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

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)

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

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
  - 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
  - With Trump we have more high tariffs
  - Quotas are still common in agriculture
  - VERs: no longer

---

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.

Source: Lakatos

---

Main Features of US Trade Policies

- US tariff history: 1810-1920

---

Note what's missing: Tariffs on China

---

Source: Lakatos

---

Brookings
Main Features of US Trade Policies

• US tariff history: 1865-1960

Today

Average tariff

Trade Restrictiveness (2 measures)

Lecture 8: US

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

Today

Average tariff

Lecture 8: US

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)

Outline: US Trade Policies and Institutions

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

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 are themselves producing in China.
    - Obama had option of saying No

Main Features of US Trade Policies

- Escape Clause
  - Recent requests:
    - Aluminum
    - Washing machines
    - Solar panels

   Implemented by Trump, Jan 22, 2018
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

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)

- Fairness decided by ITA
- Injury decided by USITC
- President is NOT permitted to say NO

- Note the recent case of Boeing vs. Bombardier
  - ITA affirmed subsidies
  - USITC denied injury
  - Therefore tariff was not used
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

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
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

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 with possible extension to 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
    • An FTA with the UK or Japan if he succeeds in negotiating them
    • (It actually expired in July 2018, but renewal was almost automatic.)

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
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

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

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 lowers price

Effects on Welfare

Suppliers lose
Demanders gain
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
    - Tariffs at home permit 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)

Outline: US Trade Policies and Institutions

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

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
  – National security? By having a strong economy.
    • See USTR, “The President’s 2018 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

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

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 are 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 are 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

- Trump?  
  - He certainly says he is not a free trader  
  - A year ago he had done little  
  - Now he has  
    - 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

- Notable US Trade Barriers  
  - 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?