

# Whack a MoLe

In the latest on US trade policy, we are now starting to see the economic consequences of starting a tariff war. Farmers have been complaining that they are being hurt irreparably by the imposition of tariffs in retaliation for the tariffs being imposed on China and our allies. The Trump administration is now proposing to employ \$12 billion in emergency funds from the Department of Agriculture to subsidize losses of US farmers resulting from the imposition of retaliatory tariffs, specifically on soybeans, pork, sorghum, corn, wheat, cotton and dairy products, just to name a few.



What is clear is that the expenditures are not subject to congressional approval. The administration is employing the Depression-era facility called the Commodity Credit Corporation (CCC) established to fund payments to farmers as part of a three-part program that includes direct assistance, the purchase of surplus agricultural products (1), and trade promotion of agricultural products. Two things are missing so far from the discussion of the bailout program. First, there is no mention of when payments will be made or the process by which these payments will be apportioned and paid. Second, since the funding authority under the CCC is capped at \$30 billion, we don't know if this is just the first tranche of future draws.

Not only should Congressional approval be sought for such a program; but also this is only the tip of the iceberg, because

the administration has imposed tariffs on many other products, like steel, autos, and electronics, whose producers will also be hurt. Will a life raft be given to Harley-Davidson? Where will the additional emergency funds to help those firms come from – if they come at all?

We now see that not only will taxpayers pay for the misguided approach to adjusting trade barriers in the form of higher prices of goods at home, but this use of taxpayer funds to rescue farmers evidences the administration's willingness to divert funds from other priorities to fund its trade war. To be sure, the payments to farmers smell of pure politics, since those hardest hit live in states that supported the president in 2016. Does this imply that help will only be extended through the mid-term elections?

Given that only emergency funds are being used on what the administration claims to be a one-time expense, the political claims of others who are being or will be hurt can't be far behind. And because funds are limited, the administration will be picking winners and losers as it subsidizes some products but not others that have been targeted for retaliatory tariffs. Will funds to support Detroit automakers and US steel producers be available on the same terms and in as timely a fashion?

A more measured strategy to rationalizing trade relationships, one that permits affected parties to adjust, would seemingly involve first working with allies to resolve differences there and then turn to identifying and addressing critical issues, such as the restrictions that China has imposed that have transferred US intellectual property to their domestic industries. The meeting President Trump had yesterday with European Commission president Jean-Claude Juncker and the kind of process and organization that appears to have been agreed upon as a path forward is exactly the kind of baby step that should be taken first. Negotiations that are coordinated with and supported by our allies are sure to be more powerful and

less disruptive than attacking both allies and abusers alike and then backfilling with bailouts. We can only hope that this most recent turn represents a more considered strategy going forward.

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(1) For background on the CCC see <https://fas.org/sgp/crs/misc/R44606.pdf>

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