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

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

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

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

Based on trade-weighted averages

<table>
<thead>
<tr>
<th>Product</th>
<th>Tariffs in 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washing machines</td>
<td>10%</td>
</tr>
<tr>
<td>Solar panels</td>
<td>15%</td>
</tr>
<tr>
<td>Steel</td>
<td>5%</td>
</tr>
<tr>
<td>Alumina</td>
<td>7%</td>
</tr>
<tr>
<td>Autos and parts</td>
<td>4%</td>
</tr>
<tr>
<td>All products</td>
<td>3%</td>
</tr>
</tbody>
</table>

Note what’s missing: Tariffs on China

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.

*Source: Lakatos*

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Main Features of US Trade Policies

- US tariff history: 1810-1920

*Source: Brookings*
Main Features of US Trade Policies

- US tariff history: 1865-1960

- Why the decline? Partly due to revenues from income tax:

- Trade Restrictiveness (2 measures)
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

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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.
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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

<table>
<thead>
<tr>
<th>Suppliers lose</th>
<th>Demanders gain</th>
<th>Country gains</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>b</td>
<td>b+c+d</td>
</tr>
</tbody>
</table>

Effects on Welfare:
- Dumping lowers price
- Suppliers lose
- Demanders gain
- Country gains

\[ \text{Country gains} = (b+c+d) \]
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”
- 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

- 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?