

Congress's role in the trade war: A bipartisan conversation with Senators Kaine and Paul

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[00:00:14.02] - Adam S. Posen

Either in person or virtually to the Peterson Institute for International Economics. I'm Adam Posen, the Institute's president, and it is a source of genuine pride today for us to be able to host Senator Tim Kaine of Virginia and Senator Rand Paul of Kentucky fresh off a Senate vote today on a bill they co-sponsored that Senator Kaine initiated to take back the control of tariffs and in particular to rescind the emergency tariffs put on Canada. This follows a vote, I believe yesterday, on tariffs towards Brazil. I think the important thing to focus on is that, as both senators have said and will continue to say, I'm sure, Tariffs are a very, very heavy-duty weapon not to be used lightly. Tariffs are a tax, but they are not only a tax, they're a highly distortionary tax and therefore also not to be used lightly. Tariffs are explicitly in the Constitution, the purview of Congress and not of the president. It's about as clear as anything in the Constitution there is. Increasingly in recent times, as part of their general standing up for rule of law, the senators we have— we're privileged to have with us today— have spoken about the excessive use of emergency powers.

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The words emergency, national security, economic emergency have to have some meaning, legal and substantive, and not be an open window. I am thrilled that we at the Peterson Institute for International Economics, which have provided substantive economic and policymaking work through the years to support the idea that Congress has a responsibility and that these responsibilities need to be met through fact-based, nonpartisan discussion, fitting of what at least used to be called the greatest deliberative body on Earth. And so with that, it's our honor today to host the two senators for a discussion of Congress's role in trade policy at this critical juncture. Please allow me to turn the microphone over to my colleague Chad Bown, the Reginald Jones Senior Fellow here at the Peterson Institute, former Chief Economist at the U.S. State Department, and longtime one of the leaders of public discussion and explanation of trade issues for the American people. Chad, thank you very much.

[00:02:59.07] - Chad P. Bown

OK. All right, we're going to get right into it. Thank you, Adam, for the introduction. So— and thanks to everybody online and in the room. The title of our event today is Congress's Role in the Trade War, a bipartisan conversation with Senators Kaine and Paul. So let me first introduce our special guests. Senator Tim Kaine is a senator from Virginia. He was born in Minnesota and has a long and distinguished career in public service. He served as mayor of Richmond, Lieutenant Governor and Governor of the Commonwealth of Virginia, one of the Commonwealth's senators since 2013, and was candidate for vice president on the Democratic ticket with Hillary Rodham Clinton in 2016. Senator Rand Paul is a senator from Kentucky. Dr. Paul was born in Pittsburgh. And was a practicing ophthalmologist.

[00:03:49.13] - Senator Tim Kaine

It's a good time to put on your glasses.

[00:03:50.21] - Senator Rand Paul

Dramatic effect. I like it.

[00:03:52.15] - Chad P. Bown

Eye doctor, here in my notes, before he, too, entered what has now been a long career in public service when he was elected as a senator in 2010. He also ran for the Republican nomination for president in 2016. Thank you both, senators, for coming. Here we go. So as Adam already mentioned, lots of tariffs. President Trump has imposed them using executive authority during both his first and second administrations. Some of these tariffs have been imposed under Section 232 of the Trade Expansion Act of 1962, based on a legal assessment that imports of products ranging from steel and aluminum to lumber are somehow a threat to America's national security. His administration has also declared national emergencies and, under the International Emergency Economic Powers Act, or IEEPA, imposed tariffs on all of America's trading partners, ally and non-ally alike. This week, the Senate is holding votes on a number of pieces of bipartisan legislation that you two have co-sponsored to challenge a number of those tariffs. Yesterday, the Senate voted 52 to 48 to terminate the 50% tariffs President Trump had imposed on Brazil, with 5 Republicans joining 47 Democrats to pass the resolution. And today, just now, something was happening, and you'll have to tell us and update us on what's been happening.

[00:05:14.13]

And if my understanding is correct, there's also a— today's vote was on the Canada tariffs. And then there's, if my understanding is correct, there's a plan to vote this week on President Trump's global tariffs as well. OK, so opening question for both of you is, please, can you update where things stand? But also, why are we here? Why are you advocating this piece of legislation? What are the arguments that you're putting out there? And so maybe we'll start with Senator Paul.

[00:05:43.26] - Senator Rand Paul

Well, I'd say there's two categories of arguments here. One is the economic effect of tariffs, whether they're good or bad. And I think that's a big deal because it used to be known, and the knowledge has somehow been lost, but it used to be known that trade was proportional to prosperity, that trade was a good thing, not a bad thing. It was pretty well generally known, and that knowledge is being lost. The second argument, though, is whether or not one individual should be able to do this through emergencies. And when I heard there was emergencies, I thought, oh, you mean war, or a tornado, or a famine. I didn't realize that trade policy with over 120-some-odd countries is an emergency. So it's a misuse of emergencies. Then built into that is yet another debate, and that's over whether or not we should allow emergencies to occur that can only be stopped by a supermajority. We won yesterday, we won today, but if we were to win in the House, he would veto it, and then it would take a supermajority, it would take two-thirds to stop an emergency. I actually have a bill that reforms the emergencies and says, If a president declares an emergency, it would actually take an affirmative vote by us to continue beyond 30 days.

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Then we would reverse this, and a presidential veto wouldn't have to be overcome. So there are sort of three arguments. We'll get more into it, and I'll turn it over to Tim, but economic, constitutional, and emergencies, and tied up in all of that. And so the reason we were able to get the vote, though, is it was a privileged vote. Meaning they couldn't stop. They weren't excited about the vote, but they couldn't stop us from having the vote because it was a privileged vote.

[00:07:24.19] - Senator Tim Kaine

Tim? Yeah, I'll just focus on the economics of it. So I'm from Virginia, and maybe because of that, I'm a little more in the pro-trade camp than a lot of folks on the Democratic side. We have one of the busiest ports in the country, the Port of Virginia. We have an international airport, Dulles, 400-plus flights a week to foreign cities. 1 out of 9 Virginians was born in another

country. So we have all these global touchpoints, and that makes us a state that has really done well by trade. We've gone from bottom quarter per capita income when I was born to top quarter per capita income. I think, frankly, trade and immigration are 2 of the great reasons. There are other reasons too, but trade and immigration are 2 of the great reasons for it. So I tend to be really pro-trade. I think tariffs have a role, but it's a real, like an X-Acto knife or stiletto. Specific tool to use under specific circumstances, and when you use them in just this kind of gross, indiscriminate way, you really just completely screw up the economy. And both Rand and I are hearing stories all the time from our constituents, from the pie shop with 3 locations in Occoquan, Leesburg, and Purcellville, whose pie tins all come from Canada 'cause they're all aluminum.

[00:08:41.15]

You see their pie prices going up, to all the farmers whose commodity prices have been flat, but they have to use fertilizer, and the biggest ingredient fertilizer is potash, and 80% of it comes from Canada. So we're hearing all these stories about the economic devastation. What's it good for? Nothing. And just to say one other thing, on the global tariffs, we won the Brazil tariff one yesterday, 52-48. We're gonna win the Canadian tariff one today, although the vote is still going on, but we're picking up 4 Republicans and the Democrats. We'll have a vote on the global tariffs tomorrow. And again, these are all imposed by emergency. In Canada, there's a fentanyl emergency. No, there's not. There's a fentanyl emergency in Mexico and China. But it's not Canada's fault more fentanyl goes from the US to Canada than vice versa. There's an emergency in Brazil. What's the emergency? They're prosecuting Bolsonaro. Wait, how is that an emergency for the United States? AIPA is only to be used to counter an extraordinary and unusual threat to American national security, foreign policy, or the economy. How's Brazil's prosecution of Bolsonaro an extraordinary threat to US national security or the economy?

[00:09:52.13]

And then the global tariffs that we'll vote on tomorrow, and I think we will also win that one. The president, the emergency that the president said was trade deficits. Now, trade deficits, okay. The president had his Liberation Day announcement, And the trade deficits were trade deficits in goods. He didn't put the numbers down for goods plus services. We're not living in the 19th century anymore. I mean, the economy used to be a goods economy. It's a goods plus services economy now. The president never talks about that. All of the information on trade deficits looks much better for the United States when you add in services. The president didn't adjust the—trade deficit numbers by population. We got to put a tariff on Vietnam because we buy more Vietnamese stuff, so you should buy more American stuff. Well, wait, their population's 1/3 the size of the United States, and they don't have the purchasing power that Americans do. So the

whole notion of when there's a trade deficit in goods, that should be a reason to punish somebody, you're measuring trade the wrong way. You're not population adjusting it. You're not reflecting for the fact that if Americans want to make a voluntary choice to buy goods from other nations, then they're doing it in a way that is benefiting their pocketbook.

[00:11:07.25]

So I just economically feel like it's foolish and really counterproductive, and it's hurting Virginians, hurting Kentuckians, hurting Americans.

[00:11:16.13] - Senator Rand Paul

Well, and interestingly, the trade deficit's actually going up this year. So we've got all of these tariffs to correct the trade deficit, and the trade deficit is getting worse. But I think it's important to talk about the trade deficit because I think it's a fallacy that it means anything. I think, you know, this could mean it has a little effect. I think it's meaningless. It's a completely meaningless accounting of trade that really absolutely sends no real signal that's of value or use. So for example, I think the best way to think of a trade deficit is everybody in the room goes out and you want a TV, and you got \$600, and you buy a TV at Walmart, and you're happy because it's a free trade, it's a voluntary trade, it has to be mutually beneficial. You want the TV more than your \$600, they want your \$600 more than the TV, and you make a trade, and you're all happy, and you go home, and then some bean counter at the end of the year draws a circle around all of your trades and says, "You bought all these TVs from China and they didn't buy anything from you.

[00:12:14.09]

You've been ripped off." But my question is, how did you get ripped off if you were all happy? You're all happy. You're still happy with your TV. But now you've been informed that altogether you've been ripped off. It's just a fallacy. It doesn't mean anything. And talk about little countries versus big— Bangladesh. We have a trade deficit with Bangladesh. Well, I want to know when Bangladesh is going to buy as much from us as we buy from them. I mean, we're like millions of times richer than Bangladesh. They're never going to be. The same with rich people. If I'm a rich person and Tim's a working guy, I'm going to have a bigger trade deficit with Amazon than the grocery store. That it means— none of these things mean anything. But we have to— we used to understand this. They taught this in the universities. And it wasn't even a Republican-Democrat thing. And I think it's still being taught in the universities. But I can tell you, if you do a public opinion poll, at least on the Republican side, they've been persuaded that tariffs are a

good thing. And that's why we have to have this debate, because there are economic fallacies here.

[00:13:13.08]

But it's also a bad policy if you want growth and GDP and jobs.

[00:13:17.22] - Senator Tim Kaine

Brandon, we just won our vote 50-46 on the Canada tariff.

[00:13:20.29] - Chad P. Bown

Good.

[00:13:21.06] - Senator Rand Paul

All right.

[00:13:22.08] - Senator Tim Kaine

Good timing for this event.

[00:13:26.10] - Chad P. Bown

So not only that, but can I just say what a pleasure it is to be the economist on stage and not have to make a single economic argument because you two are handling it all for me. Thank you. All right, but let's talk about the counterarguments here. What are you hearing? From those that are opposed to the legislation that you're putting out there? What is the main argument? Is it political? Is it they're worried about defying President Trump in some ways? Or are they worried about potentially constraining a president when there is a legitimate kind of emergency? So what are you hearing as you talk to your colleagues about some of the reasons why you don't have all the votes?

[00:14:08.14] - Senator Tim Kaine

I'll say that I've heard from a number of Republicans who are saying to me, I want to vote for you, but. So I'm hearing more from the people who are voting against me, but are with me, and why are they still voting against me? So the vice president came to the Republican caucus lunch yesterday and really tried to rally people around the notion that President Trump's in China trying to cut a deal on tariffs with Xi Jinping right now. Don't undercut him by saying

there's no emergency with Brazil. Don't undercut him by saying there's no emergency with Canada. So as I talked to some colleagues on the floor last night, I said, I know you're worried about this. I know your people are suffering. We're not going to undercut the president while he's over there trying to cut a deal. So I don't have people making the counterargument to me on the economic ground, except on occasion. Someone will say, this will help inspire American industries to grow and flourish. Some people will make that argument. Now, somebody made that to me about Brazil. And I said, OK, now tell me where we're going to grow coffee.

[00:15:09.09]

I mean, we buy 30% We import 85% of our coffee from Brazil. If we grow every acre on Puerto Rico and Hawaii in coffee, that will meet 1% of the American demand for coffee. So sometimes tariffs are used to justify the growth of a domestic industry, but a lot of these tariffs are being posed in ways that that clearly isn't the goal.

[00:15:30.01] - Senator Rand Paul

You know, the president says that tariff is his favorite word, and he loves tariffs, and tariffs are always good, except for, well, maybe sometimes for the farm economy. So they can't get away from admitting that the farm economy really is being devastated by this. And mostly not in a tariff way, but in a trade war way. China used to buy a lot of our soybean. They bought \$13 billion worth last year. This year they're buying zero. But it is in retaliation to the tariffs that we put on their goods. And this is where it's tricky because there's a lot of farm states, most of the farm states are now Republican, And they will all tell you, and they tell the trade representative in our private meetings, they're unhappy. They want something done about the soybean, but they're unwilling to cross the president. And it's that line of crossing the president. I think if the farm economy worsens, they're gonna try to bail it out, and maybe they can. But there's a possibility that it gets so bad that they can't escape it. There is a point at which then maybe some of these people who say they are free trade actually begin voting to end the emergencies.

[00:16:34.09]

We're not quite there yet, but it's funny how people say, well, you know, I'm taking a difficult stand as a Republican up here. Maybe, and it's not that popular, but when I go home, I meet with the farmers. They still are pro-trade. They're being hurt, and they know I'm on their side. I meet with the bourbon industry.

[00:16:52.01] - Senator Tim Kaine

Mm-hmm.

[00:16:52.13] - Senator Rand Paul

Canada's not buying any bourbon now, and it's even worse than the tariffs once again. It's not a tariff on bourbon. It's zero bourbon because they're mad about the insult of being called the 51st state. I have UPS and DHL in my state that are big presences, international cargo. They're not lobbying me for tariffs. I've got home builders like everybody else, real estate. They're not lobbying me. I have hardwood floor folks that export. They're all being hurt by the tariffs. I have not one business interest, not one single business interest or association that has come to me. And on the other side, in fact, my friendships are better with those people right now than they've ever been. But there are people amongst the public who believe— and I think protectionism is easy to sell because the same way nationalism or patriotism or a false patriotism is easy to sell. Because if you're struggling and you make \$30,000 a year and your wages didn't go up and inflation is squeezing you, China. China's fault. So if you blame it on other people, it's easy to do that. And then it's pro your country versus their country. It's us versus them.

[00:18:02.16]

So I think it sells, and it is being sold to the public, and it's a popular item. But most of our businesses actually still believe what they were taught in school and what they've seen with their own eyes is that their business is damaged by tariffs.

[00:18:18.09] - Chad P. Bown

This question just occurred to me. Is partially inspired by, Senator, your description of how our process works. So I'm sure not everybody online fully understands the challenges of getting a law passed. You guys are in the Senate. What would it take to get the House to engage on this issue? You've been working on this issue now for months, right? Some of these votes you had passed back in the spring. Sort of didn't go anywhere in the House. Any ideas on what it would take to actually engage them, which would be the logical next step, right, before we could make any further progress?

[00:19:00.06] - Senator Tim Kaine

The House is so afraid of this issue. So it's a privileged motion in the Senate. One senator can file a challenge to emergency powers. It ripens within 10 days, can be called up any time after that. Simple majority vote, can't filibuster closure, They can't send it to a committee and kill it. So you're guaranteed a vote, privileged. And there's other privileged motions as well that we've been using. There was privilege over on the House side, but they were so afraid to vote and potentially cross Trump because they had a lot of members of their caucus that didn't like tariffs

that they did a definitional change. For purposes of this statute, this legislation, which ripens in 10 days, We will call the rest of the year a single legislative day for purposes of this statute so that nothing can ripen because there's not 10 days. But they do that because they know tariffs are bad. They know they'd lose the vote. Now, that doesn't mean the House can't take it up. It just means that it doesn't automatically come up via privilege. So a discharge petition or something like that could force this issue.

[00:20:08.07] - Senator Rand Paul

This is interesting because the reason it's privileged, which means they can't stop it, leadership doesn't get to stop it, it comes forward, is this was a reform of the emergency powers in the 1970s. They thought presidents were too powerful, and they wanted to limit their powers. And so, one way of limiting it was to say it would be an automatic motion. One member can bring it up, and it has to be voted on. Same in the House. And they have done—the joke always has been that legislatures can determine that night is day and day is night. But now we know legislatures can determine the day that a week is a day or a year is a day. But it is crazy, and it goes against the spirit of the law, because the spirit of the law was to rein in emergency power. And so there has been no vote. They have prevented this vote over there. But really, it probably takes 4 or 5 Republicans with courage for it to change. The Republicans had to vote, every one of them, because there's like a 1 or 2 vote margin. Every one of them had to vote to allow this rule to occur.

[00:21:04.24]

Now, from talking to colleagues over there that would like to see the emergency vote, They tell me that many people voted on the rule, and when you vote on the rule in the House, you typically vote with your party, almost always. Sometimes people vote against their party, but rarely. They all just voted for the Republican rule, but they didn't even know what was in the rule. And this was an extraordinary thing. Been around long enough now, they know it's in the rule. And the next time it comes up, we need 4 or 5 Republicans over there to have courage. And there's enough economic dislocation in the farm market that maybe some congressmen in farm states will have courage to do it. I think there is a chance we could, and that's why we have to keep fighting here. And sometimes people in the hall, the reporters, say, "Why are you doing this? You know you're gonna lose." I said, "Well, no, we're gonna win before we lose." But they don't understand that it isn't always about win or losing. It's about the idea of are tariffs good or bad? Is trade good or bad? And it is ultimately, you have to build into something that may ultimately be a victory 6 months from now, or if the economy worsens, we'll have set up the predicate for how we do something on this.

[00:22:06.07] - Chad P. Bown

OK, I have one more question, and then we're going to turn it over to the audience. So audience, be thinking of good questions, and we have a mic there that you'll be able to ask them from. One of the things that you mentioned, Senator Paul, was you also had a bill, a separate bill, that looks at the reform of the general question of emergencies. And that made me think of a lot of the conversations that I've been having recently with foreign officials. That look at what's been happening here in the United States over the last year or so now and have thought to themselves— and so this is a question that's not about this set of tariffs, what you're doing on this piece of legislation, or even the Supreme Court and their judgments. It's really the question of, how does anybody now negotiate long-term agreements with the United States that would be durable and that would be even in our own best interest, right? Trading partners are wondering if a new president can come in and just rip them up. Why should we bother sitting down to negotiate something that would try to be durable?

[00:23:18.24]

So what's the role, more generally, stepping back from this, for Congress to potentially change the president's authority when it comes to tariff setting? Tell us a little bit more about the, the other pieces of legislation that you might be working on in these areas.

[00:23:34.01] - Senator Rand Paul

Well, some who have acquiesced in this say that the president, we, that Congress can delegate their authority, but there's something called the non-delegation, uh, clause or the non-delegation theory is the idea that you can't give it up. I can't just say, well, the Constitution wanted to give the taxing authority to Congress, but I'm just giving it to the president. The problem is, is over about a 70-year history, we kind of did this. And I've even voted for trade deals, 'cause I thought the president was going to sign a trade deal that was beneficial to make more trade, and we give up some power to have a single entity negotiating that. So the history from World War II on was giving some authority to these deals, mostly to lower trade barriers, and they mostly did lower, but now they're being used in the opposite way. I think that, The whole idea of whether this is done through emergency or going back to the traditional way, doing it through emergency, which could well be overturned, and I think the likelihood is the Supreme Court is gonna overturn this. I don't think they're gonna say it's unconstitutional. I wish they would, but they always kind of tend to go to a more narrow doctrine of not going to the constitutional question.

[00:24:44.13]

I think they're gonna say AIPA doesn't cover tariffs. Didn't authorize you to do this. I think they're going to narrow it, and the 5 companies that sued are going to be given their tax money back. But I think, in general, you're already seeing the Trump administration argue that other laws are supporting their tariffs, not AIPA anymore, because I think they know they're going to lose.

[00:25:03.26] - Senator Tim Kaine

Yeah, I think that's right. And your question about allies wanting to count on us— I mean, I'm on the Foreign Relations Committee. Rand has been on all the National Security Committees during his time. We get these questions all the time. We got to have reliability. And we hear those from businesses on our own shores. I've got a lot of businesses that want to invest in expansions, but they say, but I have to wait till the dust settles and I know what the rules are in this tariff regime, which is so chaotic. We'll impose them. We'll delay them. We'll negotiate. We'll give an exception to this country, but not that one. We'll cut a different deal with country Z than country X. We'll give an exception to a company and not to other companies. We'll give an exception to a company that says nice things about us or gives us a gift, but if you say something negative about us, you're probably not going to get the exception. So it's just a rolling set of chaotic indecisions that make it very difficult for our allies to figure it out. So Rand's bill on the emergency power, which would basically say, president can declare an emergency and do the things that the statute specifically allows, but that emergency would expire unless affirmed by Congress.

[00:26:10.05]

I think that's the right way to go with emergency powers, because if it's a true emergency, Congress is going to say, yeah, it's a war, it's a pandemic, it's a hurricane, it's an emergency. We do that all the time. We do emergency relief bills all the time. So if we could do that, I think that would be strong. But we still have to think about the allies looking at, are we just going to go back and forth, administration, administration? I wasn't a big fan of the Biden administration on trade, and Rand's been Courageous is standing up to his. I feel like we missed huge opportunities on the trade side during the Biden administration. The Biden administration would basically tell me from the White House, trade deals aren't good politics. I'm like, well, look, I'm in politics. President Trump did the USMCA, passed 89 to 10. Seems like it was pretty good politics. Don't tell me trade is bad politics. Trade done right can be good politics. Trade done bad can be bad politics. I get it. But we lost opportunity to grow on the trade side during the Biden administration. And so no wonder the allies are concerned.

[00:27:13.29]

The whipsaw effect, or is there kind of an anti-trade attitude generally in the American political atmosphere that makes them nervous? So we are going to have to do some things to put some more reliability into the system. I think the emergency power bill is great, but a more consistent approach to— who do we go out to and try to find trade relationships?

[00:27:33.28]

Right.

[00:27:34.06] - Senator Rand Paul

And I think when businesses respond, or countries, they want certainty. And the uncertainty is worse than anything. I am ideologically opposed to a lot of taxes and regulations and stuff. Most business people aren't as ideological as me. They just want to tell me what it is. I'll pay it. They don't keep changing it each day. Like the bizarre notion of 10% more on Canada, 50% more on Brazil, and then that you're having to measure every nut that comes out of Mexico and every bolt that comes out of Canada on a car that is very, very disruptive. The other thing about this, though, is what it leads to is this— I think of it as sort of like the odor of Soviet industrial policy. The idea that— and I see this— the trade commissar comes into my caucus, and everybody's like, can I kiss your ring? Do I need to get on one knee? And they say, oh, we love you so much. And we love the president. Of course, we love the president so much. But you want us to build things in our state, and we're willing to. And of course, we want to do what you want us to do.

[00:28:37.28]

We want to do what the industrial— but to build stuff in our state, we need an assembly line, and we need robots to make the robotic line. And they're made in Japan and Switzerland and Germany. But then you're going to tariff us on bringing things even here. So even when people try to obey the commissar and do what they're told. They can't even do that because we're taxing them and impeding with them. You think even if you were gonna do this, and I'm not for this whole regime, you would exempt people buying machines to build stuff in our country. But they're not doing that unless you know somebody. So if you know Castro or Castro's brother or you're his cousin, you're gonna get an exemption. But if you don't know somebody, and so if I have a new startup company, there's no way I'm getting into a senator or getting into the trade representative. If I'm a gazillion-dollar big conglomerate, I might have a chance. But this isn't the way the marketplace should work. You should not have to beg for permission to trade and be successful in selling things.

[00:29:35.28] - Chad P. Bown

One of the other things I heard you say there, and then we're going to open it up so folks can go up to the mic. As somebody who has done nothing but, I feel like, study supply chain disruptions over the last 5 years, essentially, from the onset of the pandemic, you realize that every one of these things is different. The companies are working hard, but even times they don't know what their own vulnerabilities are. And the idea that folks in positions of policy are going to be better informed than them about the day-to-day operations is tough. So a lot of things can go wrong if you just start making decisions. Out of the blue.

[00:30:18.28] - Senator Tim Kaine

Well, yeah, and here's something that goes wrong. Trump term 1, a lot of businesses did respond, move your supply chains out of China. OK, we're in Vietnam now. Vietnam's going to end up with a much higher tariff than China.

[00:30:31.23] - Chad P. Bown

So I mean, that impacts whether they'll make a similar decision the next time around or whether they'll wait and do nothing. OK, questions from the audience? Go ahead, Brooke. And please, as you stand up— and this isn't just for Brooke. I forgot to say it to everybody. Please ask a question. Don't give a statement. And first, identify who you are to all of us.

[00:30:56.11] - Audience

Well, thank you for that. Oh, there we go. Thank you for that introduction, making sure that I don't make a comment. I'm interested in kind of a—

[00:31:06.04] - Senator Tim Kaine

What's your name?

[00:31:07.13] - Audience

Thank you. My name is Brooke. I am a trade economist. I also grew up in Pittsburgh. And now I am one of your constituents.

[00:31:14.13] - Senator Tim Kaine

Thank you, Brooke.

[00:31:15.08] - Audience

Thank you all for being here. I'm interested in kind of a broader view for just a quick second. So the reality is, is that manufacturing has evolved to be more automated, which is fantastic, but it has changed the economy in a really fundamental and interesting way for us. I'm interested in how this is going to evolve in the future. Is it going to look like agriculture? Agriculture, where we pick some industries to effectively subsidize? How do we think that this is going to evolve, and what's Congress's role in that?

[00:31:51.05] - Senator Rand Paul

I think when people look at this, one of the things you hear from the protectionists is that, oh, it was so great in the 1950s. It was a wonderful time to be alive. It was so great. 25, 35% of the country worked in manufacturing, and today only 23% or 18%, whatever the number is, it's a smaller number. And so I think we need to counter these. So in 1900, 75% of the people worked in agriculture. Only 1.6, so it must have been so much better in 1900 than it is today. No, it's, it's a function of the evolving economy that certain sectors will become more productive from automation and all kinds of other things. We grow like 10 times more food on a third less land. Well, you know, all the people who predicted the demise of population growth and everybody would starve, Paul Ehrlich and others, but anyway, they were wrong. But, you know, it moves around. But even on manufacturing, the statistics are important. I think it was from 1950 to 1975, manufacturing output went up like 138%. From 1975, after we opened up to China and everything, they destroyed everything in America supposedly, to 2000, another 25 years, manufacturing output went up like 150% or something.

[00:33:19.05]

Manufacturing added value. There's all kinds of ways of looking at this. And we can't just say because less people work in manufacturing, we're not good at it. I think we're the second biggest exporter in the world, right? China's the biggest, we're second biggest. So, it's not like we're slouching around and we're the biggest importer. So, I mean, trade is good, not bad. And I think the biggest thing that I get is people think that trade is somehow an isolated facet, this specialty item that's different. To me, trade is just a facet of capitalism. It's integral to capitalism. And I'm better off because I don't have to make my shoes anymore. I don't have to grow my food. The division of labor, and Adam Smith said that the extent of prosperity is the extent of the extension of division of labor. The more division of labor spreads throughout the world, the richer we all are. And we are richer. The statistics are just amazing. It's more noticeable that China and Bangladeshis and Thais and Vietnamese have gotten more rich 'cause they started with nothing. We started out rich. So our richness is incremental, but they'll tell you we're being ripped off as their first fallacy.

[00:34:28.28]

The other fallacy is that the middle class is hollowed out. The statistics are not, that is not true. From the '70s to today, the middle class went from like 54% to 51%, and you say, aha, it's smaller. But the lower class shrunk also. The class that improved and is still growing as a class, if you call upper class \$100,000 and more, That's where the people went, from the middle class and the lower class to the upper class.

[00:34:56.06] - Senator Tim Kaine

And one thing, Brooke, it's not an answer to your question, but you've asked something provocative, manufacturing and automation and robotics and what that's going to do. A lot of the dislocations we see economically that people blame on trade are really more because of technology. But nobody wants to blame technology when we all want to carry cell phones in our pocket and buy all the technology. So it's better to blame some pointy-headed bureaucrat, must have done some trade deal that led other nations to rip us off. And so there's a blame game that's easier to blame a person on trade since everybody likes better technology. We do have to figure out with AI and robotics what that's going to do to the future of work. Those are all really important questions. But those of us in the room, we're all pro-trade. We got to do a better job of selling the benefits that accrue to everyday folks. And apparently that really hasn't been done. Hadn't been done in my party, maybe hadn't been done as much as it should be right now in the Republican Party. So trade's in need of some allies and some champions.

[00:36:02.15] - Senator Rand Paul

And really, if you're looking for the best advice on this, I think Dilbert had it at best. Woman comes up to him, he says, I'm worried about my son. I think he could be replaced by a robot, and the robots are going to take all the jobs. Gilbert looked at her, and he didn't miss a beat. He said, I met your son, and he could be replaced by a hammer. So your son or daughter needs to be more educated than a hammer. They have to fix the robots. And there are some people who think the robots are going to make the robots, and all the humans will be gone. I think that's pessimistic. These are the Paul Ehrlichs who thought we were all going to starve by 1985, that population growth would overwhelm us. That pessimism has almost always been wrong. These are the Luddites that smashed the loom. I think there is nothing so different about AI or any of the new technologies that we have to worry. Technology and productivity are in an amazing sort of exponential curve upwards for us all. Best time to ever be alive, and it's only getting better.

[00:37:14.26] - Audience

Hi, thank you for being here. My name is Mary Lovely. I'm with the Peterson Institute. We used to think of politicians as being mercantilists and talking about exports at the expense of imports, but strangely enough, we don't hear anything about exports anymore. Yet we've kind of embarked on this dramatic national program of raising the relative prices of the things that we don't do so well, things we import, at the expense of the things that have made us the world's second largest exporter, as Senator Paul said. Do you hear about exports on the Hill? Why are we moved away from, you know, the firms that do most of the R&D, pay higher wages, and sell things abroad?

[00:38:01.15] - Senator Rand Paul

Are you saying that tariffs is not going to get us to grow more coffee? You know, the thing is, is I'm not immune to the arguments that I want my country to be great, that I want us to make stuff, that I want us to be good at exports. But rather than cut off pharmaceuticals from China, I would look at, and I'm open to, if we are struggling to reduce taxes on people making pharmaceuticals in our country, open to reducing regulations, to making their job easier. In fact, I'm kind of for all American businesses, I'm for that. But there are better ways of doing it to try to increase our exports and increase our ability to do the things we do well. If we're exporting something, it means we do well at it. We're great at farming. We're great at agriculture. We were exporting 25% of it until the tariff war came. So, yeah, I think there are ways to do it. We used to have a big pharmaceutical industry in Puerto Rico. It was there because the taxes were really, really low, and we attracted a large bulk. We changed the taxes, and they all went away.

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But I think there are things we can do. They aren't as immediate. And that's another reason not to tariff and forbid pharmaceuticals from coming from China, as it might take you 5 years to develop the plant and all the stuff you have to do. So, we should get started on that, but gradually do that while not restricting trade. And maybe we can have more stuff made in America.

[00:39:28.04] - Senator Tim Kaine

Also, I think we need more awareness on the services side of this. Is because again, we tend to think of trade and we want to look at a ship at the port and the number of containers that are on it, and that is obviously very important, but the stats in my mind are a little bit fuzzy, but the order of magnitude is accurate. Virginia's biggest export market is Canada, and it's about \$6.6 billion, \$3.5 goods, \$3.1 services, something like that, but the growth in the last 15 years has been like 50% on the services side, about 10% on the goods side. And that growth in services,

that's great. But we don't tend to celebrate that, talk about that, strategize about how we can do more of it. And actually, this trade war with retaliation against us is really hurting that. It's kind of hurting the growth area. So as Rand said, focus on the areas where we're good. We're really good at agriculture. Our farmers produce so much more food than Americans can eat. So we need those markets. And we are really good on the services side. So that's what we ought to be focusing on, those strategic advantage areas.

[00:40:33.19] - Chad P. Bown

Great. Well, I think that has led us to the end of our session today.

[00:40:38.12] - Senator Tim Kaine

Oh, can I say one more thing?

[00:40:39.11] - Chad P. Bown

Please.

[00:40:39.25] - Senator Tim Kaine

And then let Rand have a close.

[00:40:42.08] - Chad P. Bown

Absolutely.

[00:40:42.24] - Senator Tim Kaine

One issue that hasn't come up, separate from the economy, is the value of alliances and how trade wars screw up other things. That we ought to be working together with. And I'll just use Canada. You know, longest peaceful border in the world. They've been with us in every war since the War of 1812. President Trump rightly has said to NATO nations, "Hey, increase your GDP spend on NATO." Canada has been an outlier on the low side. They haven't been at 2%. The nations that are near and near to Russia are racing faster and faster. Canada's far away and not racing so fast. But Prime Minister Carney says, "We want to get there." And President Trump has said, "And spend 5% with the extra 3 infrastructure." on infrastructure investments. We want to get there too. President Trump's primary defense priority right now is Golden Dome, which is called Continental Shield in Canada. So just when you're on the other side of the border, call it Continental Shield. But it's the same thing. It's missile defense for North America.

Canada should invest in that. Of course they should. But it's really hard for President Trump to say, get your NATO contributions up to 5% and invest a lot.

[00:41:48.15]

In continental shield when we're engaged in these trade wars with them. I went over to Europe and tried to talk to nations about what they could do more in Ukraine. Yeah, yeah, before we want to talk about that, we want to talk about why you're making it hard for the new German chancellor to achieve the one goal that he has, which is restart the German economy, which has been in the doldrums since 2019. They elected the most pro-America chancellor they have for a long time, under a mandate to improve the economy, and the biggest obstacle in their way right now is US trade policy. And we're friends. You need to band together with your friends because when you do, you are much stronger against your adversaries. And right now, you know, we're sending equivocal signals about our adversaries and hostile signals to our friends. It makes zero sense, separate and apart from the whole economic argument that we've been having.

[00:42:44.28] - Senator Rand Paul

I would say it's the best of times. And we need to understand how great it is because we get skewed by negative things. Things that are negative stick in our brains more. There's more negative news that comes to us all of the time. I'm a big fan of humanprogress.org. And they put out a lot of great charts. But one of the charts— and I believe it came from them, but it might have come— somewhere else is GDP per capita over time. And for most of time, most of historic time, prehistoric time until 1820, we lived on the x-axis, almost zero prosperity. If you measure it in terms of \$2 a day being extreme poverty, 98% of people lived in extreme poverty up until 1820. And the curve is this. It's just an exponential curve. And the president says, make America great again. I think it's more important to know what made America great first place. What made us great, from my perspective, is capitalism, which to me is freedom, voluntary exchange, but also trade, which is an integral part of that. And the wealth is enormous. Today, less than 10% of people worldwide live on \$2 a day.

[00:43:53.12]

It was 98% in 1820. It's less than 10% now. Things are getting better rapidly across the world if we can avoid war. Continue to believe trade is good. The future is bright, rosy, and we should be telling our kids, best time ever to be alive. Thank you.

[00:44:13.24] - Senator Tim Kaine

Wow.

[00:44:14.14] - Audience

Wow.

[00:44:14.28] - Chad P. Bown

Thank you both. So let me just say two words to conclude. So first, thank you. I could not agree more on the question of, or the issue of alliances with all of the global challenges that we have out there. I left office in January, and at that stage was working with partners and allies all around the world on common challenges, economic and foreign policy. And as I've caught up with them over the last couple of months, I check in and ask them, how's it going? How are those things going that we were working on together? And they honestly tell me, I haven't had any chance to work on those things that we were working on together, because I'm too busy dealing with the tariffs that your country is now imposing on me. So foreign policymakers have limited bandwidth. There's a lot of challenges. We should be working on them together. To both of you, thank you for coming today. Thank you for the— congratulations on the vote yesterday and the one today. Good luck on the one later this week. And let me just say, on behalf of the Peterson Institute, it's really tremendous to have two such knowledgeable people educating your colleagues and the American public about these issues.

[00:45:25.11]

And about more generally the benefits of international trade. Trade is complicated. It's not easy. You two understand the nuances and take up the challenge of explaining those nuances to everyone, and we really, really appreciate it. So thank you.

[00:45:39.24] - Senator Tim Kaine

Thank you all.

[00:45:40.22] - Senator Rand Paul

Appreciate it.