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US Trade Policies and Institutions

I. Parts of US Government That Handle Trade

A. We do not have a trade ministry
Most nations have a trade minister but the United States does not.

B. What We Do Have
-Office of United States Trade Representative (USTR)
Robert Zoellick is the current trade representative
It is a cabinet level position, but the office is tiny compared to other federal departments. The office handles our trade negotiations with other governments and with the WTO. It drafts trade legislation but does not implement trade policies, which is the job of the congress.
-Congress
Sets tariffs and other trade policies
In the House of Representatives the Ways and Means Committee has responsibility for trade policy, the Finance Committee fulfills the same duties in the Senate.
Power is delegated to administrative agencies
-ITA (International Trade Administration)
Part of the Commerce Department.
Job: to determine "fairness" in the administration of Anti-dumping and Countervailing Duty laws: determine if imports are "dumped" or subsidized.
The ITA definitely has bias in favor of US firms, therefore has bias against imports.
-ITC (International Trade Commission)
Not a part of a cabinet level department, it is an independent agency of the US government.
Determines "injury" due to imports. That is, it answers: has a domestic industry been hurt by imports, sufficiently to deserve protection under?
- The Escape clause (see below).
- The Anti-dumping and countervailing duty laws , which deal with both injury and fairness.

II. Main Features of U.S. Trade Policy

A. Tariffs, Quotas, VERs

B. Escape Clause = safeguards clause = section 201
In US law and WTO: if an industry is being sufficiently hurt by imports a government can raise tariffs temporarily (that is, escape clause permits temporary protection from injurious imports). There are no claims about "fairness" or anyone doing anything wrong. The injury has to be substantial and primarily due to imports. Its use is decided entirely by the ITC since it only involves injury.
If the ITC decides protection is warranted, the President can implement the protection if s/he feels it is a good idea. The escape clause does not get used very often.

C. "Unfair" Trade Laws

Laws that permit protection (normally tariffs), not necessarily temporary, from unfair imports.
Unfair means one of two things: the imports are subsidized by a government or they are dumped. "Dumped" means that the import price is below the exporter's domestic price or the import price is below some measure of cost.

Dumping and Anti-Dumping
Is dumping bad? Economists typically do not think it is usually bad. Economists think dumping is harmful only if it is "predatory dumping," that is, dumping intended to drive other firms out of business so that the dumping firm can become a monopoly and raise price to the monopoly level. However, there don't seem to be any cases of predatory dumping in the United States. What actually happens? There are actually many sensible reasons for firms to "dump." When firms dump, importers benefit because the goods are less expensive. Even though there is doubt among economists, these laws are frequently used.

D. TAA (Trade Adjustment Assistance)
If you are being harmed by imports the government will temporarily help you. Workers left unemployed due to competition from imports are given special unemployment benefits (usually prolonged benefits) and assistance is also given to firms. The idea is to help those that are harmed by trade to adjust to new circumstances. Workers can be retrained and firms can reinvest into areas with comparative advantage.

E. Fast Track = Trade Promotion Authority (TPA)
When international agreements are made they must be taken to Congress for approval. However, Congress often modifies the agreements, which changes the agreement into something that is no longer internationally agreed upon. TPA is a commitment by Congress to consider trade legislation without modification. It was first used, under the name "Fast Track," in 1974 and renewed after that until it expired in 1994. President Clinton requested it, without success. President Bush has requested it and had it approved by one house of Congress in late 2001; approval by the other house is pending.

From 02.06.02 lecture:

III. Dumping and Anti-Dumping

Anti-dumping law says that the government can levy a tariff on goods that are priced unfairly. The duty is set equal to the difference between the actual price and the "fair" price, so that the domestic price of the good becomes equal to the fair price. Many dumping duties are used in situations where it doesn't seem possible that the "guilty" firms are engaged in predatory pricing.

Why dump?

-Firms may dump, in the sense of the import price being less than the home price, because they are protected in their home market, which allows them to charge a higher price in their home market. So they are selling to their own home customers at too high a price and the problem is there, not here. In fact, the low import price helps the United States.

Dumping is also defined as pricing below cost, however, there are many different definitions of cost. In the short-run, profit maximizing firms can produce at a price below average cost as long as they cover their variable costs (remember Econ 101 cost curves). In this case, producers often don't deserve to be charged with dumping because pricing below cost is normal behavior in many circumstances.

Are we hurt by pricing below cost? No, dumping helps the importing country (not necessarily if there is predatory behavior, but there isn't much evidence of this). Using tariffs to retaliate harms the importing country (for reasons seen in our model of tariff effects). In addition, anti-dumping laws foster imperfect competition by allowing – even encouraging – firms to collude internationally to raise prices (fix prices) to avoid the dumping duty.

IV. Why US protects: Mainly to protect domestic industries.

V. Trends

Read: Deardorff's Trade Policies of the 1980s paper.

Notable US tariff barriers:

Tariffs and quotas in textiles and apparel
Some large barriers in selected agricultural products (e.g., sugar, peanuts)
VERs in auto and steel (but these are now gone)
Lots of anti-dumping duties (especially in steel).