The Daily Dish

Auto Tariffs

DOUGLAS HOLTZ-EAKIN | FEBRUARY 13, 2019

Eakinomics: Auto Tariffs

AAF's Jacqueline Varas has a terrific new video today on the 2019 outlook for trade policy. Number one on her "what to watch for" list is auto tariffs. Recall that President Trump has threatened to levy a 25 percent tariff on all imported autos and auto parts, something that he would pursue under his "Section 232" authorities in response to a national security threat. First, however, the Department of Commerce must complete a study of the national security threat posed by auto imports. The deadline is this Sunday, so the report may appear this week.

The idea that the U.S. is threatened with "annexation by Audi" or any other putative threat is ludicrous, but the Commerce Secretary Wilbur Ross is expected to put his official imprimatur on the argument. With that bureaucratic step out of the way, the president will move forward with tariffs for three reasons.

First, he has clearly flagged his desire to do so in the past, and in this case past performance is indicative of future results. He wanted steel and aluminum tariffs, and the United States now imposes steel and aluminum tariffs. He wanted to close the government and finally found a way to close the government. He wanted to start a trade war with China ("trade wars are good, and easy to win"), and the global economy has been damaged by his tactics toward China. Bet against auto tariffs at your own risk.

Second, he thinks that tariffs are a good tactic in trade negotiations. The United States is frustrated that Europe keeps agriculture off the table in negotiating a new trade agreement. President Trump could easily decide that auto tariffs are precisely the prod the Europeans need.

Third, he has surely noticed the recent coverage of the steel and aluminum tariffs, notably that "United States Steel Corp. said it plans to add 1.6 million tons of steelmaking capacity next year by resuming the construction of a new furnace in Alabama as tariffs on foreign metal raise profits on domestic steel." That's good news for political support from steel workers. With an eye toward 2020, it is easy for him to conclude that he needs to bolster his support in the Ohio-Indiana-Michigan-Wisconsin industrial heartland. Tariffs on autos would appear to be the right medicine, especially because they would be offsetting the damage inflicted by President Trump's steel and aluminum tariffs. The impact of tariffs on auto parts does not break as cleanly in his favor, but that may not be enough to deter the imposition.

Don't get me wrong; there is no economic defense of the proposed auto tariffs, and there is no national security rationale that should permit them. But…