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 seeks to consolidate many of these in a single agency
  – He didn’t, and it has not been mentioned since

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 nominee for 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
  - Average US tariff is about as low as any major country
  - We still have high tariffs on some products
    - Textiles, apparel
    - Agriculture
  - Quotas are still common in agriculture
  - VERs: no longer
Main Features of US Trade Policies

• US tariff history: 1810-1920

![Graph showing US tariff history: 1810-1920](image)

- Today

Main Features of US Trade Policies

• US tariff history: 1865-1960

![Graph showing US tariff history: 1865-1960](image)

- Average tariff
- Today

Main Features of US Trade Policies

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

![Graph showing federal income taxes from FY 1970 to FY 2010](image)
Main Features of US Trade Policies

• US tariff history: 1865-1960

Today

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 are themselves producing in China.
    • Obama had option of saying No
Main Features of US Trade Policies

- **Escape Clause**
  - Recent request: Aluminum
    - In April 2016, United Steelworkers requested safeguard tariffs of up to 50% on imports of aluminum
    - USITC was to decide on “provisional relief” by end of June
    - I’m told now, however, that the request was withdrawn, also in April.
    - But as we saw in the news, US has now filed a complaint against China regarding illegal subsidies of aluminum

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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

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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 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 if, for example, he negotiates an FTA with the UK
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
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

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Demanders gain

Country gains + (b+c+d)

- 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
  – Old (1916) US law does require predation, but it was ruled WTO-illegal for other reasons (charging triple damages).

• 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 Protects

- 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
- Use of AD (& CVD, Safeguards) is for this reason too

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Trends in US Trade Policy

- Is US a “Free Trader”?
  - 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

• Is 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
  – It remains to be seen what he will actually do as president

• Notable US Trade Barriers
  – Textiles and Apparel: high tariffs (no longer quotas)
  – Some agriculture: high tariffs, quotas, subsidies
    • Sugar
    • Peanuts
    • Cotton
    • Dairy
  – VERs (re-entry)
    • Auto
    • 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?