER: Yes.

MR. REINSCH: And to impose quotas, actually, on Japanese imports. It never passed, but the bill was introduced for several Congresses in a row. It produced a big debate. It produced a lot of pressure on the Japanese. And their response was interesting. Their response was to invest in the United States. And they came here, and that’s – we have Honda plants, we have Toyota plants –

MR. MILLER: Yeah. The initial investment was in Ohio – in Marysville, Ohio – by Honda Motor Company in the late ’70s, but they expanded rapidly in the early ’80s. And now that factory makes cars that go all over the world. In fact, the NSX, which is the high-performance vehicle sold worldwide by Honda, is made exclusively in Marysville, Ohio. So what happened is the Japanese nameplate automakers successfully integrated their business in the United States. They’re making cars close to the company – close to the consumer, excuse me, and taking advantage of the already-existing value chain – supply chains from suppliers and parts producers, and developing that further.

MR. SCHWARTZ: So Japan has successfully integrated into the U.S. economy. Korean dealers – makers have integrated.

MR. MILLER: Hyundai and Kia both make cars in the United States.

MR. SCHWARTZ: Right. We just talked about BMW in Spartanburg. Audi is here in our backyard in Northern Virginia.

MR. MILLER: Yes. Mercedes is in Alabama.

MR. SCHWARTZ: Mercedes is in Alabama. So how is that not a good thing for the United States? I think that’s one of the things that people are having a hard time wrapping their arms around. If all of these companies have integrated into the United States and create a lot of jobs in the United States and do a lot of business from the United States, how is that a bad thing?
MR. REINSCH: Well, no, I think it’s a good thing. I think Trump would say it’s a good thing that they’ve come in, but he wants them all to come here. He’s not really interested in –

MR. SCHWARTZ: Yeah. He’s not making it very welcoming.

MR. REINSCH: Well, he’s not making them welcome if they export because they’re going to be subject to retaliatory tariffs, and he’s going to – it’s going to make it harder for them to produce here because there will be tariffs on the parts that they import. So that’s true. On the other hand, he says he welcomes the investment. I think he would be happy to have more car companies, if they were going to come here and build the whole car here.

MR. SCHWARTZ: Well, some people think that what’s going on right now these days, this week, is that the Trump administration appears to be getting increasingly desperate to get some sort of trade deal that would allow President Trump to save face and backtracking on his planned tariffs on car imports. You know, Mnuchin said the other day – at the finance meeting of the G-20 ministers, Mnuchin said, reportedly: “If Europe believes in free trade, we’re ready to sign a free trade agreement.” Such a deal would require the elimination of tariffs, non-tariff barriers, and subsidies.

MR. REINSCH: That was very clever, I thought, because that’s sort of win-win for Trump, because if they don’t agree then he can take the high ground and say I’m the free trade president, I proposed this, and the Europeans are the protectionists. If they do agree to negotiate that and can’t deliver – which they can’t; of course, neither can we because it’s – because of the politics of it – but if they can’t deliver, then he wins again: he’s the free trader; they’re the protectionists. I mean, I thought it was a brilliant tactic. It doesn’t go anywhere –

MR. SCHWARTZ: Right.

MR. MILLER: Yeah.

MR. REINSCH: – because you don’t – and it avoids having a discussion about a possible agreement.

MR. MILLER: Well, yeah. The one thing there is no doubt of is the president has a worker-centered economic philosophy, and he’s like a worker-centered economic policy. It’s what he talks about. After the tax reductions, which most of the action was on the corporate side, look at what the president spent time talking about: bonuses for workers, hiring of new workers. You look at what goes on at the White House, it’s worker retraining, it was a made in America show yesterday with American-made products.

MR. SCHWARTZ: Yes.

MR. MILLER: He is – he is very oriented toward the worker. That’s what – that’s what animates him in terms of his economic ideas. This is where – but what’s good for the workers also in this case, if you’re working in the auto industry – and the entire auto industry: selling, servicing, parts, supplies, whatever it might be – the best thing to do is help the – help the industry become globally competitive and not trying to fence in – fence in what may or may not be a U.S. industry.
MR. SCHWARTZ: So these things seem like they’re really in direct conflict, his wanting to help the – be worker-centric, yet fencing everything in.

MR. MILLER: Well, the open question is whether the – whether the insistence on tariffs is instrumental or it’s protectionist – instrumental meaning it’s a tool to drive negotiations, drive a better deal. And a lot of people have – including people around the president, talk about these tariffs – Larry Kudlow talks about it as if this is just, you know, setting the table for and getting some leverage for negotiation.

MR. REINSCH: It’s part of the plan. There’s a strategy.

MR. MILLER: Part of the plan. OK –

MR. SCHWARTZ: So why shouldn’t we take them at their word?

MR. MILLER: Well, so far we haven’t seen the plan, OK? We haven’t seen the deal.

MR. REINSCH: People are beginning to wonder if there is one. His advisor keeps saying – well, he keeps saying don’t worry, everything will be fine, this is a tactic to bring them to the table. So far it’s produced one agreement, which is Korea, with really minimal results actually. NAFTA negotiations are –

MR. MILLER: Stuck.

MR. REINSCH: – stuck. We’re not even talking to the Chinese, at least not this week. We’ll see what happens when Juncker shows up this week to meet with the president on Europe.

MR. SCHWARTZ: Jean-Claude Juncker, the president of the European Council.

MR. REINSCH: Yes. I mean, it goes back to what you just said a minute ago. There aren’t very many wins here, you know. There aren’t many little ticks in the win column for him on this stuff so far. And I think there are signs that he’s getting impatient about it and anxious for something to happen.

MR. SCHWARTZ: Well, Congress is getting impatient and anxious too, but they seem to be pretty powerless.

MR. REINSCH: They have been reluctant to stand up on this. And we’ve talked about this before, and nothing’s changed. For the Republicans, his base is their base. He’s in good standing with his base. It’s declined a little bit, but he’s in good standing with his base. And they’re afraid. I think they’re afraid of him personally because he’ll go after them personally, and they’re afraid to part company with his base. The Democrats seem leaderless, one, and some of them agree with him on the – on the policy but don’t want to say that because they don’t want to give him any – give him any slack at all. But they’re trapped between how do I – how do I – how do I disagree with him without really disagreeing with him.

MR. MILLER: Look, the poll released yesterday had the president’s approval among Republicans – 88 percent of Republicans support the president, OK? If you share voters with the
president, how they feel about the president is and your support of the president has a lot to do with how they feel about you, so.

MR. SCHWARTZ: And again, I think we’re seeing that people in communities that are being affected, like maybe you in Spartanburg, they might support the president but they don’t like what he’s doing.

MR. MILLER: They’re a little – they’re beginning to worry.

MR. REINSCH: They’re starting to ask questions.

MR. MILLER: Yes.

MR. REINSCH: They’re starting to ask questions. They haven’t parted company yet, but we’ll see.

MR. MILLER: Yes. The House Ways and Means Committee Subcommittee on Trade is holding a hearing this week on the exclusion process from the steel and aluminum tariffs.

MR. SCHWARTZ: Explain that.

MR. MILLER: It’s essentially a short-supply petition procedure where if the products you need to run your business are not available in the domestic market, you ought to be excluded from the tariffs and be able to purchase tariff-free the import. This is a process that requires treatment, case-by-case basis. And, as with many bureaucratic processes, it doesn’t work very well, if at all.

And so there’s – at least that’s the first House-side examination of the president’s policies, and it’ll expose a lot of horror stories. The famous story of the nail plant in Missouri that closed because they couldn’t get steel apparently has invited the president to visit.

MR. SCHWARTZ: Interesting.

MR. MILLER: So that was – so there are pieces falling into place.

MR. REINSCH: Bet you he doesn’t go.

MR. MILLER: I bet you he doesn’t go, so.

MR. SCHWARTZ: Well, and going back to the hearing at the Commerce Department you mentioned, 47 people testified. Those 47 people are all represented in Congress by various constituencies.

MR. MILLER: This is a huge industry. Look, every town in America has a dealership, an auto dealership.

MR. SCHWARTZ: Yeah.
MR. MILLER: The auto dealers were represented. The import dealers were separately represented. The parts suppliers, who sell not just parts to original equipment manufacturers but to consumers – so the NAPA store, the Pep Boys outlet, OK – they were all represented.

MR. SCHWARTZ: Manny, Moe and Jack.

MR. MILLER: That’s right. They were all represented at this hearing. All opposed the tariffs.

MR. SCHWARTZ: Well, Bill, you just mentioned a minute ago that people are starting to question it. They may start to lose patience. What is it going to take for them to start losing patience to the point where they don’t support the president, where there is continuing protests, and the members of Congress who represent them feel a lot of pressure?

MR. REINSCH: Well, I think the tipping point will be exactly what we’re talking about. It’ll be car tariffs. If he goes ahead and actually puts tariffs on cars, that will have a direct, dramatic consumer impact. Even domestic-made vehicles – Toyota said the price of a Camry will go up $1,800. The price of an import will go –

MR. SCHWARTZ: I was driving a Camry over the weekend because I was – I had a rental car. You don’t want to pay another $2,000 for that, you really don’t, because –

MR. MILLER: And that’s the –

MR. SCHWARTZ: It’s a very basic car, it’s a good car, it runs well, but you really don’t want to pay another $2,000 for it.

MR. MILLER: And that’s the car with the most U.S. content, so that’s the minimum increase.

MR. SCHWARTZ: Interesting.

MR. MILLER: OK? Because the Camry built in Georgetown, Kentucky, has the highest U.S. content of any vehicle sold. So it only gets worse than $2,000.

MR. SCHWARTZ: That’s a popular – it’s a very popular car.

MR. MILLER: Yeah. Oh yeah.

MR. SCHWARTZ: It’s a popular car for a good reason: It’s a good, reliable car at a reasonable price. It’s not going to be reasonable anymore.

MR. MILLER: Correct.

MR. REINSCH: That’s why I think that’s a tipping point. There will be a sticker-shock issue. If people are going for an import, a Hyundai even at the low end, you know, you’re talking about a ($5),000 or $6,000 price increase.

MR. SCHWARTZ: On a Hyundai.

MR. REINSCH: Yeah. At a 25 percent tariff, yeah.
MR. MILLER: Columnist for The Wall Street Journal Holman Jenkins called auto tariffs the president’s Atlantic City moment. (Laughter.) In his business life, what happened in Atlantic City with the president – with developer Donald Trump is his ambition got past his ability, and it was – it was a tough, tough moment for him. So that’s at least –

MR. SCHWARTZ: It was a tough moment for Atlantic City also.

MR. MILLER: Exactly. So that’s Mr. Jenkins’ view of –

MR. SCHWARTZ: And Atlantic City’s never forgotten that moment.

MR. MILLER: (Laughs.) For sure.

MR. REINSCH: Now, I think his advisors are telling him – well, I think some of them are telling him don’t do it, but I think others are telling him if you’re going to do it wait till after the election so you don’t see a political impact. He seems determined – it’s very interesting. He seems determined, one, to do it before the election; and he seems determined to make trade an issue in the election. He wants his – he wants Republicans to run on trade, he wants them to defend what he’s doing on trade, and he thinks that will get him more votes. So we’ll see.

MR. SCHWARTZ: Well, he’s pretty good at reading the tea leaves.

MR. REINSCH: That’s the thing that makes this so complicated, you know. He’s been right politically when a lot of other people have been wrong.

MR. SCHWARTZ: That’s interesting. I mean –

MR. MILLER: It’s astonishing.

MR. SCHWARTZ: Well, it is astonishing because all the evidence that we’re seeing in front of us points to this being a very difficult thing for most Americans to swallow.

MR. MILLER: Well, and it’s – what makes it unusual is that almost every kind of trade protection that man has concocted has come at the behest of an industry. There’s been an advocate for it someplace.

MR. SCHWARTZ: And here you don’t have the industry calling for it.

MR. MILLER: And there’s nobody who says this is good for them. Nobody.

MR. REINSCH: Usually in America when everybody comes in and says it’s a bad idea it doesn’t happen. And in this case it just seems to be going on ahead.

MR. MILLER: Yeah. I mean, trade protection comes from a connected industry who thinks it’s a good idea. It’s just a – it’s just a special case of cronyism. But in this place there’s no – there’s no industry asking for this.
MR. SCHWARTZ: Scott, you mentioned earlier there was something called a chicken tax, U.S. 25 percent truck tariff. Is that what you were talking about?

MR. MILLER: Yes.

MR. SCHWARTZ: And so what does that mean? That means that we can’t do what? Or –

MR. MILLER: Well, this actually goes back to the Johnson administration. In the 1960s.

MR. REINSCH: Lyndon, not Andrew.

MR. MILLER: Lyndon Johnson, yes, not Andrew Johnson.

MR. SCHWARTZ: Not Andrew. (Laughs.) There were not – there were not pickup trucks in Andrew Johnson’s day.

MR. MILLER: Actually, when we –

MR. REINSCH: Well, they had chickens in Andrew Johnson’s day.

MR. MILLER: They had chickens then.

MR. SCHWARTZ: They did.

MR. MILLER: And if we ever –

MR. SCHWARTZ: Chickens never go out of style.

MR. MILLER: If we ever talk about withdrawing from a trade agreement, we will have to go back to the Andrew Johnson administration because that’s the last time we –

MR. SCHWARTZ: Oh boy. (Laughs.)

MR. REINSCH: That’s the last time we –

MR. MILLER: – we withdrew from a trade agreement. But in the Lyndon Johnson administration in the 1960s, there was a fight about exported chickens. Germany and Europe in general put up barriers to the export of U.S. chickens, all right, and this was incredibly frustrating to the administration. And in response to this protectionism in agriculture by the Europeans, the Johnson administration put a 25 percent tariff on light trucks entering the United States. Now, it was a global tariff, but it was really directed at Volkswagen, which was growing as a – as an importer at that time and very successful with – if you remember the Volkswagen Bus, the hippie bus.

MR. SCHWARTZ: The minibus.

MR. MILLER: Well, there was a shortened version of that that had a truck bed on the – on the back, OK?

MR. SCHWARTZ: Yeah. They have a model now that they call the Saveiro –
MR. MILLER: Yes.

MR. SCHWARTZ: – and it’s sold in Brazil. And it’s a little – it’s like – it kind of looks like an El Camino if you remember those.

MR. MILLER: Yeah.

MR. SCHWARTZ: It’s a small – it’s like a car truck, and it goes for about $13,000, and it looks like it’s more than adequate for your urban hauling needs.

MR. MILLER: Right. Well, the –

MR. SCHWARTZ: But you can’t get those here.

MR. MILLER: Oh, no – well, not without a 25 percent tariff. But the product targeted at the time was the Volkswagen pickup truck, the Bus-like pickup truck. And what happened is, like most trade fights, they tend to get stuck, and this one got stuck. So yet today there is a 25 percent tariff on light trucks into the United States.

MR. SCHWARTZ: So this is one of the reasons why you see so – if you see light trucks, they’re American.

MR. MILLER: That’s why – that’s why BMW built that plant in South Carolina, because those SUVs are classified as trucks.

MR. SCHWARTZ: Ah.

MR. MILLER: The same with Mercedes-Benz vehicles built in Alabama. Those are classified as trucks.

MR. SCHWARTZ: And you see those all over the roads in the United States.

MR. MILLER: Right. And that’s – actually, trucks are very popular partly because of – fuel economy regulations made it easier to build a truck than a big car for any manufacturer.

MR. SCHWARTZ: Yeah.

MR. MILLER: That’s why – that’s why the “Brady Bunch” station wagons are gone and the SUVs are with us, more than anything else. But those –

MR. SCHWARTZ: Americans love their sport-utility vehicles.

MR. MILLER: They do, and they’re very popular. They’re great vehicles. But SUVs are built here because that chicken tax is still in place.

MR. SCHWARTZ: Can I ask this? Why is Congress so powerless? Like, not that they’re – not because they’re worried politically, but why does Congress not have more of a say in trade issues?
MR. REINSCH: There are structural issues that make it difficult. You know, as a legal matter, they transferred a lot of authority to conduct trade negotiations to the president in 1934. It was a reaction to Smoot-Hawley. Smoot-Hawley were record-setting tariffs which made everything worse, accelerated the decline, dramatically cut America’s exports – also our imports, but less. In reaction to that, Roosevelt said we need to do things differently and he persuaded Congress to approve the Reciprocal Trade Agreements Act in 1934, one piece of which was to give to the president the authority to conduct trade negotiations rather than having Congress set tariffs one by one, which is what had happened before. And that’s one of the reasons tariffs got so high before, was you had a lot of what the political science people will say is logrolling, which is, you know, my hometown industry is textiles, your hometown industry is steel, I come to you and say I’ll support a higher tariff on steel if you’ll support a higher tariff on textiles, you reach an agreement; pretty soon you’ve got very high tariffs on everything because everybody works together to make it worse. Congress sort of understood that there was –

MR. MILLER: That was bad.

MR. REINSCH: That was bad and it wasn’t working out very well. (Laughter.) Thank you. They gave the authority to the president. So now we’ve got 70 years of that authority. And there have been some – you know, to give you a taste of Congress’ anxiety, there have been several proposals, actually, to take the authority back. But, you know, they’re in a procedural problem. To take the authority back, they have to pass a bill.

MR. SCHWARTZ: Right.

MR. REINSCH: And that means the president has to sign a bill.

MR. MILLER: Yes, or you have a two-thirds –

MR. REINSCH: Or they have to have two-thirds to override his veto.

MR. MILLER: You have two-thirds of the Congress to override a veto.

MR. SCHWARTZ: And I can’t imagine that any president, much less this president, is going to cede trade authority to the United States Congress.

MR. REINSCH: Exactly. Exactly.

MR. MILLER: But here – the pickle we’re in now, as Bill explained: Since 1934, we’ve had this sort of delegated bargaining to the executive. We’ve also had a game scheme where the Congress could remain protectionist, at least in outlook, as long as there was a free-trade executive. And really, since Roosevelt every president has been – has been at heart a free trader and has used trade policy as an instrument of foreign policy. And that scheme worked very well and people got comfortable with it, but nobody thought about what happens when the game scheme flips and the president is protectionist. He still has all this delegated authority that accumulated over the years, and now he’s using it in a way that’s contrary to the expectations and the interests of America.

MR. SCHWARTZ: Well, the script has definitely been flipped. I mean, just yesterday President Trump said at a made in the USA event at the White House – he said – talking about the European Commission and European Union coming to visit on Wednesday, he said: “They’re coming
in to see me Wednesday and we’ll see if we can work something out.” That seems like he’s in a mood to make a deal, but it doesn’t look like he’s going to make a deal. What can we expect from the meeting with European Commission President Jean-Claude Juncker?

MR. REINSCH: Going out on a limb a little bit, I’d say very little at this point. I think he’ll come with something. He can’t come with nothing. He won’t spend very much time at the White House if he’s got nothing to offer.

MR. SCHWARTZ: He’s coming to CSIS to speak right after he’s at the White House.

MR. REINSCH: And we’ll find out.

MR. SCHWARTZ: Yeah, we will.

MR. REINSCH: And we’ll – hopefully Dr. Hamre will ask penetrating questions about what actually happened in the – in the meeting. I think what they would like to do is enter into some kind of an agreement in which they agree to cut their car tariffs – which the president has complained about, because theirs is 10 percent and ours is 2 ½ percent, so he complains that theirs is higher – that they’ll offer to cut that and in return we won’t add any more tariffs to them. There are issues with that. The main issue is that there are actually world trade rules that talk about how you can – how you can negotiate these things, and the rules say if you want to have a deal that – on a single sector or a single product, like cars, you have to do it with everybody. So you can’t just do it with the EU and the U.S.; the EU would have to open it up to the other countries that make cars. Now, it turns out that’s not a big stretch for the Europeans because they just finished negotiating a deal with Japan in which they agreed to phase out their car tariffs with Japan. They have an agreement with Korea in which they have agreed to phase –

MR. MILLER: Right, as do we.

MR. REINSCH: – phase down or out their car tariffs with Korea. So they have already, you know – they have already made a big concession to other big producers of cars. Making another – the same concession to us is not really that big a stretch for them.

MR. SCHWARTZ: So why wouldn’t they just do it?

MR. REINSCH: Well, I’ve talked to a lot of people who think that they – A, they should; and, B, that they might. I think they want the president – they want something from the president. The Europeans are never – there’s no free lunch with the EU.

MR. SCHWARTZ: Yeah.

MR. REINSCH: They’re going to want something in return. They’re going to want him to promise not to do the car tariffs. I don’t know that he’s prepared to do that at this point.

MR. MILLER: Now, keep in mind there may be something else happening over on track B while this adventure with the Europeans is on track A. Track B is what the – what the U.S. auto industry writ large does in response to this action. Keep in mind the people in the auto industry from all forms – whether producing, manufacturing, assembling, servicing, selling – are not only a lot of them, but they’re very well-organized. They’re very politically savvy. I wouldn’t be surprised to see a
proposal from the U.S. auto industry writ large for some kind of tariff and regulatory harmonization operation that goes worldwide. And, frankly, regulations are a much bigger problem for—as a trade barrier than tariffs for most automakers. So there’s a lot of work to be done, a lot of advantage in that. I wouldn’t be surprised to see an industry position that’s quite interesting and different from the past surface and be promoted in the Congress while all this drama is happening with the executive.

MR. REINSCH: I think probably it will be one of these meetings like many of Trump’s meetings, which is it will be a spectacular success whether anything happens or not, and then it may take a while to figure out if anything has happened or not, sort of like his meeting with Kim Jong-un. You know, Juncker is not Kim Jong-un, but it’s the same thing. Guaranteed it will be a successful meeting, and then we have to wait a few weeks to see if anything actually changes.

(Music plays.)

MR. SCHWARTZ: To our listeners, if you have a question for The Trade Guys, write us at tradeguys@csis.org. That’s tradeguys@csis.org. We’ll read some of your emails and have The Trade Guys react to it.

Thank you, Trade Guys.

MR. REINSCH: Thanks, Andrew.

MR. MILLER: Thank you.

MR. SCHWARTZ: You’ve been listening to The Trade Guys, a CSIS podcast.

(END)