Trade Brief

Resolution: A significant tariff on imported goods from Mexico is a good policy for the U.S. economy.

"Our only defense against the cheap production, low wages and low standard of living which exist abroad, and our only method of maintaining our own standards, is through a protective tariff. We need protection as a national policy, to be applied wherever it is required." --Calvin Coolidge, "The Republican Case," *The Saturday Evening Post*, Sept 10, 1932.

"Our country is in serious trouble. We don't win anymore. We don't beat China in trade. We don't beat Japan, with their millions and millions of cars coming into this country, in trade. We can't beat Mexico, at the border or in trade." --2016 Republican presidential nominee Donald Trump, Fox News Sunday program, October 18, 2015

"...[O]ur trade policy rests firmly on the foundation of free and open markets -- free trade. I, like you, recognize the inescapable conclusion that all of history has taught: The freer the flow of world trade, the stronger the tides for human progress and peace among nations."--Ronald Reagan, 40th president of the United States, Remarks at a White House Meeting With Business and Trade Leaders, September 23, 1985

"Since 2001, nearly 60,000 manufacturing plants in this country have been shut down and we have lost over 4.7 million decent paying manufacturing jobs. NAFTA has led to the loss of nearly 700,000 jobs. PNTR with China has led to the loss of 2.7 million jobs. Our trade agreement with South Korea has led to the loss of about 75,000 jobs. While bad trade agreements are not the only reason why manufacturing jobs in the U.S. have declined, they are an important factor."--Bernie Sanders, May, 2015

KEY TERMS

Import: A good or service that is brought from a foreign country and sold domestically.

Export: A good or service that is produced domestically and sold in a foreign country.

Tariff: A tax levied on imports by a domestic government. All else equal, tariffs make imported goods and services more expensive relative to domestically produced goods and services. There are two main reasons why a government might implement a tariff – revenue generation and **protectionism** (see protectionism).

Like any other tax, tariffs provide revenue for the government. These tariffs increase costs for producers, and at least some of these extra costs are usually passed along to the consumer in the form of higher prices. In the case of tariffs, this may discourage domestic consumers from purchasing foreign goods because those goods become relatively more expensive with the tariff in place. By discouraging domestic citizens from purchasing imports, the protectionist rational is that citizens will instead spend their money on goods produced domestically. With a higher demand for domestic goods and services, there may be higher wages and more jobs in the domestic industries that produce those goods and services.

While a tariff is generally beneficial to the protected domestic firms, it is costly for domestic consumers. To see these effects an example is helpful. Let's say that both Mexican and the United States firms produce avocados, but Mexican firms can produce avocados at a lower cost. With no tariff on Mexican avocados in place, Mexican firms are able to sell their avocados for a lower price in U.S. markets. This is great for Americans who love avocados and can now purchase them for a lower price; however, the American avocado producers are hurt because now everyone is buying the cheaper Mexican avocados. In the short-run, the American avocado firms may attempt to cut costs to remain competitive, and such cost cutting may manifest itself in fewer jobs or lower wages for workers. In the medium-term to long-term, the American avocado firms may simply not be able to compete and perhaps even go out of business. To help save the American avocado industry, the U.S. government might place a tariff on avocados imported from Mexico; this would raise the price that consumers in the U.S. have to pay for avocados grown in Mexico, making the American avocados price competitive again. The American avocado firms and their workers would likely benefit. But American consumers would likely be hurt because they would now have to pay higher prices for avocados than they otherwise would if there were no tariffs.

Balance of Trade: The difference in the value of a country's imports and the values of its exports is known as the country's balance of trade.

Trade Deficit: When the value of a country's imports exceeds it's the value of its exports, the country is said to have a trade deficit.

Trade Surplus: When the value of a country's exports exceeds the value of its imports, it is said to have a trade surplus. It is important to remember that although the term "deficit" generally carries a negative connotation and the term "surplus" carries a positive one, trade deficits and surpluses are not necessarily good nor bad.

Free Trade: Government policies or sets of policies that **do not impose restrictions** on international exchange with other countries and their citizens. Free trade allows for the free exchange of goods and services across international borders.

Protectionism: Government policies or sets of policies **that impose restrictions** on international exchange with other countries and their citizens. A tariff is an example of a protectionist policy. The aim of protectionism is to offer an advantage to domestic firms by increasing the cost of goods and services produced by foreign firms and sold in a domestic market.

Division of Labor: Division of labor is the separation of specific tasks within an economic system such that firms or individuals specialize in the means of production for which they are especially skillful. The division of labor is important in the discussion of trade because **trade allows for the division of labor**. Without trade individuals would have to be completely self-sufficient. When trade exists, individuals are able to focus on producing the things that they can produce for the lowest cost and trade for the things that are relatively more costly for them to produce, but that they still might want or need.

Opportunity Cost: The opportunity cost of an activity is the loss of value associated with foregoing the next best alternative. While this definition may sound confusing, the basic logic is simple: since time is limited, for every decision we make to do one thing means we are forgoing countless other opportunities. When a firm explicitly decides to produce cars, it is also deciding not to produce busses, trucks, trains, airplanes, etc. The lost opportunity of producing busses, trucks, trains or airplanes is called "opportunity cost."

Comparative Advantage: Another concept that allows for the division of labor is comparative advantage. An individual or firm that can produce a good or service for a lower cost relative to other firms, has a comparative advantage in the production of that good or service. Having a comparative advantage in a certain means of production does not mean that the producer is necessarily the very best at it, only that they can produce it for the lowest opportunity cost (for more information see **opportunity cost**).

Opportunity cost and comparative advantage are important in the discussion of trade because trade allows individuals and firms to take advantage of their comparative advantages. **Comparative advantage helps make the division of labor efficient**, and without trade, there could be no division of labor.

Gains from Trade: Gains from trade exist when the value of a good or service, bought by a consumer, equals or exceeds the cost of production of that good. When this is true, both the consumer and producer are better off from trade occurring and gains from trade are said to be

positive. Economic theory suggests that when a voluntary market transaction occurs there are always gains from trade. If there were not, then the parties would not voluntarily enter into the trade agreement in the first place.

Trade War: The term "trade war" refers to a situation in which two or more countries impose or raise tariffs on each other in retaliation to previously imposed or increased tariffs. This increases the cost of imports for both countries and discourages consumption of foreign goods and services.

NAFTA: The North American Free Trade Agreement (NAFTA) is a trade agreement between the United States, Canada, and Mexico. Implemented in 1994, NAFTA removed or phased out almost all trade barriers and tariffs between the three countries. The idea behind NAFTA is that by making trade less costly, there will be more trade and that all countries would benefit. This of course opened up competition between domestic firms in all three countries and made it less costly to move production to foreign countries.

BACKGROUND

Few issues are more contested these days than trade. What's hard to remember is that just a few years ago, in the time of President Bill Clinton, there was a strong consensus that trade's benefits outweighed its costs.

We live in a world of **multilateral free trade**, when countries agree to lift tariffs or other barriers in exchange for breaks from other nations. But in the olden days some economists argued for **unilateral free trade**, that is, opening your borders to all goods, even goods from countries that don't open their borders.

The best argument free traders can come up with for free trade: Walmart. Walmart is considered by many Americans a wonder. Walk the aisles and you will find 43 kinds of body wash, six different kinds of socks, a barbecue for far less than your parents might have paid -- all cheap and convenient. Walmart's variety, and Walmart's low prices, would not be possible without free trade.

The best argument protectionists can come up with against free trade: Walmart. Or, more specifically, the local stores that Walmart displaced when it came to town. Those stores, and their American goods, are vanishing as the great chain draws their old customers. A hammer or a chair sold in one of those old stores might have cost more. But the employees in those old stores often made more than Walmart employees. Not to mention, many people enjoy buying goods from people they personally know.

Another illustration for and against free trade: the American auto industry. Hundreds of thousands of jobs have been lost, and whole cities devastated, because of competition from foreign auto-makers. On the other hand, today Americans can buy cars like Hondas, Toyotas, Mercedes, Audis, VWs, and others, because of international trade. Many Americans prefer foreign cars. That's their right, and their advantage. Foreign carmakers have inspired American producers, whose quality rose once they faced the challenge of competition.

The Case of Coolidge

The current contentious period actually recalls the period when Calvin Coolidge lived. In Coolidge's time, fights over the merits of free trade versus the merits of protectionism occurred daily on Capitol Hill. The Republicans were the protectionists; the Democrats, led by Cordell Hull, were the free traders. Coolidge stayed true to his party line.

Just before Coolidge came into office, Congress passed, and President Harding signed, a large tariff, **Fordney-McCumber**. Just after Coolidge left office Congress passed, and President Hoover signed, a larger tariff, **Smoot-Hawley**. Many economists argue that Smoot-Hawley was one of the most significant causes of the Great Depression. President Franklin D. Roosevelt agreed to a trade deal that encouraged trade in the 1930s, reversing the protectionist trend.

One group who hated Coolidge's support of tariffs: Europe. Loaded with debt from World War I, Europeans could not believe the U.S. would impose heavy tariffs that made it tough for Europe to pay off its obligations. But the U.S. sustained its 1920s tariffs. Coolidge believed that paying high wages in the U.S. would keep workers content. Then the workers would not strike, or mount revolutions, as workers were doing in Europe and in Russia.

The conflicts in the 1920s in turn echo earlier conflicts, both during the Civil War and back in the days of the Framers. Alexander Hamilton supported protectionism and relied on tariffs to fund America's new financial system. There was no income tax and no Internal Revenue Service in the early days, but they did have a mighty customs house at the bottom of Manhattan to collect the tariff revenues (today that old customs house serves as the Museum for the American Indian.) The South, led by Thomas Jefferson and his supporters sought freer trade.

PRO ARGUMENTS (In Favor of the Resolution)

1. A tariff on imports from Mexico would reverse the outsourcing of American companies and jobs to Mexico. U.S. companies and American workers have been hurt by competition from Mexico. In Mexico, incomes are well below what they are in the U.S. For example, in 2015, the GDP per capita (meaning total economic output per person) in the U.S. was around $56,000, compared to only around $9,000 in Mexico.[1]

> Key Fact
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> In 2015, GDP per capita in the U.S. was $56,000 compared to $9,00 in Mexico. This means production can be outsourced, with jobs going to Mexico.

What does this have to do with American workers? Since workers on average are poorer in Mexico compared to the U.S., companies in Mexico can pay their workers significantly less. With lower labor costs in Mexico, products can be made more cheaply there. Therefore, companies have outsourced their manufacturing operations to Mexico – meaning jobs that were once done in the U.S. by American workers are now done in Mexico by Mexican workers.

Take the auto industry for example. Automobiles are the number one import to the U.S. from Mexico. American companies like Ford have moved large parts of their manufacturing operations from cities like Detroit to Mexico where the workers can be paid less. The cars are built in Mexico and then the auto companies ship the completed autos back to the U.S. to be sold to American consumers. The companies end up making a higher profit since they do not have to pay Mexican workers as much as they'd have to pay workers in the U.S. However, American workers have lost their jobs and have been hurt badly.

The U.S. trade deficit with Mexico is evidence this outsourcing is happening more broadly, even beyond just the automobile industry. Data from the Office of the U.S. Trade Representative shows that in 2015, exports of goods and services from the U.S. to Mexico totaled an estimated $267.2 billion. Meanwhile, imports of goods and services from Mexico to the U.S. were higher, totaling $316.4 billion. This gap between U.S. exports and imports, known as the **trade deficit,** means the U.S. bought $49.2 billion more from Mexico than Mexico bought from the U.S. in 2015.[2]Clearly tariffs need to be increased. A significant tariff increase would increase the cost of

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[1] GDP per Capita (current US$) | Data. The World Bank, Web. <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>.

[2] "Mexico | United States Trade Representative." Mexico | United States Trade Representative. Office of the United States Trade Representative, n.d. Web. 13 Feb. 2017.

producing goods in Mexico. The tariff should be significant enough so the savings from cheaper labor in Mexico are wiped out by the tariff. This would stop outsourcing and keep jobs in America.

2. American workers have suffered from low wages for many years and need the help a tariff could provide. International trade deals suppress American wages and take American jobs. Since 1993, when NAFTA went into effect, the wages of a large portion of American workers have been stagnant. Over this entire period, 1993 to 2016, median wages for full-time American workers (over the age of 16) grew a mere 9% beyond inflation. As you can see from the below chart, in many years, wages actually shrank! Wages more recently have been even more disappointing. **From 2009 to 2016, median inflation-adjusted wages grew less than 1% total.**[3]

Chart: Median Weekly Earnings for Full-Time U.S. Workers Age 16+, 1993-2016[4]

Year	Median usual weekly real earnings (Constant 1982 U.S. Dollars)	Yearly Percent Growth
1993	$ 318.00	
1994	$ 315.00	-1%
1995	$ 314.00	0%
1996	$ 313.00	0%
1997	$ 314.00	0%
1998	$ 322.00	3%
1999	$ 330.00	2%
2000	$ 334.00	1%
2001	$ 337.00	1%
2002	$ 338.00	0%
2003	$ 337.00	0%
2004	$ 338.00	0%
2005	$ 333.00	-1%
2006	$ 333.00	0%
2007	$ 335.00	1%
2008	$ 335.00	0%
2009	$ 345.00	3%

[3] "Employed Full Time: Median Usual Weekly Real Earnings: Wage and Salary Workers: 16 Years and over." *FRED.* Federal Reserve Bank of St. Louis, n.d. Web. 15 Feb. 2017.

[4] "Employed Full Time: Median Usual Weekly Real Earnings: Wage and Salary Workers: 16 Years and over." FRED. Federal Reserve Bank of St. Louis, n.d. Web. 15 Feb. 2017.

2010	$	342.00	-1%
2011	$	336.00	-2%
2012	$	335.00	0%
2013	$	333.00	-1%
2014	$	334.00	0%
2015	$	341.00	2%
2016	$	347.00	2%

A tariff on imported Mexican goods will make American-made goods competitive in U.S. markets again, increasing the demand for American workers and protecting their wages.

Key Fact

From 2009 to 2016, median inflation-adjusted wages for full-time American workers grew less than 1%. A tariff could help boost wages of American workers.

Several studies have shown the harmful impacts of international trade on American workers. The National Bureau of Economic Research found that China's rapid industrial growth and increased imports into the U.S. from 1991 to 2007 had a significantly negative impact on American workers in competing industries. Over this period, American workers experienced "lower cumulative earnings, weakly lower cumulative employment, lower earnings per year worked, and greater reliance on Social Security Disability Insurance."[5]

Another study by the National Bureau of Economic Research found detrimental wage impacts from Chinese competition. The study found that a "10% increase in occupational exposure to import competition is associated with nearly a 3% decline in real wages for workers."[6] This means that a 10% increase in Chinese goods imported to the U.S. leads to a 3% decline in the wages of the workers working in the same industries in America.

At a time when American workers are suffering, a tariff is highly justified and would be a boost to the U.S. economy.

[5] Autor, David H., David Dorn, Gordon Hanson, and Jae Song. *TRADE ADJUSTMENT: WORKER LEVEL EVIDENCE*. National Bureau of Economic Research, n.d. Web. 15 Feb. 2017.

[6] Ebenstein, Avraham, Ann Harrison, and Margaret McMillan. *Why Are American Workers Getting Poorer? China, Trade, and Offshoring**. National Bureau of Economic Research, Dec. 2014. Web. 15 Feb. 2017.

3. A tariff on imports from Mexico could generate revenue for the federal government. The federal government could use this revenue to invest in new programs or pay down some of the national debt. A tariff is a tax that raises revenue for the government. In fact, prior to the introduction of the income tax in the U.S. in 1913 (upon adoption of the 16th Amendment), the tariff was a main source of revenue for the federal government. Today the income tax provides nearly 50 percent of total federal revenues.[7] Meanwhile, tariff revenue is much more negligible. It is not unreasonable to increase tariffs to provide more revenue for our government as was the case in the past.

If the U.S. increased tariffs on imports from Mexico, the resulting revenues could be spent on public services that help the American economy. Increased federal government investments in areas like health, education, and infrastructure could help increase economic growth in the U.S. and benefit all Americans.

Key Fact

U.S. federal debt stands at $19.4 trillion. Tariff revenue could help pay off the debt.

Using tariff revenues to begin **paying down the national debt** would also help the U.S. economy. According to the Congressional Budget Office (CBO), total outstanding federal debt currently stands around $19.4 trillion, or the equivalent of nearly $60,000 for every person in the U.S. That's a staggering level of debt and is at least $2 trillion greater than the total annual output of the U.S. economy. And things could still get yet worse: The CBO projects that over the next 10 years (2017-2026), if current federal policies are left unchanged, total federal debt will have climbed to $28.2 trillion,[8] the equivalent of around $80,000 per American.

Such a large debt matters to this debate resolution because debt is a drag on economic growth. Economists, most famously Kenneth Rogoff and Carmen Reinhart, have shown statistically that debt-strapped countries tend to suffer from lower economic growth.[9] This makes much sense. Milton Friedman spoke of his "permanent income hypothesis,"[10] by which people make economic decisions not based on their current income, but rather based on their longer-term

[7] "Policy Basics: Where Do Federal Tax Revenues Come From?" Center on Budget and Policy Priorities, 4 Mar. 2016. Web. 15 Feb. 2017. <http://www.cbpp.org/research/policy-basics-where-do-federal-tax-revenues-come-from>.
[8] An Update to the Budget and Economic Outlook: 2016 to 2026. Rep. Washington: Congressional Budget Office, 2016. Web. <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51908-2016_Outlook_Update_OneCol.pdf>.
[9] Reinhart, Carmen M., and Kenneth S. Rogoff. Growth in a Time of Debt. Working paper no. 15639. Cambridge: National Bureau of Economic Research, 2010. Web. <http://www.nber.org/papers/w15639.pdf>.
[10] Friedman, Milton. "Chapter III: The Permanent Income Hypothesis." A Theory of the Consumption Function. Princeton: Princeton UP, 1957. 20-37. National Bureau of Economic Research. Web. <http://www.nber.org/chapters/c4405.pdf>.

expectations. A tariff could provide revenues to at least begin paying down the debt and freeing the economy to grow.

4. A tariff on imports from Mexico can help the U.S. economy by replacing other, more harmful, taxes. All taxes are not created equal. Economists generally believe that some taxes are more detrimental to economic growth than others. The income tax and corporate income tax are thought especially bad for economic growth. After all, taxing workers' incomes decreases their incentive to work since they cannot keep as much of the fruits of their labor.

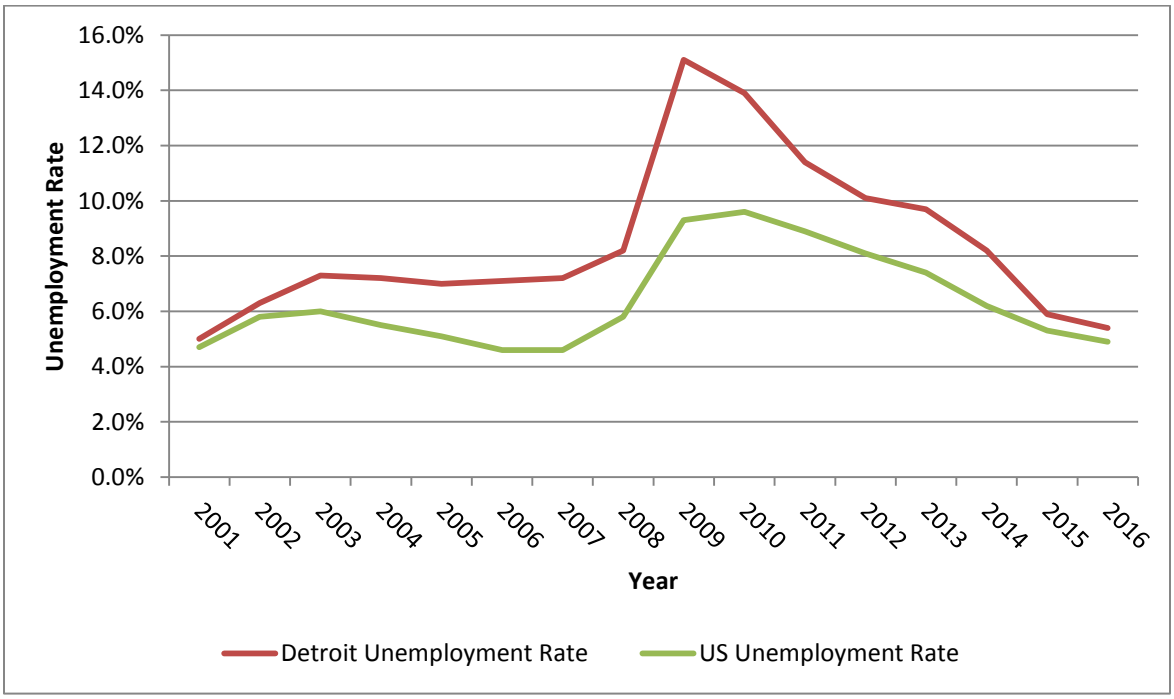
Whereas the income tax discourages people from working, the tariff would encourage Americans *to work more.* This is so because the tariff provides protection against foreign competition, thus making their operations more profitable. Does it not make more sense to tax something that we actually want to discourage (competition from Mexico) rather than things that are essential for economic growth? The U.S. should increase tariffs on Mexico and use that money to pursue tax reduction in other areas that will minimize the negative impact of more harmful taxes like the income tax and the corporate tax.

5. A tariff on imports from Mexico would lead Americans to buy goods and services produced in their own local communities and economies. A growing movement believes that shopping locally is preferable to buying goods that are produced far from one's own hometown. There may be good economic reasons to buy locally. One reason is that by buying locally, you are helping sustain the jobs of people in the U.S. The experience of Detroit is a good example. Detroit was once a thriving and prosperous city. However, now that much of the auto manufacturing industry has moved to Mexico, Detroit and cities like it are suffering because workers in those cities no longer have good paying jobs. Indeed, every year since 2001, the unemployment rate in Detroit has surpassed the U.S. unemployment rate (see graph). During this same period, Detroit's population has shrunk. A city like Detroit could really use the help of a tariff.

Key Fact

Detroit's unemployment rate has exceeded that of the U.S. every year since 2001. A tariff could help revive Detroit's auto industry and restore the city's vibrancy.

Annual Unemployment Rate, Detroit vs. U.S. Average, 2001-2016



Source: Federal Reserve Bank of St. Louis, FRED Database.

Another reason that buying locally is advantageous relates to trust. The quality of the good or service being purchased is of paramount importance to the buyer in any transaction. Yet the seller almost always has much more information about the quality of the product being sold than the buyer. The seller also has an incentive to use his information advantage to deceive the buyer into thinking the good is of a higher value than it really is. Buying locally tends to mean you know the seller better. That means you're more likely to trust them to sell you something of high quality. Trust is very important to a successful economy.

CON ARGUMENTS (Against the Resolution)

1. Free trade promotes prosperity. Tariffs discourage free trade and thus reduce prosperity. When trade occurs, both trading partners are better off. Imagine a world without trade – every person would have to be totally self-sufficient; any need would have to be individually achieved. The existence of trade allows individuals to specialize in producing what they are naturally good at producing and trade for goods and services which are costly for them to produce themselves.

The same logic applies to countries. If the U.S. is particularly good at providing financial services, it should not waste its time and resources making cars. American citizens still need cars however, so these should be imported from a country where it is less costly to produce them. Tariffs make it more costly to have these kinds of naturally efficient, cross-border transactions.

Empirically, we can see that **countries that impose lower tariffs are more prosperous**. Out of a sample of 120 countries, the countries with the least restrictive tariff policies, on average, also had the highest per capita GDP and per capita incomes (data from Fraser tariff index[11] and the World Bank[12] [13]). Of those 120 countries, the 40 with least restrictive tariffs had **average GDP per capita of $23,590. Yet GDP per capita was only $7,630 for the 40 countries with the most restrictive tariffs** – a level that's not even one-third the level of the countries with low tariff restrictions. The story is the same for per capita income, **with an average of $21,274 for the top third and $7,292 for the bottom.** Clearly, free trade plays an important role in making both countries and individuals more productive and thus prosperous.

> Key Fact
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> Countries with the least restrictive tariff policies had three times greater GDP than countries with the most restrictive tariff policies.

2. A tariff on Mexican imports will significantly raise prices for American consumers. Tariffs increase production costs and these increased costs, or at least a portion of them, are passed along to American consumers in the form of higher prices.

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[11] Gwartney, James, Robert Lawson, Joshua Hall, Ryan Murphy, Robbie Butler, John Considine, Hugo Faria, Rosemarie Fike, Fred McMahon, Hugo Montesinos-Yufa, Dean Stansel, and Meg Tuszynski. *Economic Freedom of the World: 2016 Annual Report*. Rep. N.p.: Fraser Institue, 2016. Print.
[12] *Adjusted Net National Income per Capita*. World Bank, n.d. Web. 15 Feb. 2017.
[13] *GDP per Capita (current US$)*. World Bank, n.d. Web. 15 Feb. 2017.

While tariffs on Mexico may benefit some specific U.S. companies, it is indisputably costly for American consumers (i.e. the entire domestic population of the U.S.). Therefore, there are very concentrated benefits to a tariff for a small number of specific firms, but a much larger group of people are negatively impacted (i.e. America's entire consumer base).

Even past free trade agreements with Mexico, such as NAFTA, have had very small negative impacts on the U.S. labor market. In fact, after the passage of NAFTA, millions of new jobs were created in the domestic economy. From 1993 to 2001, civilian employment rose from 120.3 million to 135.1 million and the unemployment rate fell from 6.9% to 4%. Nor was there a mass exodus of American companies to Mexico. From 1994 to 2001, American manufacturing companies invested an average of $200 billion domestically, compared to only $2.2 billion in Mexico.

Key Fact

From 1993 to 2001, the years following NAFTA, U.S. civilian employment increased from 120.3 million to 134.1 million and unemployment fell from nearly 7% to 4%.

As of 2015, the U.S. imported more goods from Mexico than from any other country except Canada and China. In 2015, the U.S. imported $316.4 billion worth of goods and services from Mexico.[14] Especially important is the nature of these goods. Among the top import categories: vehicles ($74 billion), agricultural products ($21 billion), and mineral fuels ($14 billion). In fact, as of 2015, Mexico is our second largest supplier of agricultural products.[15] Clearly Americans have a high demand for these products and benefit from being able to get them at cheaper prices. **Transportation, food, and, fuel are not obscure commodities that few Americans use.** They are important goods that we use in our everyday life. A "significant tariff" will significantly raise the price of these items and may make them too expensive for some American consumers to afford, particularly low income consumers who spend a disproportionally large percent of their income on food, fuel, and transportation. So a tariff would especially hurt the poor.

3. Since companies in the U.S. rely on goods from Mexico for their finished products, a tariff would hurt American companies. A large part of the trade between the U.S. and Mexico is part of a larger production chain. For example: consider the assembly of a car. It requires steel, which might be produced and shaped into car parts in the U.S., then sent to Mexico to be assembled into cars, and then sent back to the U.S. to be sold. A tariff greatly increases the

[14] "Mexico | United States Trade Representative." *Mexico | United States Trade Representative*. Office of the United States Trade Representative, n.d. Web. 13 Feb. 2017.
[15] "Mexico | United States Trade Representative." Mexico | United States Trade Representative. Office of the United States Trade Representative, n.d. Web. 13 Feb. 2017.

costs of this sort of cooperation and makes American companies, who employ American workers, less efficient.

Many of the top categories of imported goods from Mexico include items that are inputs into another finished product rather than consumption goods themselves. Such things include electrical machinery ($63 billion), machinery ($49 billion), and optical and medical instruments ($12 billion). The companies that buy these goods currently employ millions of American workers. They would be hurt if they had to pay a tariff each time they import the parts they need from Mexican suppliers.

One study from the National Bureau of Economic Research found that the United States uses substantially more imported goods in the production of our exports than other advanced economies. In fact, 12.4% of the valued added in the production of American exports comes from goods that were imported to the U.S., compared to the world average of 4%.[16] In other words over 12% of the value of goods exported from America came from goods that were first imported to America as components of finished products that are then exported after refinement or assemblage. It is worth noting, many of these imported input goods themselves first originated in the U.S.

Key Fact

Approximately 12.4% of the valued added in the production of American exports comes from goods that were imported to the U.S.

4. Mexico may retaliate with a counter-tariff on American goods we want to export to sell in Mexico. If the U.S. imposes a tariff on imported goods from Mexico, it is probable that Mexico would retaliate with their own tariff on American goods exported for sale in Mexico. This would be incredibly costly for the United States, which exported $267.2 billion worth of goods and services to Mexico in 2015. In fact, in 2015, **Mexico was the United States' second largest goods export market.**[17] A counter tariff would mean that American companies would be significantly less competitive in Mexico, hurting both American businesses and workers. A tariff on American exports would also further disrupt the production chains between the United States and Mexico making it more costly for corporations from both countries to trade with

Key Fact

In 2015, Mexico was the United States' second largest goods export market.

[16] Koopman, Robert, et al. GIVE CREDIT WHERE CREDIT IS DUE: TRACING VALUE ADDED IN GLOBAL PRODUCTION CHAINS. National Bureau of Economic Research, www.bea.gov/about/pdf/NBER%20working%20paper_1.pdf.
[17] "Mexico | United States Trade Representative." Mexico | United States Trade Representative. Office of the United States Trade Representative, n.d. Web. 13 Feb. 2017.

each other.

5. Non-trade related factors are driving much of America's job loss and wage stagnation. It would be an error to assert that trade has been the most important factor that's caused job loss and wage stagnation in the U.S. Rather, new technologies and capital equipment also have displaced workers. Artificial intelligence is one such new technology. Even if the U.S. were to increase tariffs on imported goods from Mexico, American workers will still have to contend with machines replacing jobs formerly done by humans.

Appendix A: Tariff Index, Selected Countries, Economic Freedom of the World Report 2016

Note: A high score in the "tariff index" indicates that a country has less restrictive tariffs. That is to say, a score of 10 for Hong Kong and Singapore mean those countries have the least restrictive tariffs (i.e. the lowest tariff rates or no tariffs at all), and a score of 5 for Russia toward the bottom of the table indicates Russia has fairly restrictive tariff policies.

Country	Tariff Index (2016)*[18]	GDP/Capita (2015)[19]	Income/Capita (2014)[20]
Hong Kong	10	$42,328	
Singapore	10	$52,889	$41,244
Chile	9.5	$13,416	$10,642
New Zealand	9.2	$37,808	$30,164
Albania	9	$3,945	$3,614
Australia	8.9	$56,311	$42,215
Unit. Arab Emirates	8.8	$40,439	$33,491
Moldova	8.7	$1,848	$1,926
Nicaragua	8.5	$2,087	$1,519
Austria	8.4	$43,775	$38,305
Czech Republic	8.4	$17,548	$14,276
France	8.4	$36,206	$34,381
Ireland	8.4	$61,134	$36,292
Luxembourg	8.4	$101,450	$57,828
Portugal	8.4	$19,222	$17,648
Spain	8.4	$25,832	$23,798
United States	8.4	$56,116	$43,602
Germany	8.4	$41,313	$37,655
United Kingdom	8.4	$43,876	$34,468
Israel	8.2	$35,728	$28,084
El Salvador	8.2	$4,219	$3,225
China	8.2	$8,028	
Costa Rica	8	$11,260	$8,043
Mozambique	7.9	$529	$430
Uruguay	7.8	$15,574	$11,987
Cambodia	7.6	$1,159	$823
Mexico	7.4	$9,005	$7,575

[18] Gwartney, James, Robert Lawson, Joshua Hall, Ryan Murphy, Robbie Butler, John Considine, Hugo Faria, Rosemarie Fike, Fred McMahon, Hugo Montesinos-Yufa, Dean Stansel, and Meg Tuszynski. Economic Freedom of the World: 2016 Annual Report. Rep. N.p.: Fraser Institue, 2016. Print.
[19] *GDP per Capita (current US$)*. World Bank, n.d. Web. 15 Feb. 2017.
[20] *Adjusted Net National Income per Capita*. World Bank, n.d. Web. 15 Feb. 2017.

Togo	7.4	$560	$582
Japan	7.4	$34,524	$35,580
Ghana	7.3	$1,370	$1,237
Vietnam	7.3	$2,111	$1,242
Tunisia	7.2	$3,873	
Brazil	7.2	$8,539	$9,813
Iceland	7.2	$50,173	
Malaysia	7.1	$9,768	$7,785
Jordan	7.1	$4,940	$3,405
Canada	7	$43,249	$39,703
Burundi	6.9	$277	$156
Kenya	6.8	$1,377	$978
Coted' Ivoire	6.5	$1,399	$1,278
Chad	6.3	$776	$742
Nepal	6.2	$743	$620
India	6.2	$1,598	$1,389
Turkey	5.9	$9,126	$10,266
South Korea	5.6	$27,222	$19,528
Sri Lanka	5.5	$3,926	$3,029
Botswana	5.2	$6,360	$6,140
Russia	5	$9,093	$8,790
Fiji	5	$4,961	
Central Afr. Rep.	4.5	$323	