

Econ 340

Lecture 8 US Trade Policies and Institutions

Outline: US Trade Policies and Institutions

- Parts of the US Government that Handle Trade
- Main Features of US Trade Policies
 - Tariffs, Quotas, VERs
 - Escape Clause
 - Unfair Trade Laws
 - Trade Adjustment Assistance
 - Fast Track
 - GSP
- Dumping and Anti-Dumping
- Why the US Protects
- Trends in US Trade Policy

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2

US Trade Institutions

- Why US?
 - That's where we are
 - US is large and therefore important for the world
 - Many of the policies and institutions that US uses are also used by many others
 - We'll see that as we go through them

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3

US Trade Institutions

- US does NOT have a “ministry” or “department” of international trade
- Most other countries do; e.g. ...
 - Canada: Department of International Trade
 - Japan: Ministry of Economy, Trade and Industry (METI) (Used to be MITI)
 - EU: Directorate General Trade
 - Trade Commissioner:
Cecilia Malmström
since Nov 2014
 - Now Phil Hogan



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US Trade Institutions

- In US, responsibility for trade issues is spread over many entities
 - Congress
 - USTR
 - Commerce Department
 - US International Trade Commission
 - Export-Import Bank
 - and several others
- Obama said several years ago that he sought to consolidate many of these in a single agency
 - He never did

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5

US Trade Institutions

- USTR = United States Trade Representative
 - Handles negotiations on trade issues with
 - Other governments
 - WTO
 - Drafts trade legislation for Congress
 - Does NOT set or implement trade policies

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6

US Trade Institutions

- Trump's USTR is Robert Lighthizer
- Cabinet-level official of US government



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7

US Trade Institutions

- Congress
 - Sets tariffs and other trade policies (thus approves trade agreements)
 - Two committees are responsible
 - House: Ways and Means
 - Senate: Finance
 - Why these?
 - Because trade policy was originally about collecting revenue

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8

US Trade Institutions

- Administrative Agencies
 - ITA = International Trade Administration
 - Part of Department of Commerce
 - Main Function: Determines "fairness" in unfair trade cases
 - Are imports "dumped"?
 - Are they "subsidized"?
 - Orientation of ITA: very much favors US businesses

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9

US Trade Institutions

- Administrative Agencies
 - ITC = USITC = United States International Trade Commission
 - Independent agency
 - Commissioners (6) are nominated by President and confirmed by Senate
 - After that they are on their own
 - Main Function: To determine “injury” in cases of
 - Anti-Dumping
 - Countervailing duties (subsidies)
 - Safeguards (a.k.a., Escape Clause)

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10

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11

Main Features of US Trade Policies

- Tariffs, quotas, etc.
 - We have them (See Lakatos)
 - Column 2: high tariffs left over from 1930
 - Apply only to N. Korea and Cuba
 - Column 1: low tariffs negotiated since then
 - For all other countries, due to trade negotiations since 1934
 - These are the “MFN” – Most Favored Nation - tariffs on WTO members
 - Average US tariff before Trump was about as low as any major country

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12

Main Features of US Trade Policies

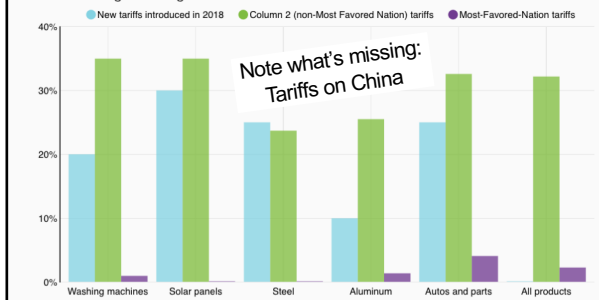
- Tariffs, quotas, etc.
 - We still had high tariffs on some products
 - Textiles, apparel
 - Agriculture
 - Quotas are still common in agriculture
 - VETs: no longer
 - But Trump has negotiated something like VETs
 - With Trump we have more high tariffs

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13

Figure 1: A comparative snapshot of 2018 U.S. tariffs

Based on trade-weighted averages



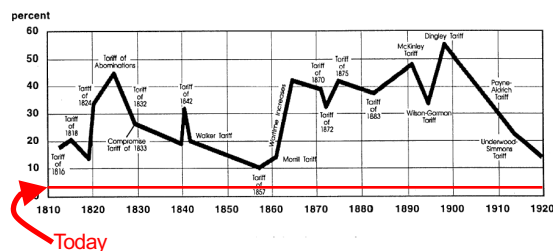
For "New tariffs introduced in 2018": (1) Washing machines and Solar panels: above-quota safeguard tariffs to be applied in the first year. (2) Autos and parts: not yet official.

BROOKINGS

Source: Lakatos

Main Features of US Trade Policies

- US tariff history: 1810-1920

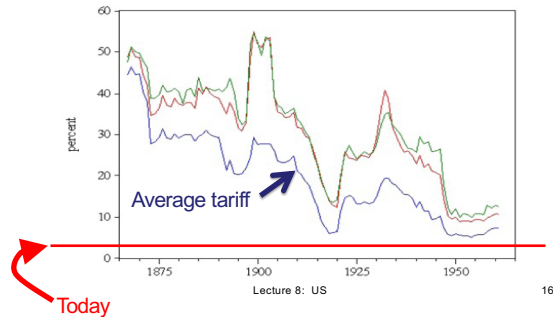


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15

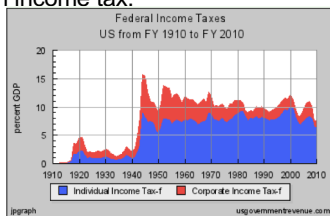
Main Features of US Trade Policies

- US tariff history: 1865-1960



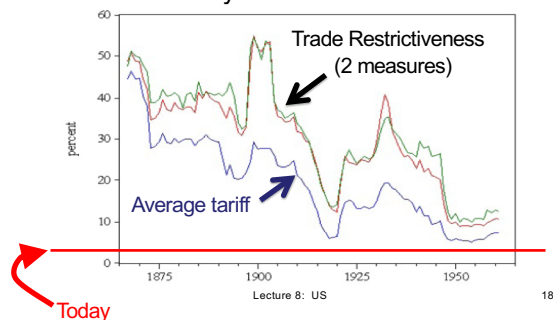
Main Features of US Trade Policies

- US tariff history: 1865-1960
 - Why the decline? Partly due to revenues from income tax:



Main Features of US Trade Policies

- US tariff history: 1865-1960



Main Features of US Trade Policies

- Aside on “Trade Restrictiveness Index” (TRI)
 - Defined as the level of a uniform ad valorem tariff that would have the same overall effects as the actual tariff structure
 - Why TRI > Average Tariff
 - Tariffs are very unequal across products
 - Recall that dead-weight-loss rises with square of tariff
 - E.g.: Tariffs (0, 20) will cause twice the loss of (10, 10)

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19

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20

Main Features of US Trade Policies

- Escape Clause = Section 201
 - Called “Safeguards” in WTO
 - Permits temporary protection from injurious imports
 - Does NOT allege that the imports are “unfair”
 - Eligibility is decided by USITC alone
 - Injury (must be serious)
 - Causation (must be due to imports)
 - Implemented by President, who may say NO.

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21

Main Features of US Trade Policies

- Escape Clause

- Important recent case: Steel

- Bush Administration imposed safeguard tariffs on imported steel in March 2002 for 3 years
 - Other countries filed case against US in WTO
 - WTO ruled against US (import surge had abated well before we imposed tariffs)
 - US removed tariffs in December 2003



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22

Main Features of US Trade Policies

- Escape Clause

- Important recent case: Tires

- Obama Administration imposed safeguards tariffs on imported tires from China in September 2009: 35% 1st yr, 30% 2nd yr, 25% 3rd yr
 - Reason: imports had tripled over 5 yrs; 5000 jobs lost
 - Requested by union, not by firms. Firms were themselves producing in China.
 - Obama had option of saying No



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23

Main Features of US Trade Policies

- Escape Clause

- 2018:

- Washing machines
 - Solar panels

Implemented by Trump, Jan 22, 2018



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24

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25

Main Features of US Trade Policies

- Unfair Trade Laws
 - Permit protection (not temporary) from “unfair” imports
 - Must also be injurious, but less so than for escape clause (“material injury”)
 - “Unfair” if
 - Subsidized by foreign government
 - “Dumped”, i.e., priced too low by firm (more on this below)

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26

Main Features of US Trade Policies

- Unfair Trade Laws
 - Fairness decided by ITA
 - Injury decided by USITC
 - President is NOT permitted to say NO
- Note the recent case of Boeing vs. Bombardier (Canadian), Jan 2018
 - ITA affirmed subsidies
 - USITC denied injury
 - Therefore tariff was not used

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27

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28

Main Features of US Trade Policies

- Trade Adjustment Assistance (TAA)
 - Provides temporary help (not tariff protection) for firms and workers hurt by imports
 - Gives workers access to income support, relocation allowances, job search allowances, health coverage tax credit, and occupational training
 - As of 2002, Alternative Trade Adjustment Assistance (ATAA) also provides limited “wage insurance” for trade-displaced older workers

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29

Aside: Wage Insurance

- Except for ATAA, US does NOT have this
- Many economists recommend it
 - See article by Roth
- Wage Insurance would pay workers when they take a new job at a lower wage
 - Pays a specified fraction of the fall in wage
 - For limited time
- Advantages over TAA
 - Encourages both workers and firms to re-employ workers
 - Need not (in principle) be limited to workers displaced by trade

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30

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31

Main Features of US Trade Policies

- Fast Track
 - Now officially called Trade Promotion Authority (TPA)
 - Procedure, imposed by Congress on itself, requiring it to

Consider trade legislation
without amendment

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32

Main Features of US Trade Policies

- Fast Track
 - Reason:
 - President (via USTR) must negotiate deals with other countries, then take them to Congress for approval
 - Deals would collapse if Congress could change them after they were signed
 - With Fast Track, Congress can vote yes or no, but not make changes

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33

Main Features of US Trade Policies

- Fast Track
 - History
 - Presidents had Fast Track without controversy 1974-94
 - President Clinton sought renewal but failed
 - President G W Bush got it, renamed TPA:
 - Granted in 2002, to July 1 2005
 - Extended to July 1 2007
 - Expired July 1 2007
 - President Obama sought it
 - It was very contentious
 - Congress approved TPA in July 2015, good until July 1 2018, later extended to July 1, 2021

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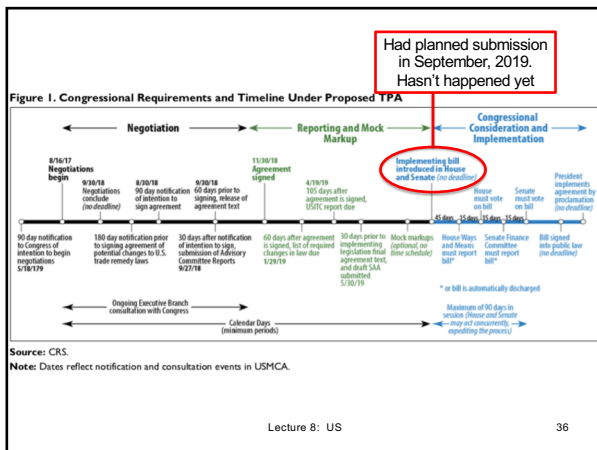
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Main Features of US Trade Policies

- Fast Track
 - Would have been used by Obama to try to get TPP approved, but it never came up for vote
 - Will be available to President Trump for,
 - The renegotiated NAFTA, USMCA
 - An FTA with the UK or Japan if he succeeds in negotiating them

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35



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36

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37

Main Features of US Trade Policies

- **GSP = Generalized System of Preferences**
 - Charge lower tariffs on some exports from some developing countries than we charge other countries
 - Other developed countries do this too (permitted by WTO)
 - Glassman, “Illogical Special Trade Deals,” says we should
 - Deny GSP status to countries that act against US interests
 - Are uncooperative in trade negotiations
 - Fail to enforce US intellectual property rights (patents, copyrights)
 - Default on loans
 - Change US law to add flexibility in future
 - Trump recently (Jun 2019) removed India from GSP, prompting retaliation

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38

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39

Dumping and Anti-Dumping

- Anti-Dumping (AD) is the most frequently used trade policy today,
 - by US
 - and increasingly also by other countries
- Dumping Defined: Selling an export at a price below the “fair price”
- “Fair price” can be either
 - Domestic price in exporting country, or
 - Cost

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40

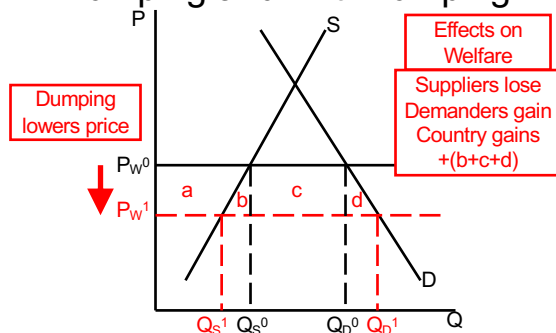
Dumping and Anti-Dumping

- Is dumping harmful?
 - Yes, to those who compete with it
 - But that is true of any competition
 - Has nothing to do with the price being “unfair”
 - Yes to importing country, if dumping is “predatory”
 - Intended to drive out all competitors,
 - AND then to raise price to monopoly level
 - Otherwise No: Importing country gains from low-priced imports, whether “unfair” or not

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41

Dumping and Anti-Dumping



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42

Dumping and Anti-Dumping

- Is dumping ever predatory?
 - Probably never
 - Remember that “predatory” requires
 - not just low price now,
 - but also high (monopoly) price later
 - Most AD cases are against multiple firms and countries (even if domestic competitors disappear, monopoly pricing is unlikely)
 - AD statute says nothing about showing predatory behavior or intent

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43

Dumping and Anti-Dumping

- Reasons for dumping (why would foreign firms ever sell exports at a low price?)
 - Protected home market
 - Tariff at home permits a high price there
 - Firms are price discriminating (against their own country)
 - Market slump: When demand is temporarily low, pricing below average cost (but not below marginal cost) is normal behavior (recall from Econ 101)
 - Gain a foothold in a new market: Setting price low, even below marginal cost, may make sense if
 - Costs are falling (with output over time)
 - Demand is rising (e.g., with consumers' experience over time)

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44

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45

Why the US (Used to) Protect

- NOT for most of the reasons we talked about earlier (revenue, optimal tariff, defense, etc.)
- We use protection to benefit industries, not the whole country
- Politicians care most about producers, not consumers. But producers include both
 - Firms
 - Workers
 - Farmers and ranchers
- Use of AD (& CVD, Safeguards) is for this reason too

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46

Why Trump Uses Tariffs

- On washing machines and solar panels, same as above: help domestic industry
- On steel and aluminum, claim was national security, but he's proud to have restarted some producers
 - Section 232 of US law (see Fefer et al.)
 - Permits tariffs if imports "threaten to impair the national security."
 - Investigated by Commerce Dept (not Defense), decided by President
 - Legal in WTO? We don't know yet
 - Strong economy needed for national security.
 - See USTR, "2019 Trade Policy Agenda"

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47

Why Trump Uses Tariffs

- On China,
 - Claim has little to do with import-competing industries
 - Official reason is intellectual property unfair trade
 - Trump is also concerned about trade deficit
 - China thinks he wants to keep China down

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48

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49

Trends in US Trade Policy

- Was the US a “Free Trader” before Trump?
 - Yes?
 - We have been known for that, ever since World War II
 - Our trade barriers were lower, slightly, than most other industrialized countries
 - And they were lower sooner – we led the way after WWII

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50

Trends in US Trade Policy

- Was the US a “Free Trader”?
 - No?
 - Our barriers were far from zero
 - Even under Reagan, US increased trade barriers in many sectors
 - Clinton argued for free trade, but also for “industrial policies” favoring sectors
 - Bush passed trade agreements, but also added barriers
 - Obama: Was critical of NAFTA as candidate, but then negotiated TPP



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51

Trends in US Trade Policy

- Trump?
 - He certainly says he is not a free trader
 - After 1 year he had done little
 - But then, in 2018, he
 - Pulled out of TPP
 - Renegotiated NAFTA
 - Amended US-Korea FTA
 - Levied tariffs on
 - Solar panels and washing machines
 - Steel and aluminum
 - China
 - So today I believe him



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52

Trends in US Trade Policy

- Notable US Trade Barriers before Trump
 - Textiles and Apparel: high tariffs (no longer quotas)
 - Some agriculture: high tariffs, quotas, subsidies
 - Sugar
 - Peanuts
 - Cotton
 - Dairy
 - VERs (no longer)
 - Autos
 - Steel
 - Anti-dumping
 - Steel (many cases)



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53

Next Time

- World Trade Arrangements and the WTO
 - What is it, and where did it come from?
 - What does it do?
 - What's happening now?

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54
