U.S. Chamber of Commerce

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The Honorable Jason E. Kearns
Chairman
U.S. International Trade Commission
500 E Street, SW
Washington, DC 20436

Re: Distributional Effects of Trade and Trade Policy on U.S. Workers (332-587); 87 FR 2899

Dear Chairman Kearns:

The U.S. Chamber of Commerce ("the Chamber") is pleased to submit the following comments as input for the recently launched U.S. International Trade Commission ("ITC") investigation into "Distributional Effects of Trade and Trade Policy on U.S. Workers" (332-587). The Office of the U.S. Trade Representative requested that the ITC conduct this investigation to examine "the potential distributional effects of goods and services trade and trade policy on U.S. workers by skill, wage and salary level, gender, race/ethnicity, age, and income level, especially as they affect underrepresented and underserved communities."

The Administration has described its commitment to a "worker-centered trade policy" that will "protect and empower workers, drive wage-driven growth, and lead to better economic outcomes for all Americans." While the Chamber's following comments are not comprehensive, they represent an effort, at this early stage in the investigation, to encourage the ITC to adopt an appropriately broad approach to its investigation into the important issues at hand. The Chamber may submit additional comments as the investigation proceeds.

What's the link between trade and manufacturing jobs?

To set the stage, it is worth emphasizing that U.S. manufacturing today is highly dependent on trade. According to data from the Federal Reserve Bank of St. Louis, U.S. real manufacturing output rose by 50% between 1990 and 2019 (the latter presenting a good baseline to avoid the effects of the pandemic). Trade has been critical to this continuing expansion: Manufacturers in the United States export nearly half their output, reports the National Association of Manufacturers, and U.S. exports of manufactured goods quadrupled between 1990 and 2019 to reach $1.365 trillion.

However, U.S. manufacturing employment peaked in 1979 at 19.4 million and has declined since then, particularly in 2001-2003 and in 2008-2009. About 12.6 million Americans are employed in manufacturing today, according to the Bureau of Labor Statistics.

The combination of strongly rising output and declining employment reveals that most of the decline in U.S. manufacturing employment is attributable to automation, robotics,

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increasingly sophisticated capital goods, and widespread use of information technologies—in short, productivity growth. According to research by economists with Ball State University, "almost 88 percent of job losses in manufacturing in recent years can be attributable to productivity growth."

The tie between trade and manufacturing jobs was cast into stark relief when the Trump administration raised U.S. tariffs on nearly $400 billion of imports beginning in 2018. This move raised prices for imported parts, components, and materials used by U.S. manufacturers, and foreign retaliation targeted U.S. manufactured goods exports. These actions played a significant role in driving the U.S. manufacturing recession of 2019, which was especially striking given its appearance at a time when the U.S. economy writ large was demonstrating strength: Growth reached 2.3% in 2019, consumer demand was robust, and interest rates were low. And yet U.S. manufacturing contracted, and wages for U.S. manufacturing workers fell in 2019 even as average wages for U.S. workers generally rose. Manufacturing strongholds such as Michigan, Wisconsin, and Pennsylvania saw net manufacturing job losses.

Recommendation: The ITC should examine the distributional effects of recent tariff hikes as part of its investigation.

How does trade affect Black and Latino manufacturing workers?

Black and Latino Americans represent about 12% and 18% of the U.S. workforce, respectively. These approximate shares generally hold across manufacturing writ large, but different subsectors reveal significant variations.

To illustrate, a relatively large number of Black Americans (about 230,000) work in motor vehicle and motor vehicle parts manufacturing, accounting for about 18% of the workforce. International trade and investment in recent years have had a positive impact on the U.S. auto industry, whose production grew substantially over the past decade from 5.7 million units in the 2009 recession to 10.9 million in 2019. Exports helped fuel this expansion, doubling from 1 million units in 2009 to 2.1 million in 2014 before leveling off in the second half of the decade. At the same time, international automakers have invested nearly $100 billion in the United States and support 2.1 million direct and indirect jobs.

Trade policy has played a role in these developments. Negotiation of the United States-Mexico-Canada Agreement (USMCA) during the Trump administration aimed in part to favor North American and especially domestic content in the U.S. auto sector and may over time boost U.S. output and employment. On the other hand, the Trump administration's steel and aluminum tariffs imposed new costs in the range of $1 billion for some U.S. auto manufacturers, which undoubtedly put a brake on investment and hiring. Threats to impose tariffs on imports of autos and auto parts instilled uncertainty that delayed investment and hiring decisions.

For another example, Latino Americans make up a relatively large share of workers in food manufacturing, accounting for about 31% of the workforce. Many U.S. firms in this sector

are highly competitive, and domestic production supplies a large majority of the domestic market's needs. However, as has been widely noted, many of these firms have historically relied on exports as well, and the trade and tariff actions of the Trump administration reduced foreign sales across the sector.

In sum, Black and Latino Americans account for a significant share of workers in U.S. manufacturing sectors that have historically benefited from trade. However, they have also paid a price when tariffs and other trade actions have cut off access to export markets or imported inputs.

Recommendation: The ITC should examine a wide array of sectors as it investigates the distributional effects of trade and avoid framing the exercise in a way that focuses narrowly on sectors facing especially sharp competitive challenges.

How does trade affect Black and Latino workers in other sectors?

While most of the trade debate focuses on trade in goods—that is, manufactured or agricultural products—international commerce is surprisingly important to other sectors that employ large numbers of Black and Latino Americans.

For example, about 7.2 million Americans are employed in the transportation and warehousing sector, 21% of whom are Black (or about 1.5 million workers). Workers in these industries usually do not face direct competition from abroad: A warehouse in Pennsylvania does not compete with a warehouse in Asia. On the other hand, the aforementioned U.S. manufacturing and agricultural recession of 2019—which was at least partly caused by tariffs and trade actions—undoubtedly had "knock-on" effects on the transportation and warehousing workers who move goods to and from ports, warehouses, retailers, and homes.

Another example is construction, which employs about 3 million Latino Americans or 30% of all the Americans working in the sector. Construction is widely seen as a "non-tradeable" sector in which both opportunities abroad and foreign competition are limited.

However, the U.S. construction sector is dependent on imports, and tariff hikes have had a negative impact on hiring and expansion in the sector. To illustrate, the U.S. Chamber of Commerce/USG Corporation Q2 2018 Commercial Construction Index found that 86% of respondents surveyed expected "moderate to severe impacts on their business in the next three years from recently imposed tariffs" on steel that had just been imposed. Tariff increases on softwood lumber imports also imposed substantial costs on the construction sector beginning in late 2017 and into the following year. These higher costs undoubtedly pumped the brakes on the sector's expansion and hiring in 2018 and beyond. More recent iterations of this survey have similar findings.

In sum, trade can have a big impact on American workers in sectors not traditionally seen as trade sensitive—including the two discussed above that employ a relatively large number of Black and Latino Americans. In these cases, many of these workers have paid a price for tariffs and other new limits on trade imposed in recent years.

Recommendation: The ITC should look at sectors such as transportation, warehousing, and construction — some of which are not traditionally viewed as "tradeable" sectors — for a more complete picture of the distributional effects of trade.

How does trade affect workers with a high school degree or less?

It is worthwhile asking how U.S. trade policy affects American workers who ended their formal education with a high school degree or less. Four broad sectors of the economy employ a disproportionately large share of these Americans. While many of these Americans are employed in sectors where trade is not seen as a major factor, tariffs and other recent trade actions have imposed costs on many of them.

First, more than 27 million Americans were employed in moving, storing, distributing, and selling goods in 2019, including about 10 million Americans with a high school diploma or less—more than any other group. This includes wholesale trade, retail trade, and transportation and warehousing.

How does international trade impact these workers? As noted above, workers in these industries do not face direct competition from abroad: For example, the roughly 2 million truck drivers in the United States (60% of whom had a high school diploma or less) are overwhelmingly Americans working for U.S. firms or for themselves. On the other hand, the 2019 manufacturing and agricultural recession was at least partly induced by trade wars that also negatively impacted wholesale, retail, transportation, and warehousing workers who move goods to and from ports and to customers across the country.

Second, manufacturing in 2019 directly employed about 12 million Americans, more than 5 million of whom ended their formal education with a high school diploma or less. Educational attainment in manufacturing varies greatly: About 60% of workers in food manufacturing have a high school diploma or less, while only 24% do in aircraft manufacturing. (The impact of trade on manufacturing is discussed above.)

Third, construction in 2019 employed about 7.5 million Americans, of whom about 4.3 million (58%) ended their formal education with a high school diploma or less. The harmful impact of recent tariffs and trade actions on this sector is discussed above.

Fourth, agriculture in 2019 directly employed about 2.3 million Americans, of whom about 55% ended their formal education with a high school diploma or less. Trade is critical to American agriculture and to these workers: About 25% of U.S. farm products by value are exported each year, according to the Farm Bureau. The steep rise in U.S. tariffs from 2018 onward—coupled with foreign retaliation that often targeted U.S. agriculture—caused sharp losses for American farmers and ranchers that were only offset by the doubling of direct federal subsidies (to $46.5 billion in 2020). According to USDA, these subsidies represented more than one-third of farm income in 2020.

Compared to these four sectors — which together employ approximately 50 million American workers, including many with a high school degree or less — much more attention in trade policy is dedicated to sectors such as steel production that employ fewer than 100,000 American workers, according to BLS data. However, policies intended to "protect" these jobs and industries can be costly, as in the case of the steel industry. The Peterson Institute for International Economics estimated in 2019 that U.S. consumers and businesses were paying more than $900,000 a year for every job saved or created by the Section 232 steel tariffs—a sum more than 13 times the typical steelworker salary. Manufacturing and construction sector firms that use steel as an input bear a large share of the burden redistributed by tariffs. A similar ratio has been seen for tariff actions relating to other products.

Certainly public policy should prioritize the creation of good jobs rather than the retention of jobs in all industries at all costs. Many of those good jobs are in U.S. manufacturing—many sectors of which are prospering—and industries from automakers to healthcare goods are poised to continue robust growth and hiring in the years ahead.

Recommendation: The ITC should cast a broad net as it investigates the distributional effects of trade on American workers without a post-secondary education to ensure that all the affected sectors are considered and that the impact of recent tariff hikes are also taken into account.

How can trade policy empower women?

Interest has risen in recent years in devising trade agreements and programs to empower women economically and combat gender-based discrimination. Efforts range from training and outreach to proposals that could be included in domestic trade law and in international trade agreements.

For example, Sen. Catherine Cortez Masto (D-NV) and Sen. Bob Casey (D-PA) have introduced the Women's Economic Empowerment in Trade Act, which would deny preferential treatment of goods imported under the Generalized System of Preferences from developing countries that fail to afford "equal rights and protection under the law, regardless of gender," among other provisions.

While the United States has not emphasized women's economic empowerment in its trade agreements, other countries have begun to do so. In one prominent example, Canada and Chile in 2017 signed a trade and gender chapter and added it to their bilateral free-trade agreement. The chapter reaffirms the two countries' commitments to, for instance, Goal 5 of the UN Sustainable Development Goals, which is to achieve gender equality and empower all women and girls. They also established a Trade and Gender Committee with representatives from government institutions in the two countries. The chapter is not subject to dispute resolution under the free-trade agreement.

A large number of World Trade Organization member states are planning to issue a declaration on women's economic empowerment through trade at the (delayed) 12th WTO

Ministerial Conference. More than 125 governments have been meeting in the WTO's Informal Working Group on Trade and Gender in the months ahead to discuss the issue. Beyond the scope of such a declaration, some proposals have emerged for a binding agreement under which countries would commit to eliminate discrimination based on gender. For example, signatories to such an agreement might commit to uphold the rights of all people—regardless of gender—to travel within their countries of residence and across borders, to secure equal access to credit and to financial services, and to benefit from ownership and inheritance rights (including businesses and business licenses, intellectual property rights, and real property).

Another noteworthy undertaking is the SheTrades Initiative to advance women's economic empowerment via government policy as well as private sector action. The project is spearheaded by the Geneva-based International Trade Centre (ITC), a joint agency of the WTO and the UN, in collaboration from private sector partners such as UPS. SheTrades promotes the more systematic collection of data on women in the economy, equitable access to finance and procurement opportunities, and online training and mentoring for women entrepreneurs.

Recommendation: The ITC should investigate the potential value of multilateral trade disciplines to uphold the rights of women to engage in international trade and in the activities required in its conduct (e.g., the right to travel, to access financial services, and to own and inherit property).

What about jobs in rapidly-expanding sectors?

Discussions of trade and inequality often emphasize the challenges facing industries, firms, and workers in relatively uncompetitive sectors; however, such a focus will not by itself deliver shared prosperity in tomorrow's economy. To illustrate, consider the example of America's massive "business services" sector, which has emerged as a pillar of support for the U.S. middle class that on some measures has surpassed the manufacturing sector.

Business services employ more than 20 million Americans, and these sectors pays wages that are 20% higher on average than those in manufacturing. Examples are software and ICT services, film and television, accounting, engineering and project management, banking, insurance, and advertising.

Business services are also increasingly tradeable. According to an earlier ITC report, new digital technologies mean that 63% of all U.S. services exports can now be delivered to customers abroad digitally (i.e., ICT-enabled services and potentially ICT-enabled services). This helps explain why global trade in services increased twice as fast as merchandise trade (by around 50%) between 2010 and 2019, according to a report by Oxford Economics.

However, rising digital protectionism abroad could sap growth in middle class jobs in the business services industries widely recognized as an American strength. As governments worldwide seek to put their own imprint on digital trade rules, some may close markets and disadvantage U.S. firms.

Shouldn't U.S. trade policy prioritize an area such as this with undeniable growth potential? Isn't now the moment to enhance U.S. leadership in industries that digital tools are now allowing to become major engines of export growth? Like a baseball club's general manager contemplating a World Series run, shouldn't the Biden-Harris administration work to "strengthen a strength"?

Recommendation: The ITC should include in its investigation into the distributional effects of trade an examination of the benefits of fast-growing and emerging sectors, such as digitally tradeable services, for American workers of diverse backgrounds.

What is the impact of U.S. tariffs on income inequality?

In an economic working paper published in 2018 by the ITC entitled "Gender and Income Inequality in United States Tariff Burden," the authors found that "tariffs act as a regressive income tax," with the consequence that "tariffs fall disproportionately on the poor. Across genders, we find large differences in tariff burden. Focusing on apparel products, which were responsible for about 75% of the total tariff burden on U.S. households, we find that the majority, 66%, of the tariff burden was from women's apparel products.... This gender gap grew about 11% in real terms between 2006 and 2016."

The regressive Smoot-Hawley Tariff Act of 1930 remains the foundation of the U.S. tariff system. Footwear with leather uppers (which tend to be more expensive) face U.S. tariffs of 8.5%-10%, while synthetic upper shoes (such as low-cost tennis shoes, synthetic pumps, and children's shoes) face tariffs that are roughly 4-6 times higher. In other words, U.S. tariffs tend to hit lower-income and female Americans disproportionately.

Recommendation: The ITC should include in its investigation into the distributional effects of trade an examination of the regressive and gender-inequitable effects of the U.S. tariff burden.

Why are Trade Adjustment Assistance data misleading?

In a report cited in some of the antecedents to the ITC investigation, Public Citizen cited data from the Trade Adjustment Assistance (TAA) program to draw misleadingly broad conclusions about the impact of trade on Black and Latino workers. The report cited TAA "certifications" recorded over the past 25 years.

Losing a job can be traumatic, and accumulated data over a quarter century can yield numbers in the tens of thousands for specific industries. However, the U.S. private sector produces gross job gains and gross job losses that each exceed 25 million annually, with net gains between 1 million and 3 million every year in the 2010s. Policymakers would be rash to attempt to draw conclusions from the small sample size of the TAA program, whose annual certifications represent a small fraction of the U.S. economy's annual job turnover. Indeed, the number of American workers enrolled in TAA has plummeted over the past decade, reaching just 23,436 in FY2020, according to a report by the Department of Labor. (The ITC's

investigation should examine why TAA enrollment has fallen so dramatically during the past decade even as U.S. merchandise trade has surged.)

Indeed, as Bryan Riley of the National Taxpayers Union writes, the United States added 36.8 million new jobs over the 25-year period Public Citizen examined. Examining Bureau of Labor Statistics data, he found that "more than half of these new jobs were filled by Black and Hispanic workers, including nearly 18 million net new jobs for Hispanic Americans and 7.2 million net new jobs for Black workers." Real hourly earnings increased by 25.2% for Hispanic workers and 17.5% for Black workers over the same period, closing the gap with white workers (which nonetheless remains large).

The share of American workers whose livelihoods depend on trade is extremely broad. One widely cited study found that "U.S. exports and imports of goods and services supported over 40 million U.S. jobs in 2018. This means that one in every five U.S. jobs is linked to trade. Two times as many jobs were supported by trade in 2018 as in 1992."

Recommendation: The ITC should consider the significant limitations of TAA data and draw on more robust BLS data and other official sources as it investigates the distributional effects of trade.

How should a "worker-centric" trade policy treat intellectual property?

Some commentators contend that intellectual property (IP) protection is pro-corporate but not pro-worker. The *Wall Street Journal* recently quoted former Treasury Secretary Lawrence Summers "arguing against prioritizing gains for Hollywood… and inventors who want intellectual property protection. Their 'elite concerns' don't contribute much to U.S. employment or tax revenue."

Does trade policy support for "Hollywood" not benefit American workers? On the contrary, the Motion Picture Association reports the U.S. film and television industry supports 2.5 million American jobs in all 50 states. The industry generates $28 billion in tax revenue for federal, state, and local governments. Its exports top $16 billion in 2019, and it generates 4% of the U.S. trade surplus in services.

Further, according to Copyright Industries in the U.S. Economy: The 2020 Report, the "core" copyright industries in the United States generated more than $1.5 trillion of economic output in 2019, accounting for 7.4% of the entire economy, and employed approximately 5.7 million workers in 2019, accounting for 3.8% of the entire U.S. workforce and 4.5% of total private employment in the U.S. The jobs created by these industries are well-paying jobs; for example, copyright industry workers earn on average 43% higher wages than other U.S. workers.

Similarly, the biopharmaceutical industry supports more than 4 million jobs across the country, including more than 800,000 researchers and scientists developing new treatments and cures. According to PhRMA, firms in this sector invested about $108 billion in R&D in the United States in 2018—more than any other industry in America—and this figure has surged

with the pandemic. Critically, these firms worked closely with government to deliver vaccines that have become the single best tool to combat the pandemic.

According to the U.S. Commerce Department report "Intellectual Property and the U.S. Economy," IP-intensive industries support at least 45 million U.S. jobs and contribute more than $6 trillion dollars to, or 38% of, U.S. GDP. While IP is used in virtually every segment of the U.S. economy, the report identifies 81 industries that use patent, copyright, or trademark protections most extensively. These "IP-intensive industries" are found to be the source—directly or indirectly—of 45 million jobs, roughly 30% of all the jobs in this country. These IP-intensive industries include software publishers, sound recording industries, audio and video equipment manufacturing, cable and other subscription programming, performing arts companies, and radio and television broadcasting.

How would the United States possibly benefit if its trade policy declined to defend the intellectual property rights of the creative artists, researchers, technicians, and all those in supporting industries?

Recommendation: The ITC should take into account the ways that intellectual property protections supported by trade agreements benefit American workers of diverse backgrounds in the course of its investigation.

Trade leads to higher growth and better jobs globally

A May 2021 report authored by the World Bank found that more trade leads to higher growth and better jobs. The report – entitled *The Distributional Impacts of Trade: Empirical Innovations, Analytical Tools, and Policy Responses* – notes that trade brings "overall gains to households and is critical for lowering poverty."

The World Bank report recommends reducing market distortions and trade costs as well as speeding up labor market adjustment mechanisms as ways to ameliorate the distributional impacts of trade policy reforms. Additionally, the report argues that boosting the multilateral trading system's "effectiveness in the context of rising protectionism" will assist in delivering benefits to the poor.

Recommendation: The ITC is charged in this investigation with gauging the distributional effects of trade on America's workers, but a nod toward trade's global effects would add useful context.

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The Chamber appreciates the opportunity to provide these perspectives on the ITC's forthcoming investigation and is prepared to assist in the effort going forward.

Sincerely,

John Murphy
Senior Vice President for International Policy