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

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

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

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

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

US Trade Institutions

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

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

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

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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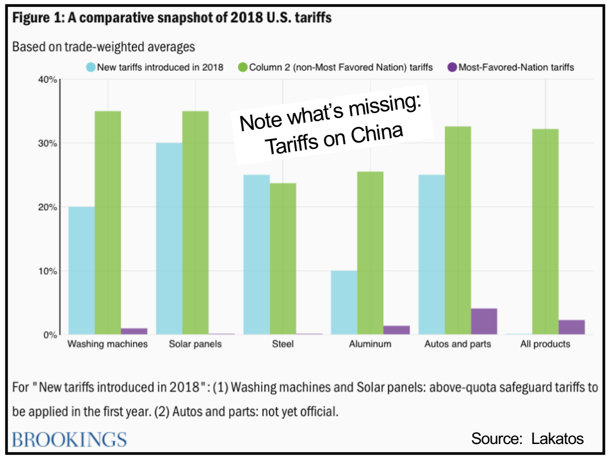
Main Features of US Trade Policies

- 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

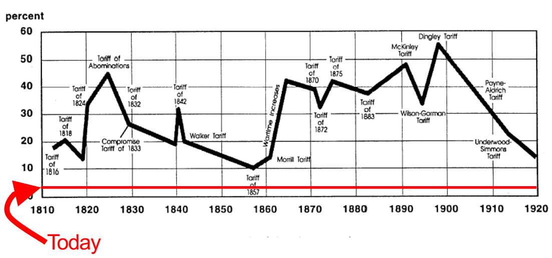
Main Features of US Trade Policies

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



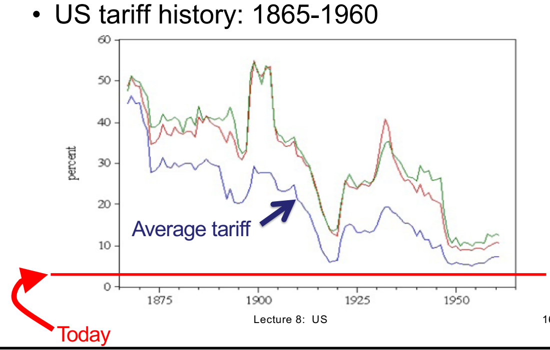
Main Features of US Trade Policies

- US tariff history: 1810-1920



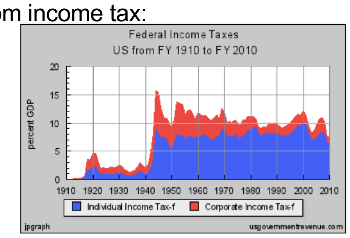
Main Features of US Trade Policies

- US tariff history: 1865-1960



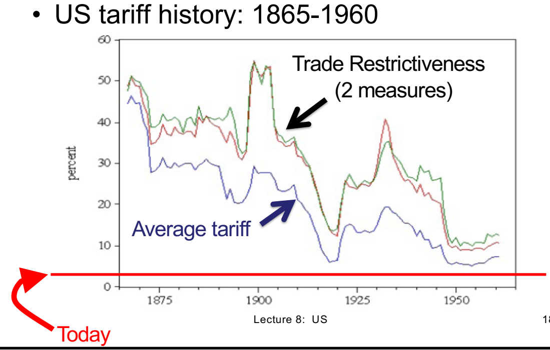
Main Features of US Trade Policies

- 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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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.

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

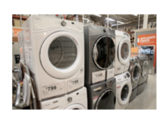
Main Features of US Trade Policies

- 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

Main Features of US Trade Policies

- Escape Clause
  - 2018:
    - Washing machines
    - Solar panels

Implemented by Trump, Jan 22, 2018



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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)

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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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

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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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

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

Main Features of US Trade Policies

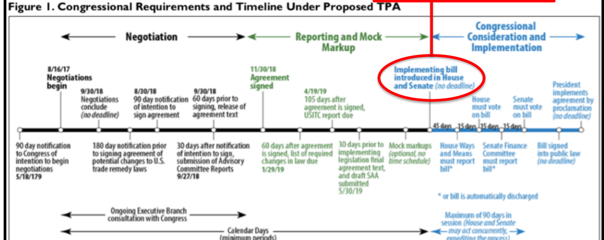
- Fast Track
  - History
    - Presidents had Fast Track without controversy 1974-94
    - President Clinton sought renewal but failed
    - President G W Bush got it, renamed TPA:
      - Granted in 2002, to July 1 2005
      - Extended to July 1 2007
      - Expired July 1 2007
    - President Obama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

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

Had planned submission in September, 2019. Hasn't happened yet

Figure 1. Congressional Requirements and Timeline Under Proposed TPA



Source: CRS.

Note: Dates reflect notification and consultation events in USMCA.

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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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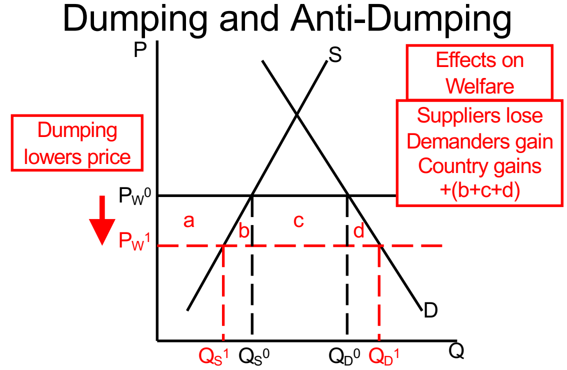
Dumping and Anti-Dumping

- 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

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

Dumping and Anti-Dumping



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

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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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

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"

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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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

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

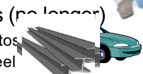
Trends in US Trade Policy

- 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

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)

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?