COALITION for a PROSPEROUS AMERICA

IMPROVING TRADE MODELS AND MEASURING PRO-JOBS TARIFF IMPACTS

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PRE-EXISTING GTAP/ITC MODEL PROBLEMS

1. Total employment cannot increase because full employment is assumed
2. Total capital stock (plant & equipment) cannot increase because economy deemed to be at full capacity
3. Prices are primary driver of the whole economy, including demand and output.
4. The model leaves policymakers with one lever to create growth – lower tariffs – to increase ”efficiencies”

CPA IMPROVEMENTS TO GTAP MODEL

1. Tariff productivity elasticities: growth through production rather than cheap prices

- Tariffs provide domestic firms space to increase capacity and output
- Calculated by sector as change in output when tariffs increase by one percent
- Supported by March USITC report showing Section 232 and 301 tariffs led to increased production.

2. Factor supply elasticities: jobs and capital stock can increase

- Economy-wide supply of capital (investment) and labor rise in response to demand
- Example: $20B of investment in steelmaking following Section 232 tariffs.

SCENARIO 1
15%/35% TARIFFS ON NON-FTA COUNTRIES

Non-FTA countries

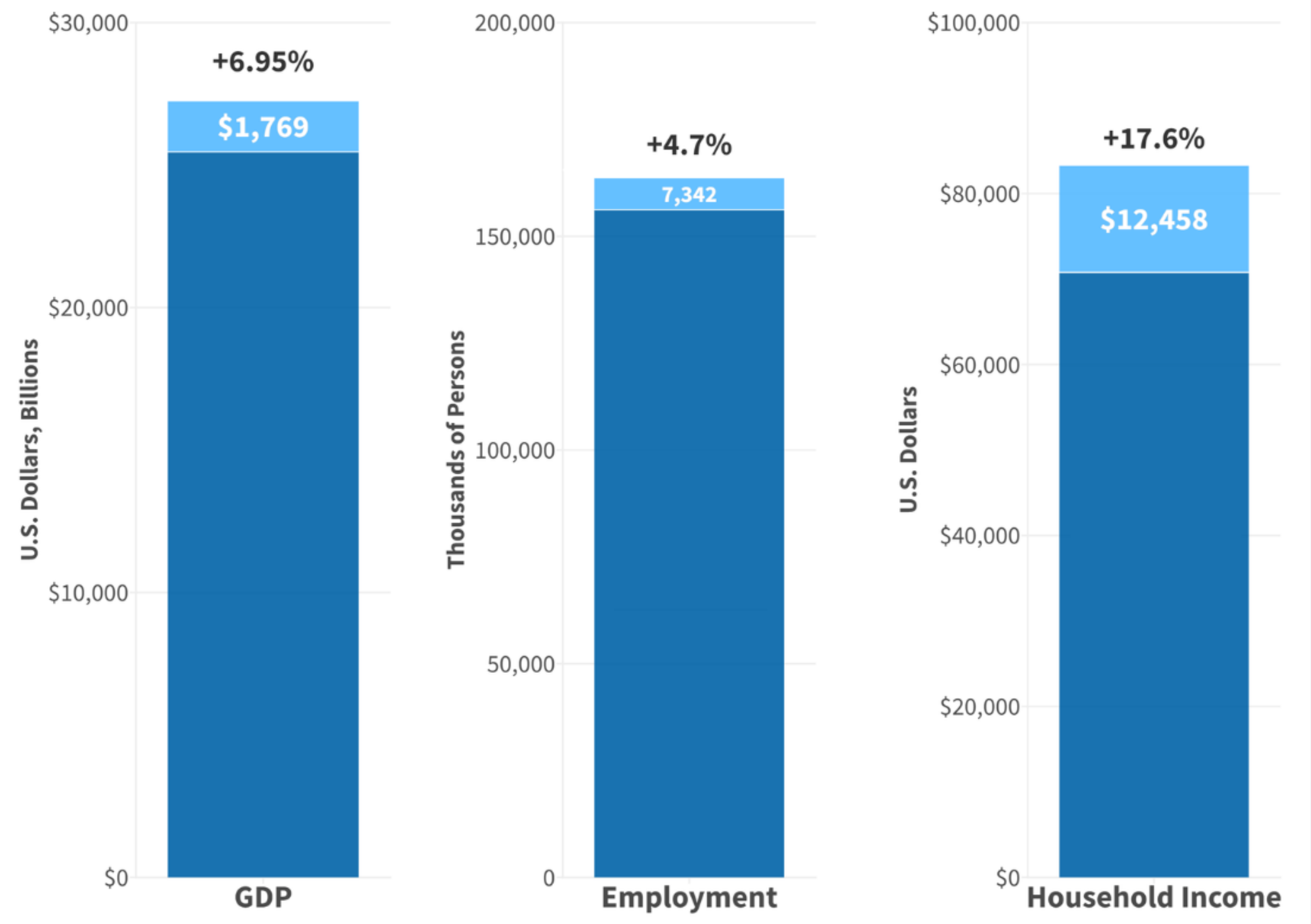
- Manufactured goods – 35% tariffs
- Non-manufactured goods (agriculture, forestry, fishing) – 15% ”revenue” tariffs
- Minerals – 0% tariffs

FTA countries

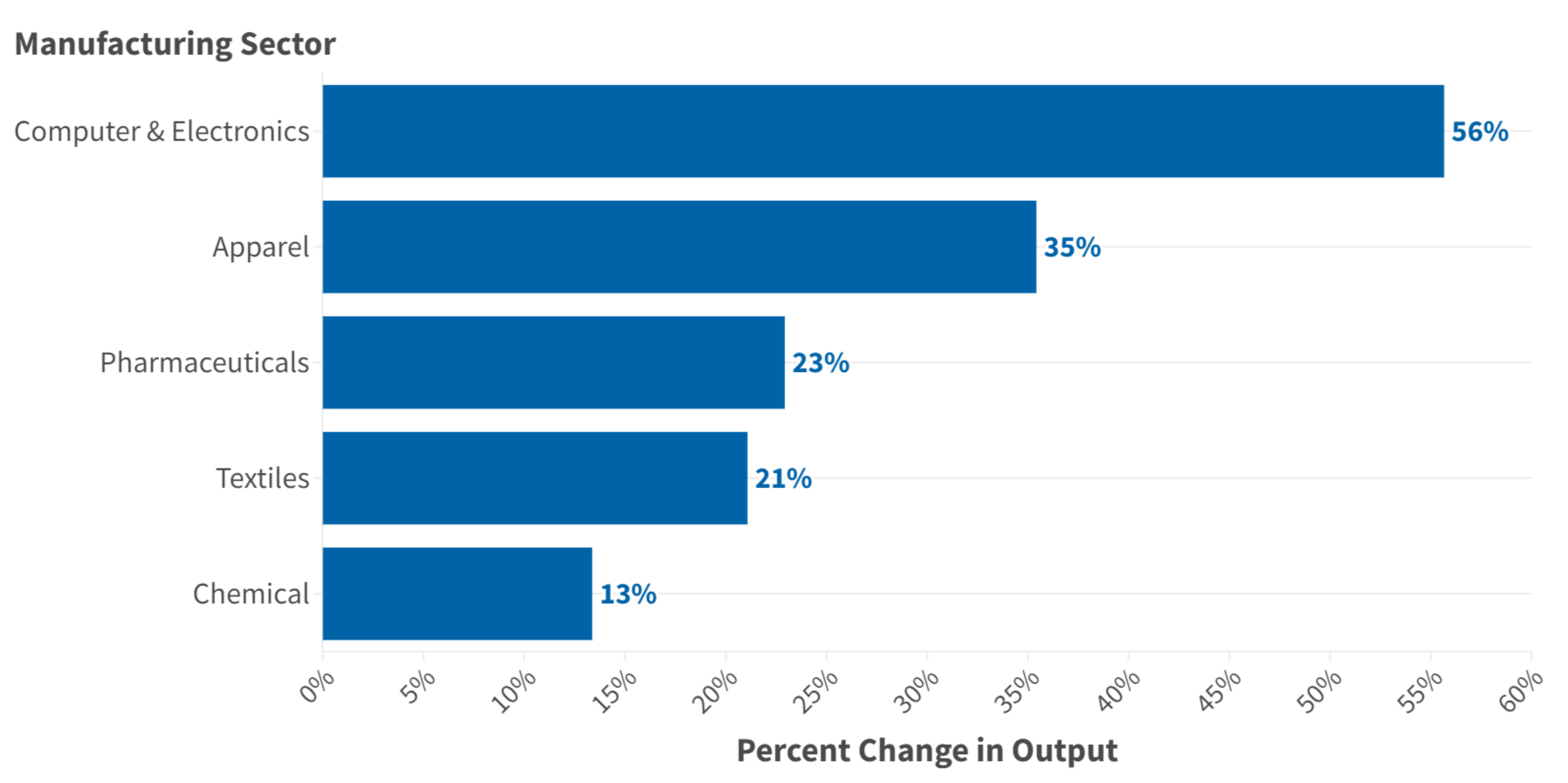
- No tariff change

SCENARIO 1 RESULTS
INCREASED ECONOMIC GROWTH, JOBS, INCOMES

- GDP up by $1.7 trillion (6.95%)
- 7.3 million new jobs created (4.7%)
- Real household incomes rise by $12k per household (17.6%)



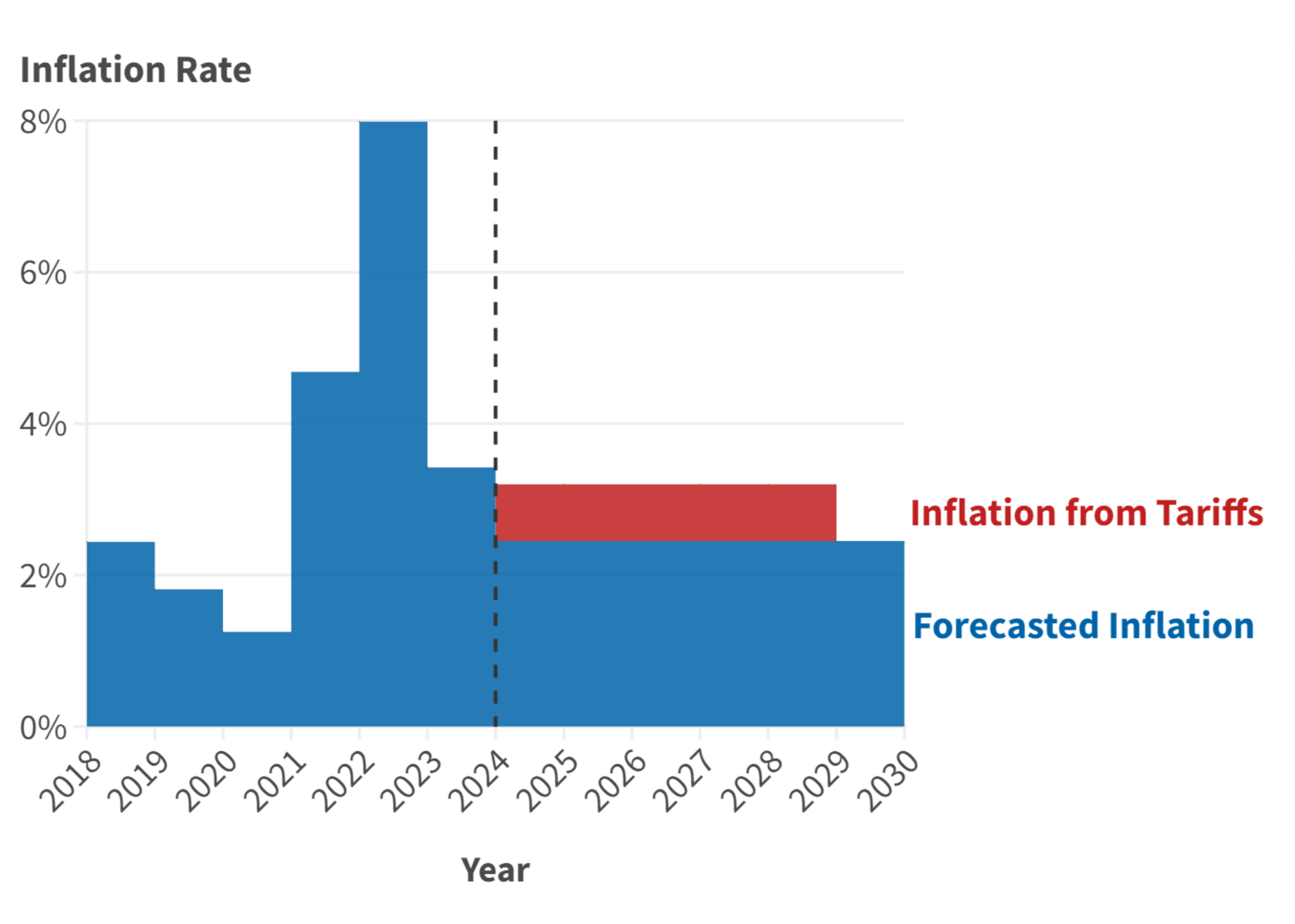
SCENARIO 1 RESULTS
INCREASED MANUFACTURING OUTPUT



SCENARIO 1 RESULTS
TEMPORARY/MODEST INFLATION DURING TRANSITION

- 4.5% total inflation over transition period
- 0.75% annually assuming 6-year transition

(Price increases dampened by decreasing unit costs as scale of production increases)



SCENARIO 2
5%/10% TARIFFS ON NON-FTA COUNTRIES

Non-FTA countries

- Manufactured goods – 10% tariffs
- Non-manufactured goods (agriculture, forestry, fishing) – 5% ”revenue” tariffs
- Minerals – 0% tariffs

FTA countries

- No tariff change

SCENARIO 2 RESULTS
MODEST ECONOMIC GROWTH, JOBS, INCOMES

Results are similar but proportionately smaller by about 1/3:

- GDP up by 713 billion (2.8%)
- 2.8 million new jobs created (1.8%)
- Household incomes rise by $5k per household (7.1%)