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: Director 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

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
• 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.

- **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

- **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

- **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.

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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

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

- 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

- 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

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).

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 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

• 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

Trends in US Trade Policy

• Trump?
  – He certainly says he is not a free trader
  – It remains to be seen what he will actually do as president

Trends in US Trade Policy

• 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?