

# Where is US Trade Policy Headed?

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Gordon Hanson, UC San Diego and NBER

## Who said the following?

*“Not only must we fight to end disastrous unfettered free trade agreements with China, Mexico, and other low wage countries, we must fight to fundamentally rewrite our trade agreements so that American products, not jobs, are our number one export.”*

*“America is being absolutely devastated with bad trade deals.”*

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**Bernie Sanders**

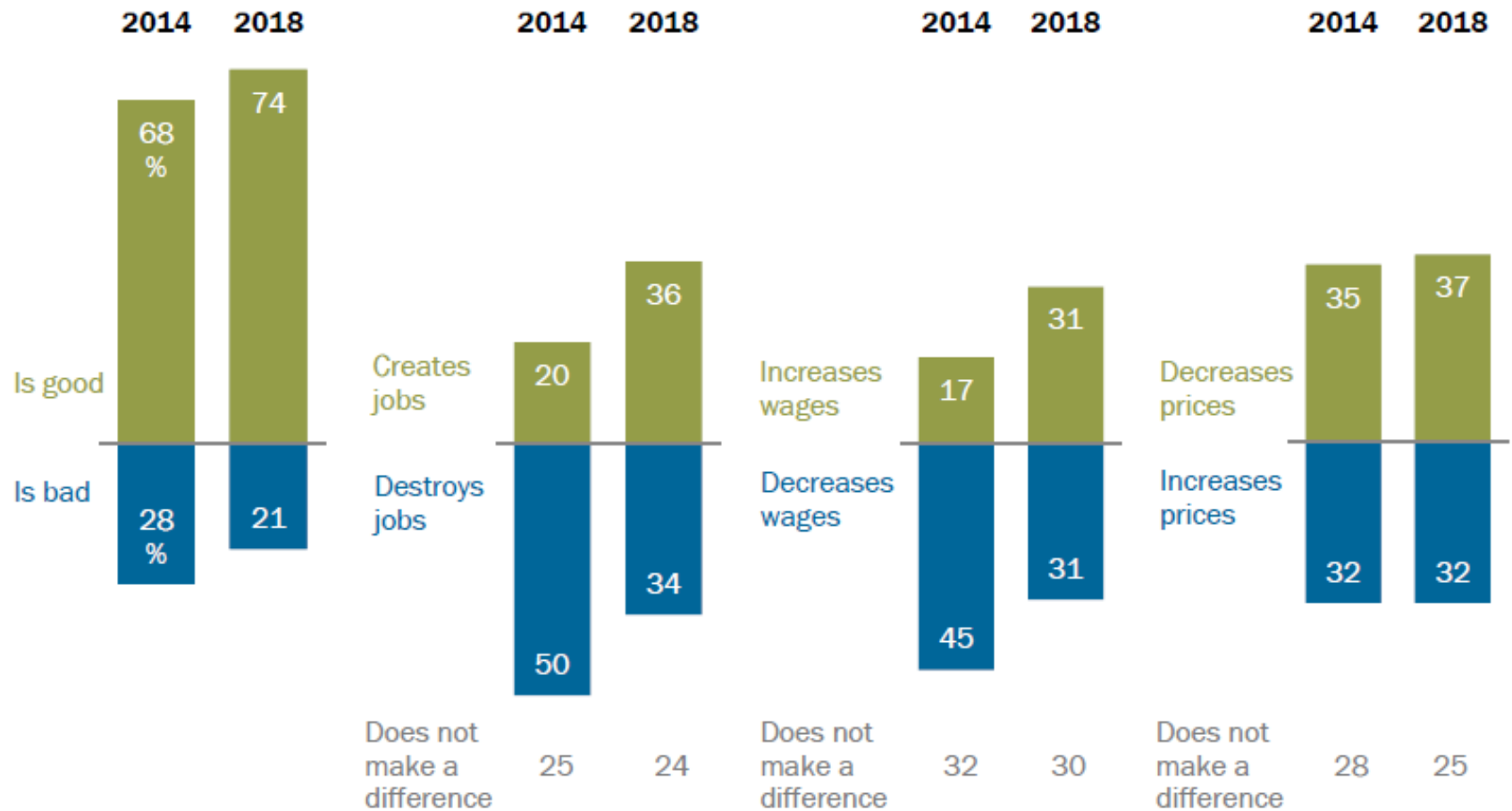
*“America is being absolutely devastated with bad trade deals.”*

**Donald Trump**

# Americans Are (Somewhat) Conflicted on Trade

## Americans think trade is good for the U.S., but doubt its benefits

Trade with other countries ...



Source: Spring 2018 Global Attitudes Survey. Q25-Q28.

# Where is US Trade Policy Headed?

- **US trade policy in historical perspective**
  - The three R's (Doug Irwin, *Clashing over Commerce*)
- **The changing politics of international trade**
  - The upsides and downsides of globalization (Autor Dorn & Hanson)
- **Scenarios for the Future**
  - Whither the WTO

# Three R's of US Trade Policy

- **Revenue**

- Historically (but not today) tariffs were a key US revenue source

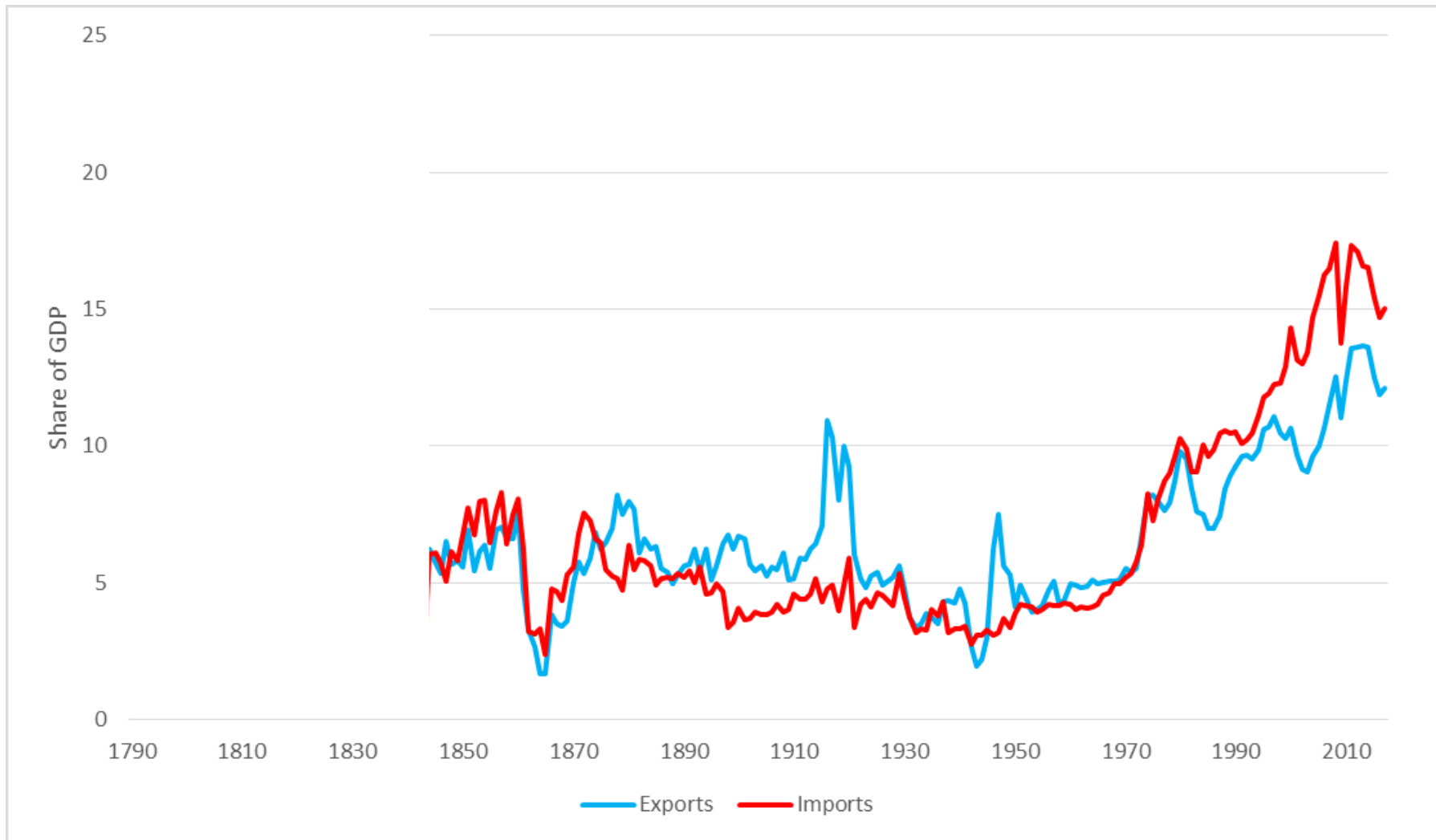
- **Restrictions**

- Starting with Alexander Hamilton (*Report on the Subject of Manufactures, 1791*), tariffs were considered to be an essential form of industrial policy to promote domestic manufacturing

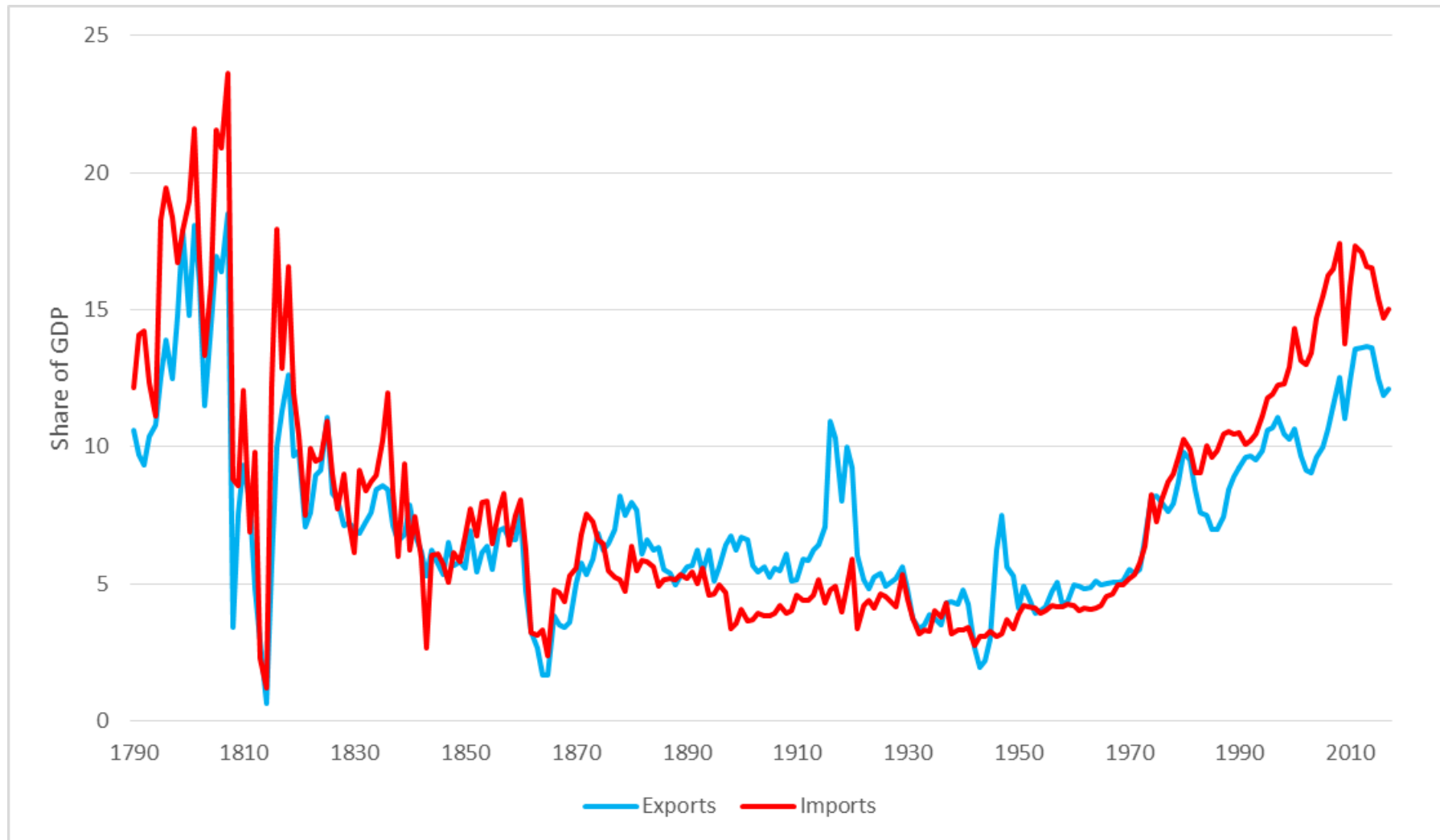
- **Reciprocity**

- Lowering or raising tariffs has long been a tool of the US to seek desired changes in trade (or other) policies in other countries

# US Trade to GDP Ratio, 1790-2017

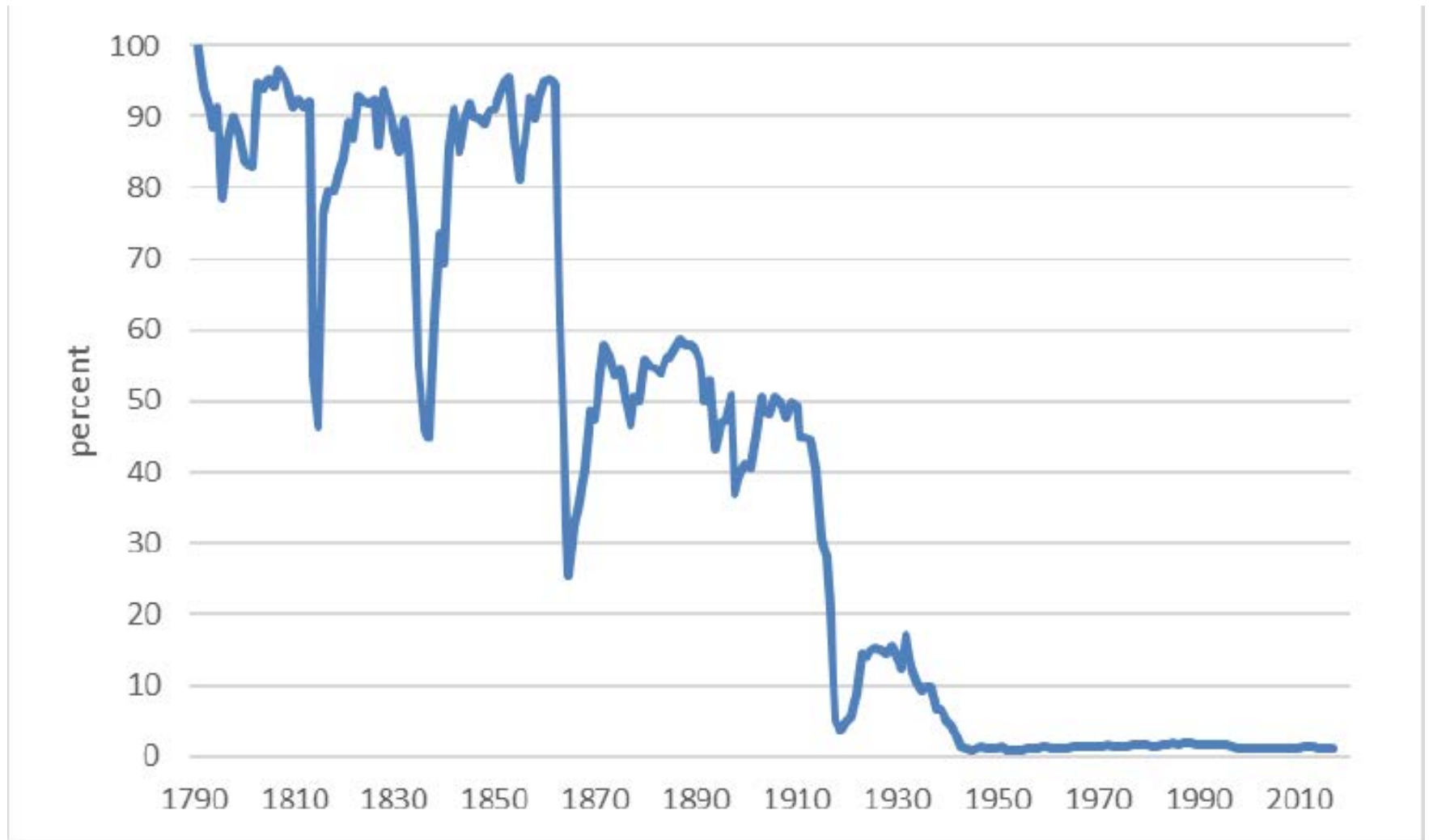


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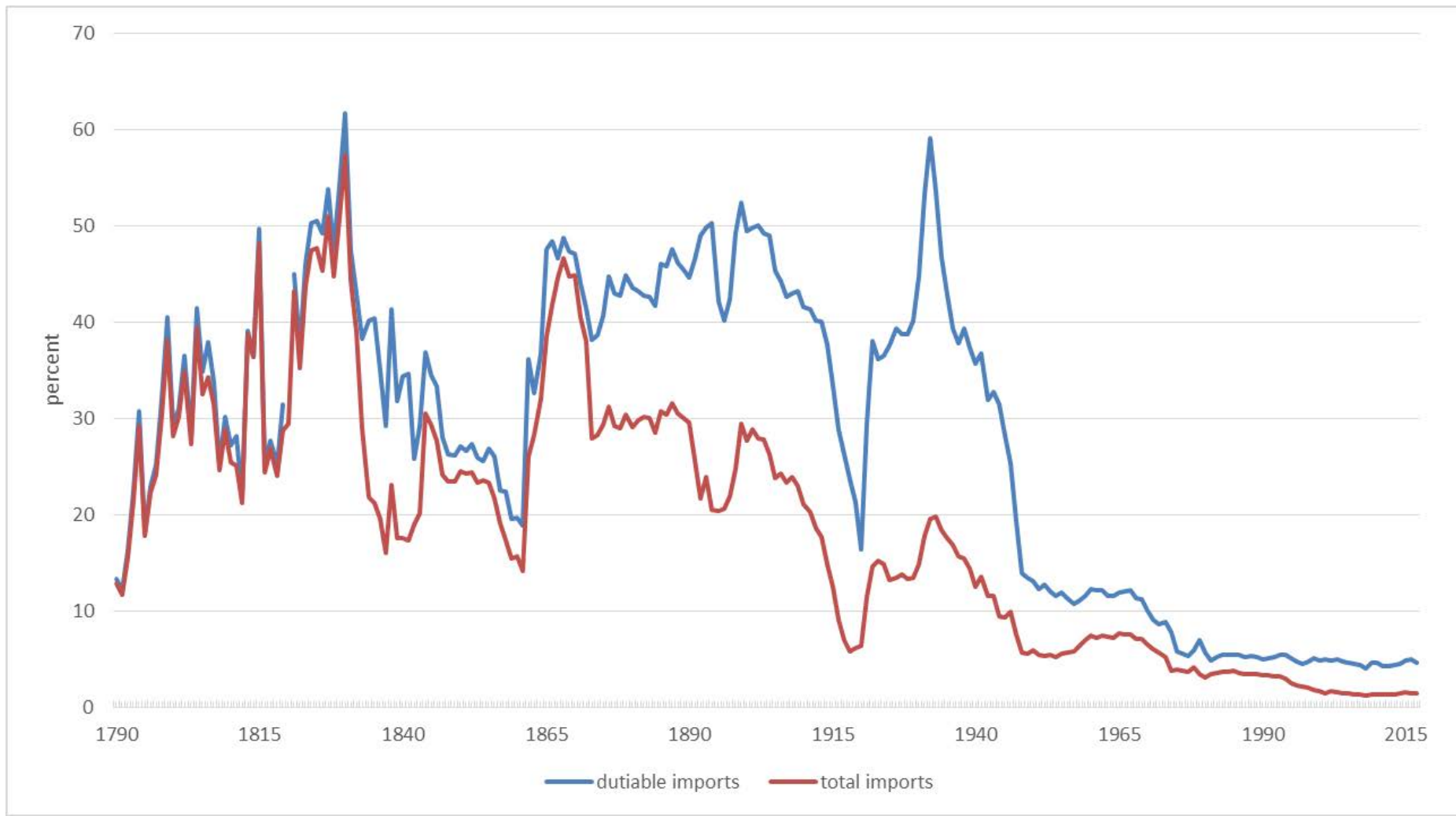




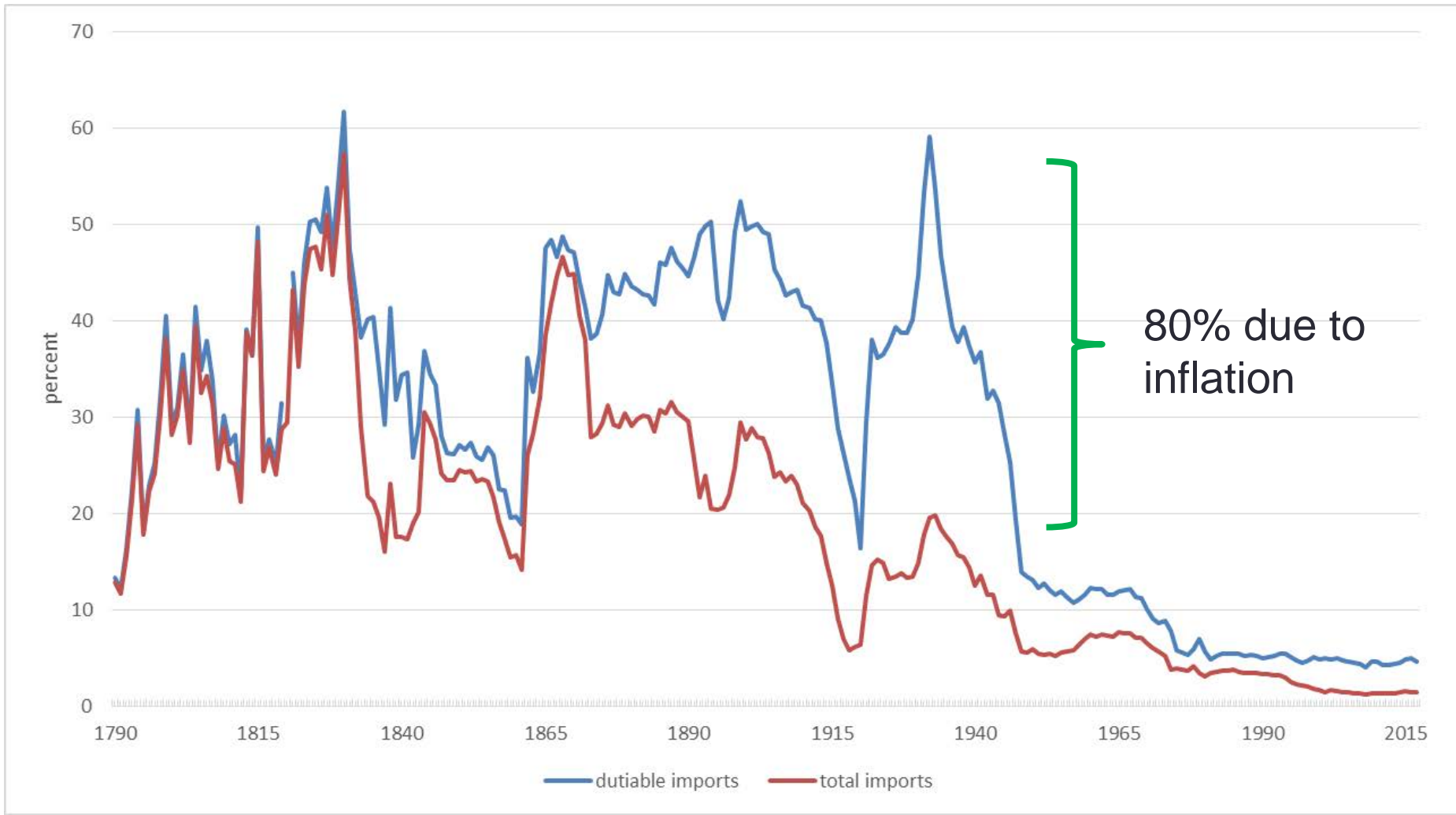
# Share of US Federal Revenue from Customs, 1790-2017



# Average US tariff on Imports, 1790-2017



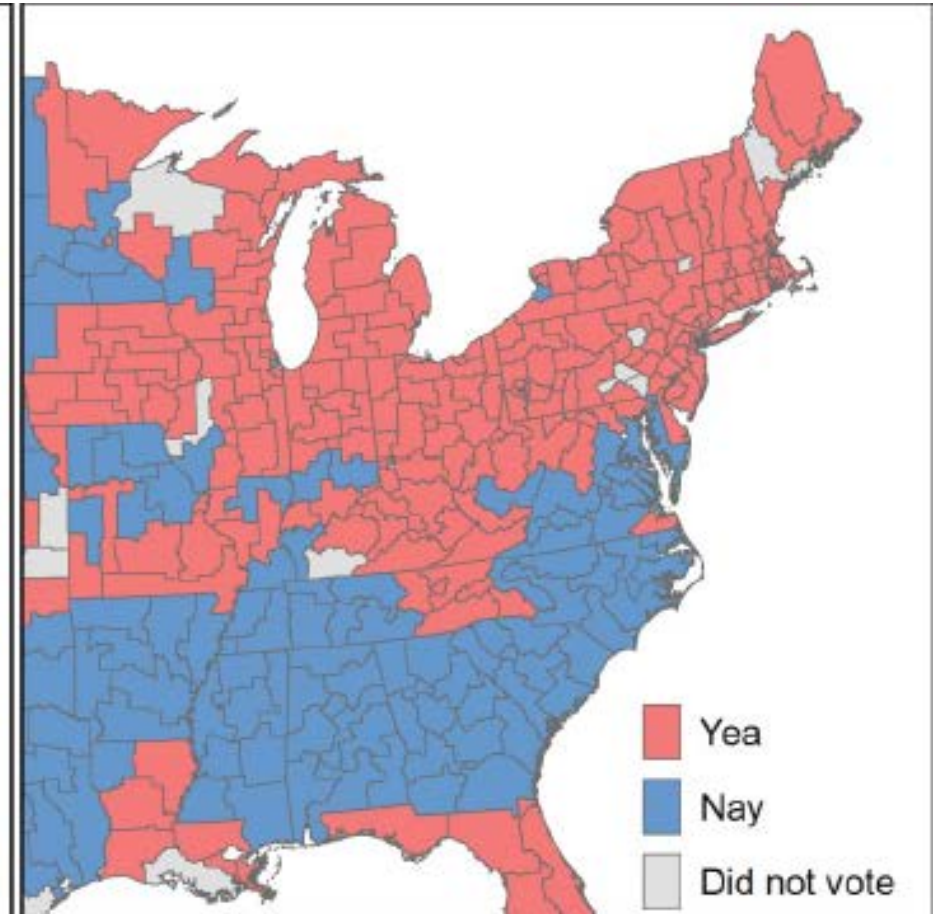
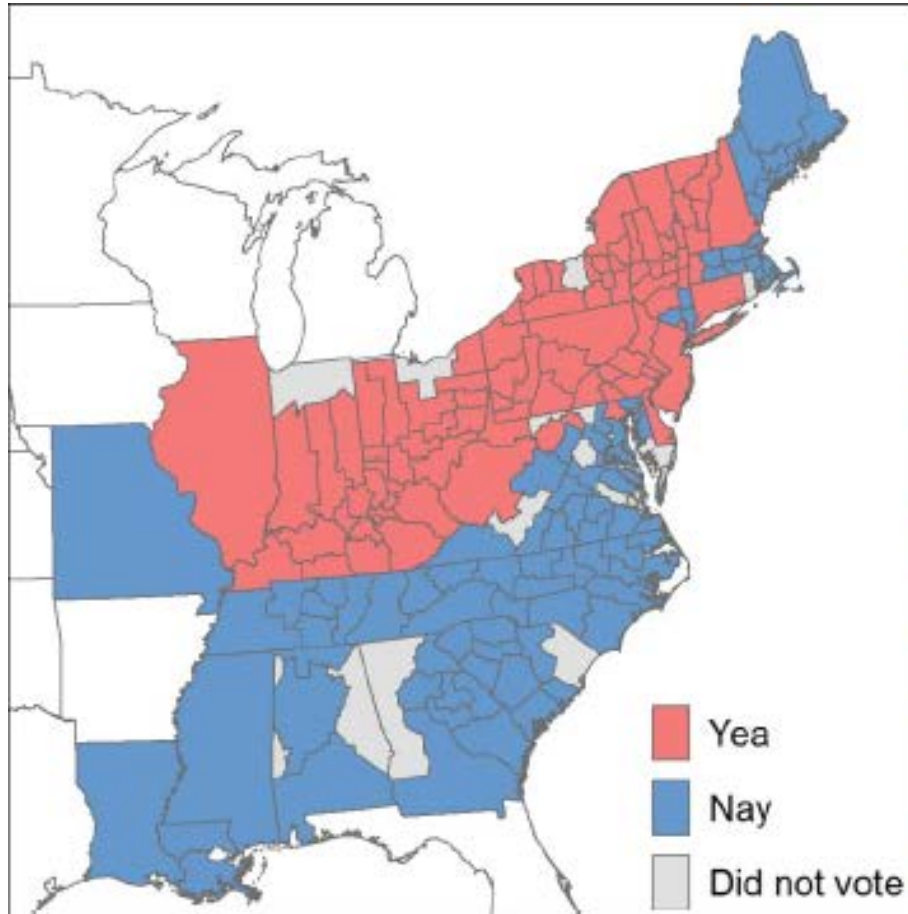
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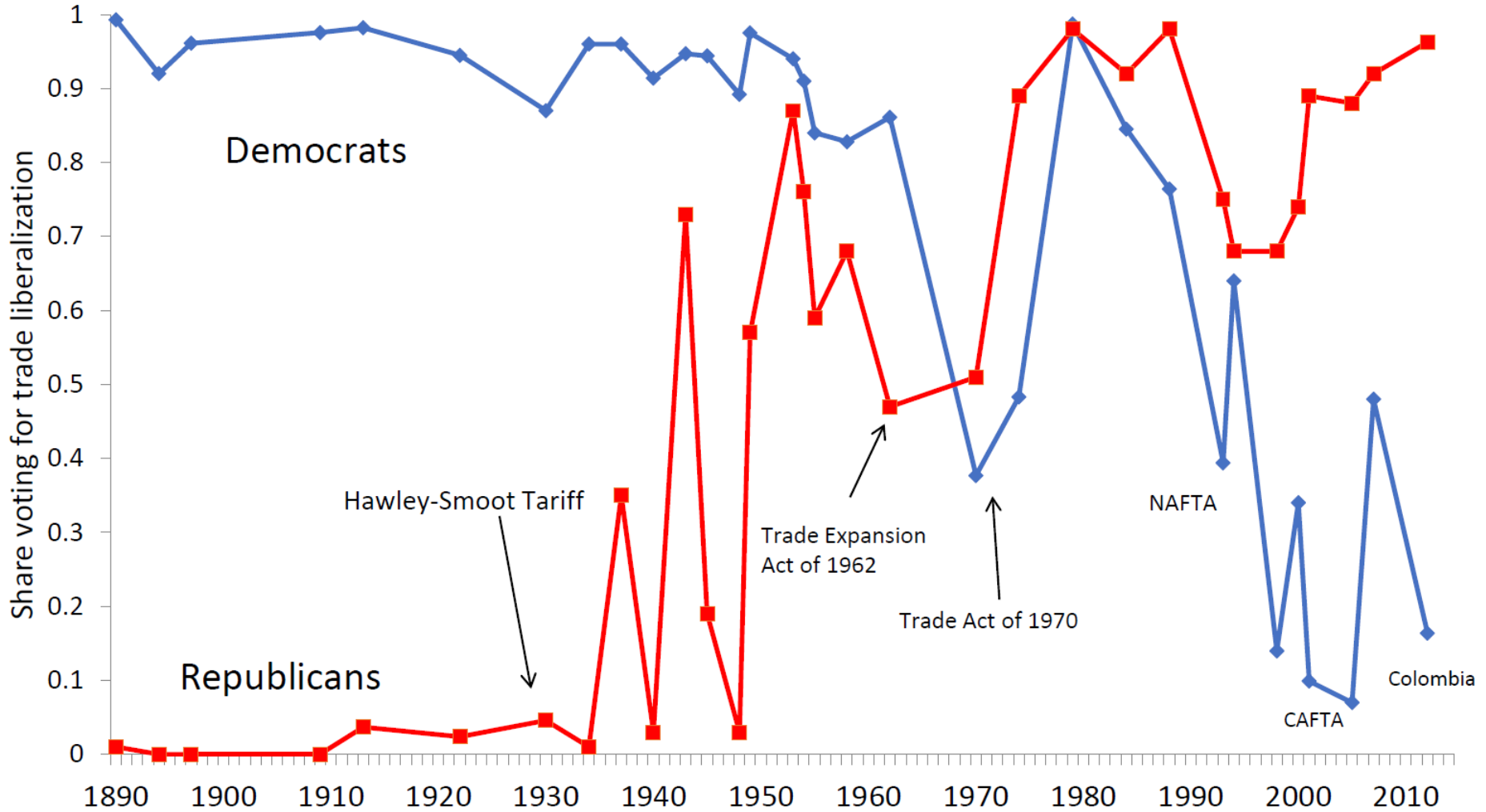
# The Changing Politics of Trade Policy

- **Since the writings of David Ricardo, economists have known that trade redistributes income**
  - Firms and workers in export-oriented industries/regions gain more, firms and workers in import-competing industries/regions gain less
- **Which regions, parties, and individuals support trade has changed as US trade patterns have changed**
  - The US has transformed from an agricultural nation to a manufacturing powerhouse to a technology and services powerhouse

# US House Vote on 1828 Tariff (L), Smoot Hawley Tariff of 1929 (R)



# Partisan Switch in Support for Trade Agreements



# Support for Trade: Varies by Age, Education, Income

## U.S. college graduates are more likely to see trade as beneficial

% of U.S. adults who think trade with other countries ...

	TOTAL	Gender			Age				Education				Income*		
		Women	Men	Diff	18-29	30-49	50+	Youngest-oldest gap	HS or less	Some college	College or above	Coll.-HS diff	Lower	Higher	Diff
	%	%	%		%	%	%		%	%	%		%	%	
Is good	74	70	79	<b>+9</b>	84	74	70	<b>+14</b>	70	74	81	<b>+11</b>	69	80	<b>+11</b>
Lowers prices	37	32	43	<b>+11</b>	41	39	35	+6	29	34	51	<b>+22</b>	28	47	<b>+19</b>
Creates jobs	36	31	41	<b>+10</b>	38	33	38	0	30	37	42	<b>+12</b>	31	41	<b>+10</b>
Increases wages	31	28	34	<b>+6</b>	35	27	31	+4	30	30	32	+2	29	31	+2

\*Respondents with a household income below the country median are considered lower income. Those with an income at or above the country median are considered higher income.

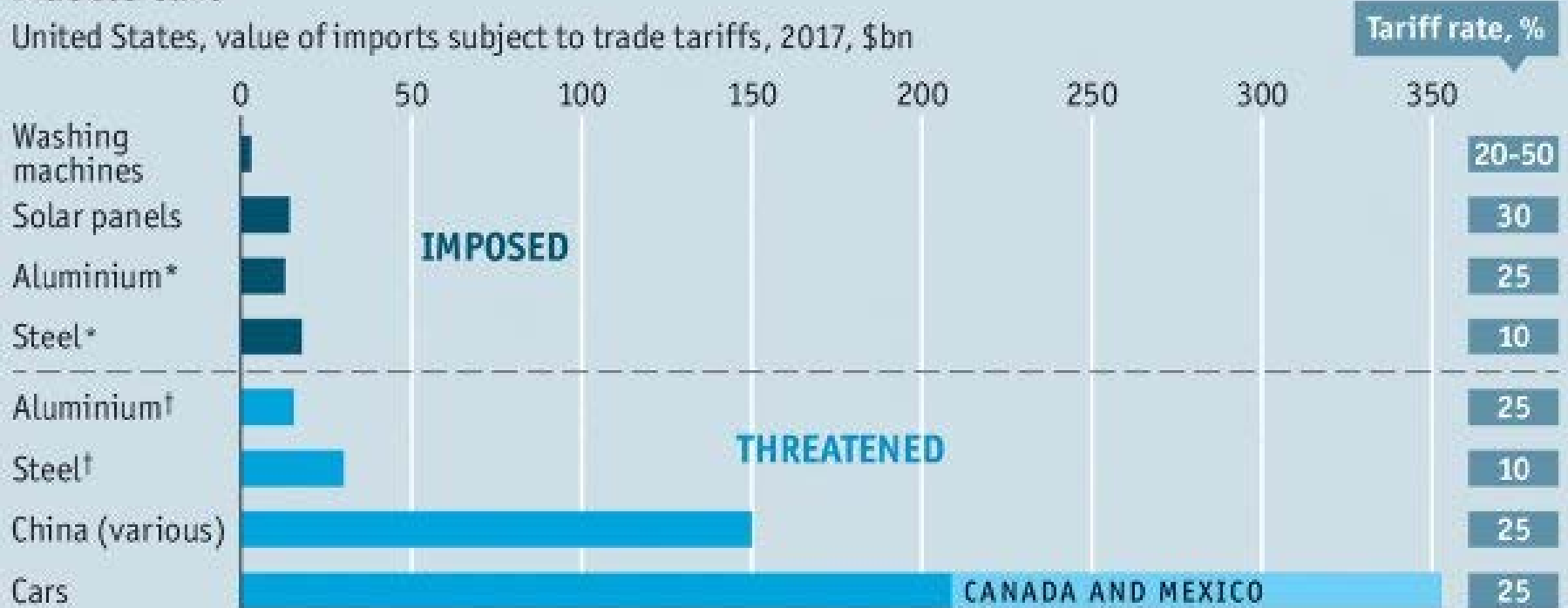
Note: Statistically significant differences in **bold**.

Source: Spring 2018 Global Attitudes Survey. Q25-Q28.

# New US Tariffs: Threatened and Imposed

## Muscle cars

United States, value of imports subject to trade tariffs, 2017, \$bn



Sources: International Trade Centre;  
Peterson Institute for International Economics

\*Including imports from Japan, China and Russia

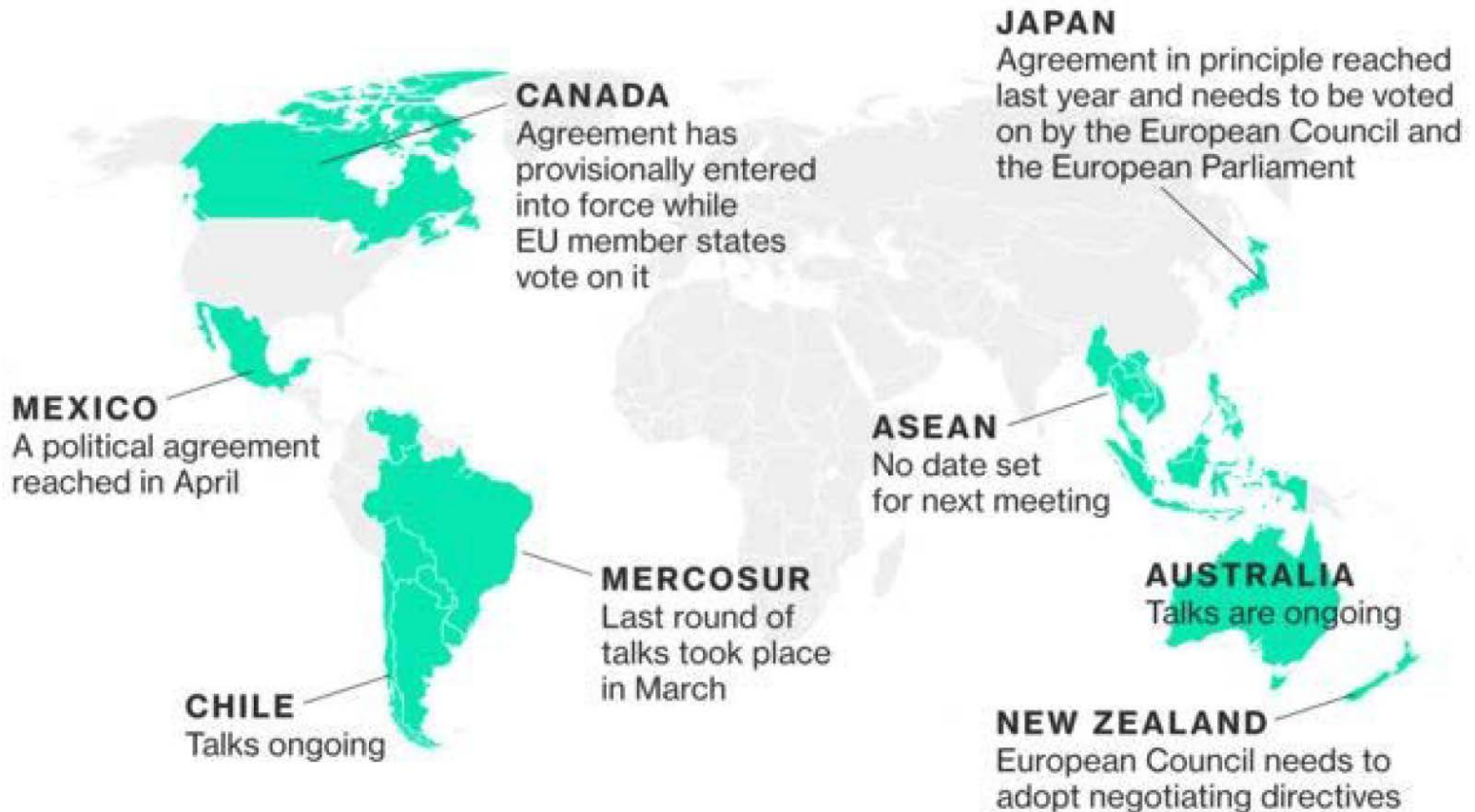
†Including imports from Mexico, Canada and EU



# US and EU: Headed in Opposite Directions on Trade

## EU Trade Talks

The European Union has more than a dozen discussions ongoing



Source: European Commission

**Bloomberg**

# Why has bashing trade become a winning political strategy in the US? (Autor Dorn & Hanson)

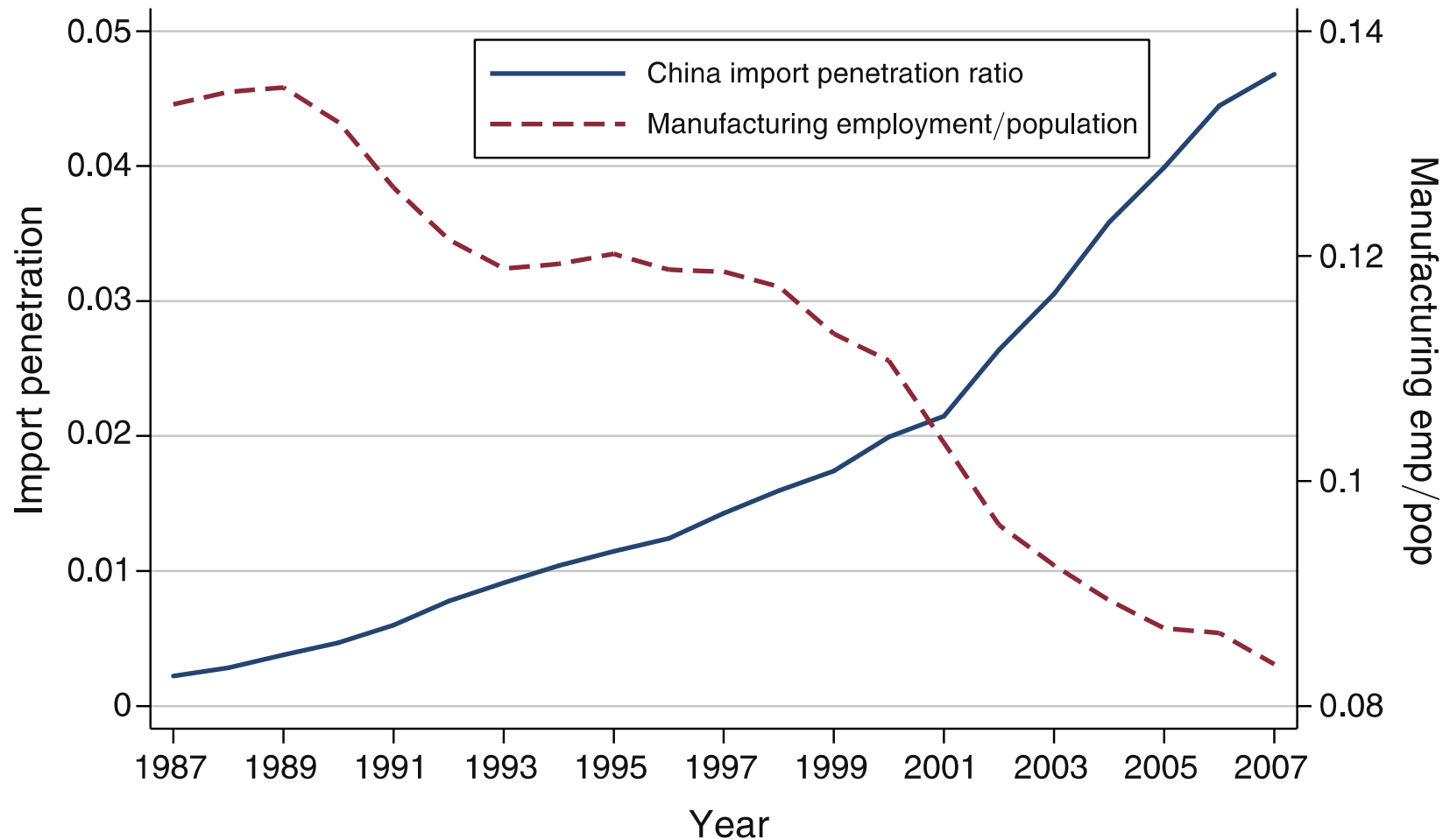
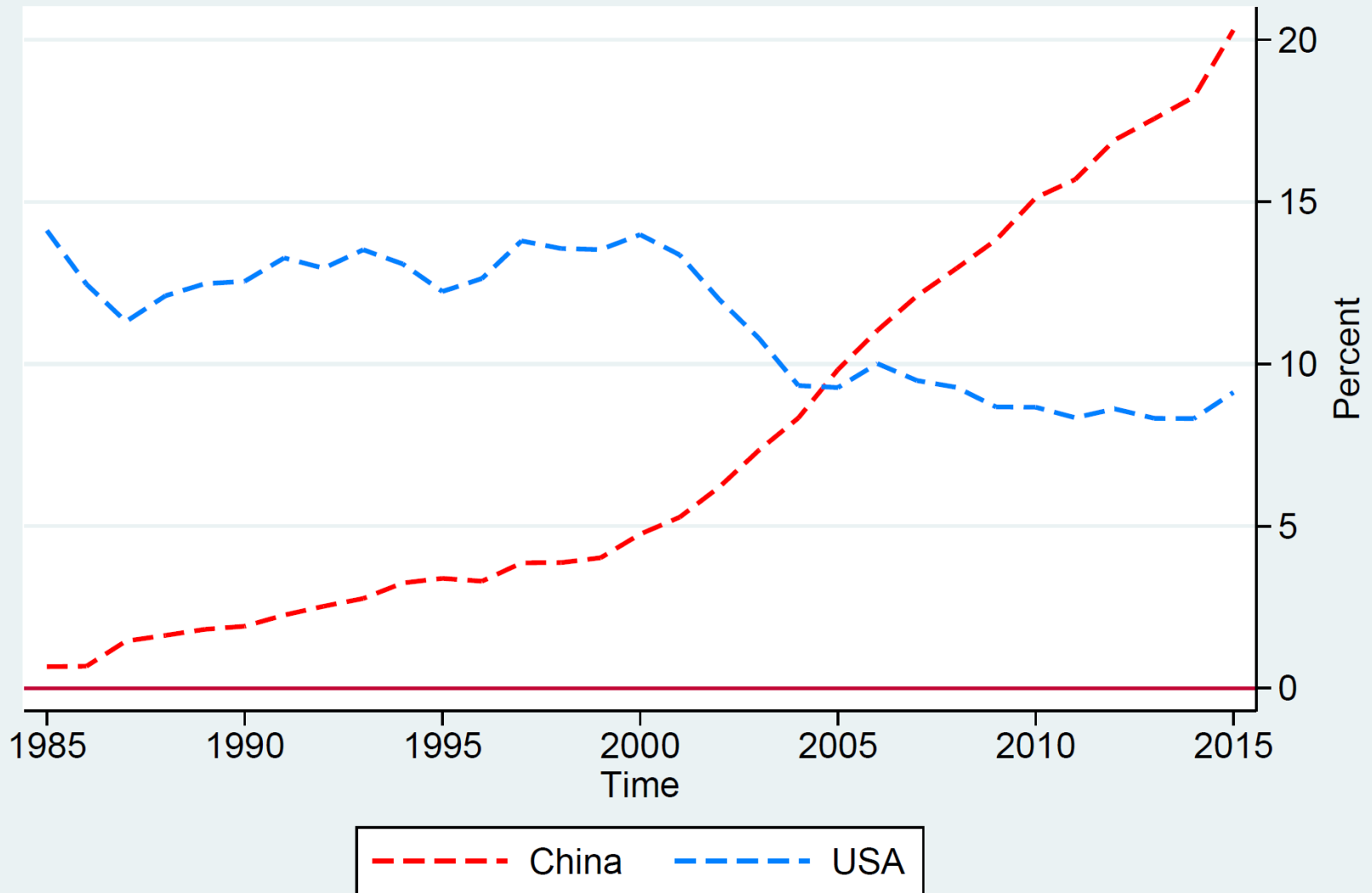


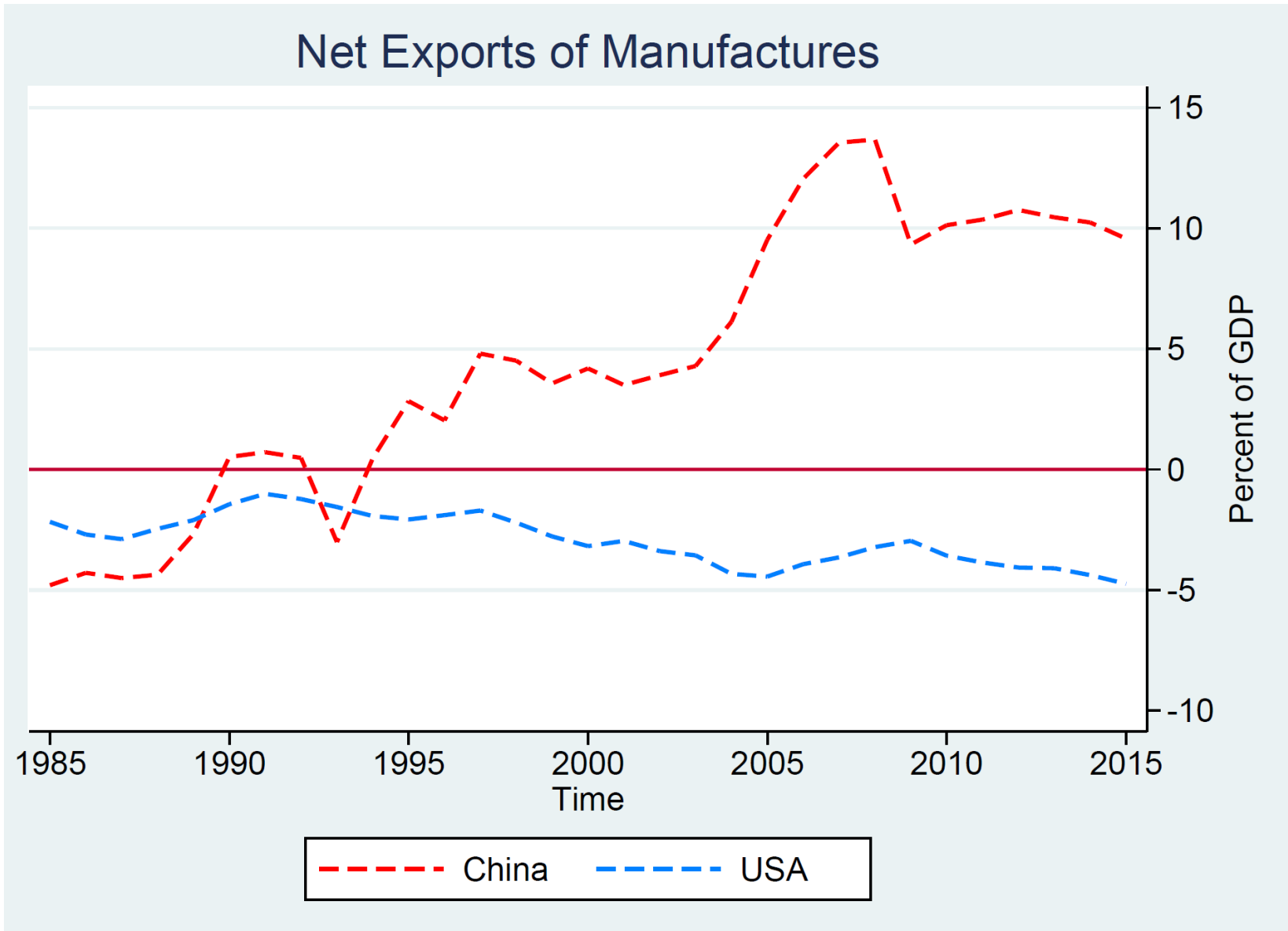
FIGURE 1. IMPORT PENETRATION RATIO FOR US IMPORTS FROM CHINA (*left scale*), AND SHARE OF US WORKING-AGE POPULATION EMPLOYED IN MANUFACTURING (*right scale*)

# China Trade Shock 1: Scale and Speed

## Share of World Manufacturing Exports



# China Shock 2: Extreme Comparative Advantage

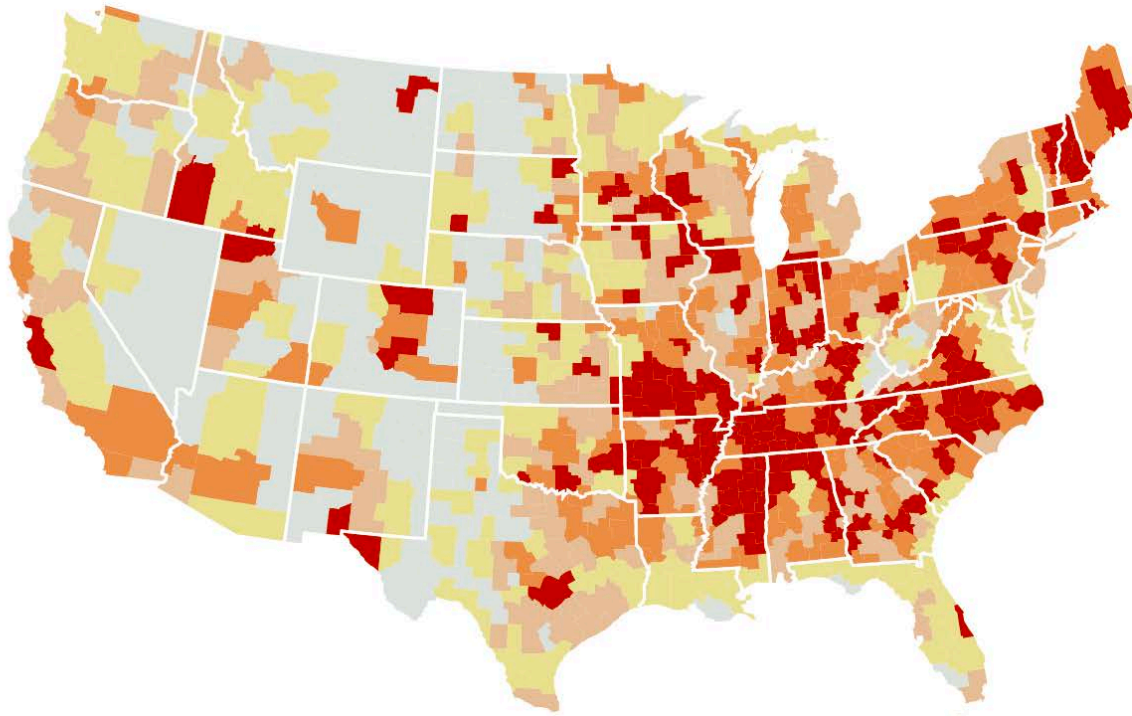


# China Shock 3: Concentrated Regional Exposure

## Most-affected areas of the U.S.

Colors show which areas were most affected by China's rise, based on the increase in Chinese imports per worker in each area from 1990 to 2007. Hovering over each area on the map will show a demographic breakdown of that area, below, and its most-affected industries, at right.

Most-affected 20%   Second-highest 20%   Middle 20%   Second-lowest 20%   Least-affected 20%



## Most-affected industries

Most-affected industries, based on number of areas\*   Impact per worker†

**Furniture and fixtures**  
196 areas   \$44k

**Games, toys, and children's vehicles**  
114 areas   \$488k

**Sporting and athletic goods**  
106 areas   \$82k

**Electronic components**  
87 areas   \$65k

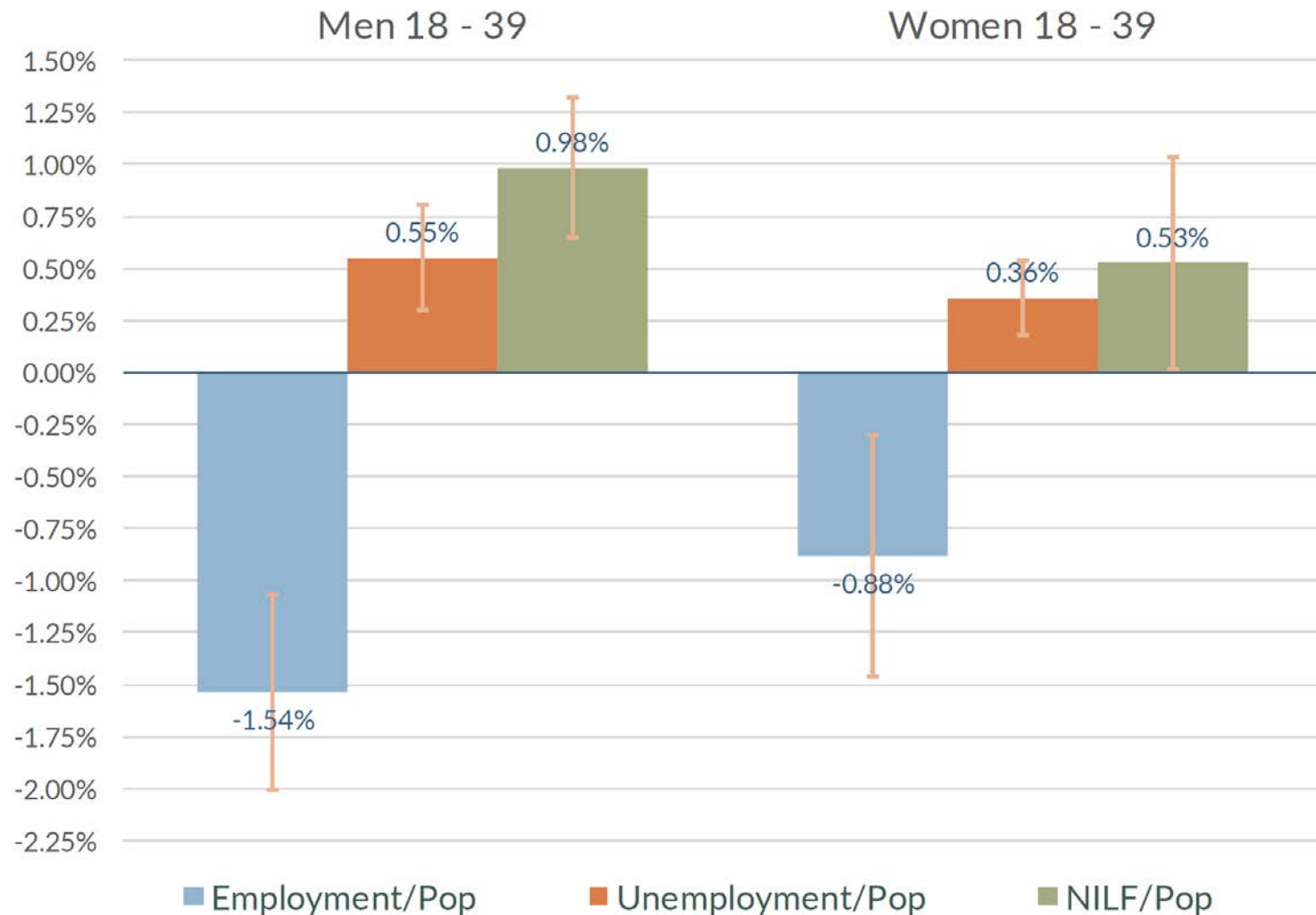
**Plastics products**  
84 areas   \$11k

**Motor-vehicle parts and accessories**  
79 areas   \$12k

**Electronic computers**  
68 areas   \$207k

# China Shock Consequences: Job Loss

**Changes in employment 1991-2007 in more-versus-less trade-exposed local labor markets (75<sup>th</sup> vs. 25<sup>th</sup> percentile)**



# China Shock Consequences: Benefits Uptake

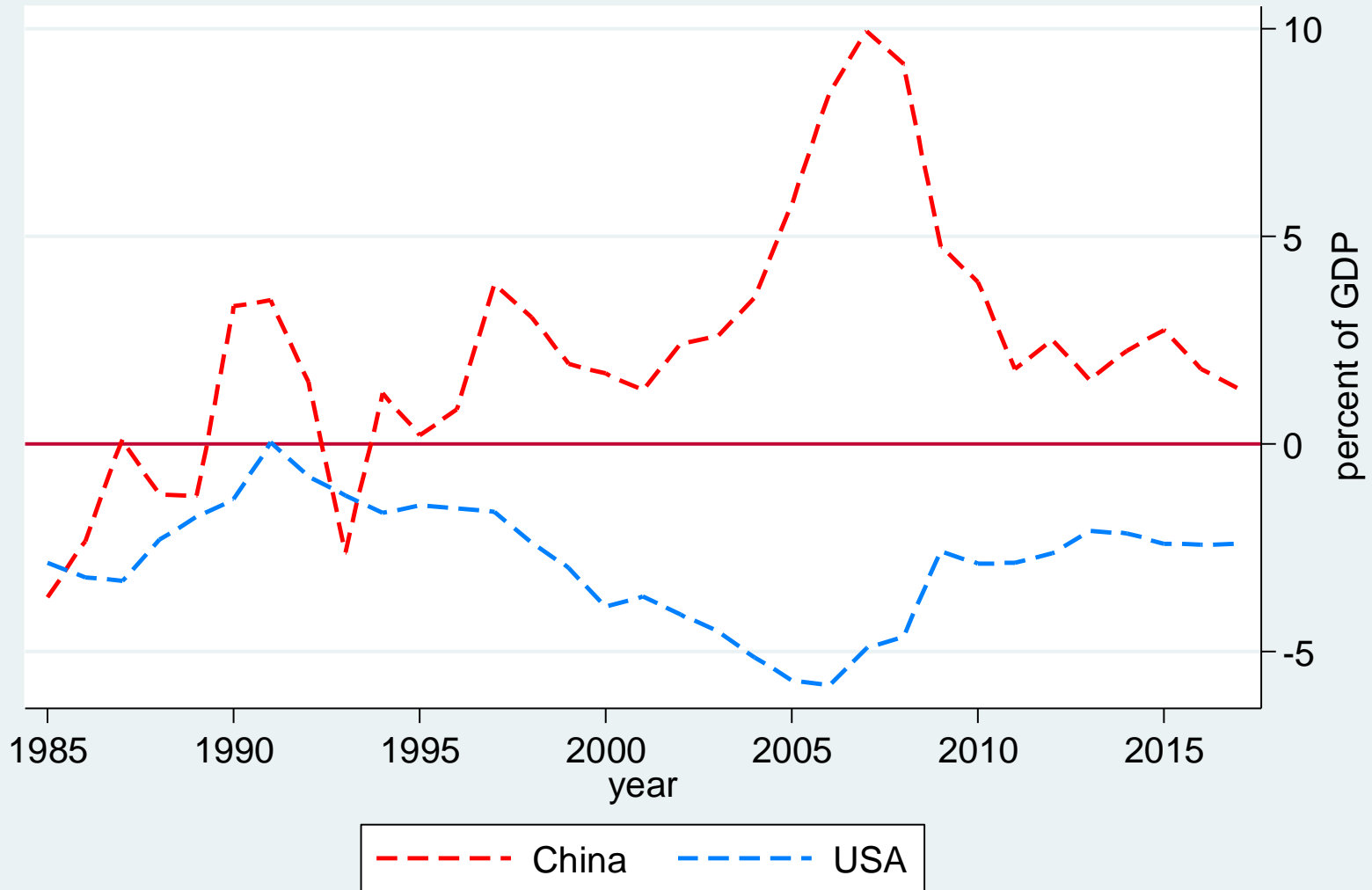
## Changes in uptake of gov't benefits 1991-2007 in more-versus-less trade-exposed local labor markets (75<sup>th</sup> vs. 25<sup>th</sup> percentile)

*Effect of an \$1000 Per Worker Increase in Imports from China during 1990-2007 on Dollar Change of Annual Transfer Receipts per Capita*



# About that Trade Deficit...

## Current Account Balance (% of GDP)





# Future scenarios: Coming to a theatre near you

- **To Geneva, with Love**
- **Revenge of the Column 2 Tariffs**
- **Trading Places**

# To Geneva: GATT and the WTO

- **The General Agreement on Trade and Tariffs (GATT)**
  - A multilateral agreement to reduce trade barriers, negotiated over eight rounds from 1947 to 1994 (164 current member countries)
  - Early GATT rounds reduced tariffs, while later rounds lowered non-tariff barriers, expanded the industries covered, and created the World Trade Organization (WTO) to deal with trade disputes
  - Agreements now cover intellectual property (TRIPS), service trade (GATS), technology products (ITA)—but little progress since 1996

# To Geneva: GATT and the WTO

- **Reciprocity: Mutual reduction of trade barriers**
  - Countries agree to bind their tariffs, to convert quotas into tariffs and to refrain from export subsidies (on manuf. goods, some ag. and services)
- **Non-discrimination: most-favored nation tariffs for WTO members**
  - Exceptions allowed for free trade areas, developing countries
- **National treatment of all products**
  - Countries disallowed from giving special treatment to domestically produced goods
- **Dispute settlement procedures**
  - WTO tribunals rule on disputes between countries, allow for retaliatory tariffs

# Column 2 (Smoot-Hawley) Tariffs

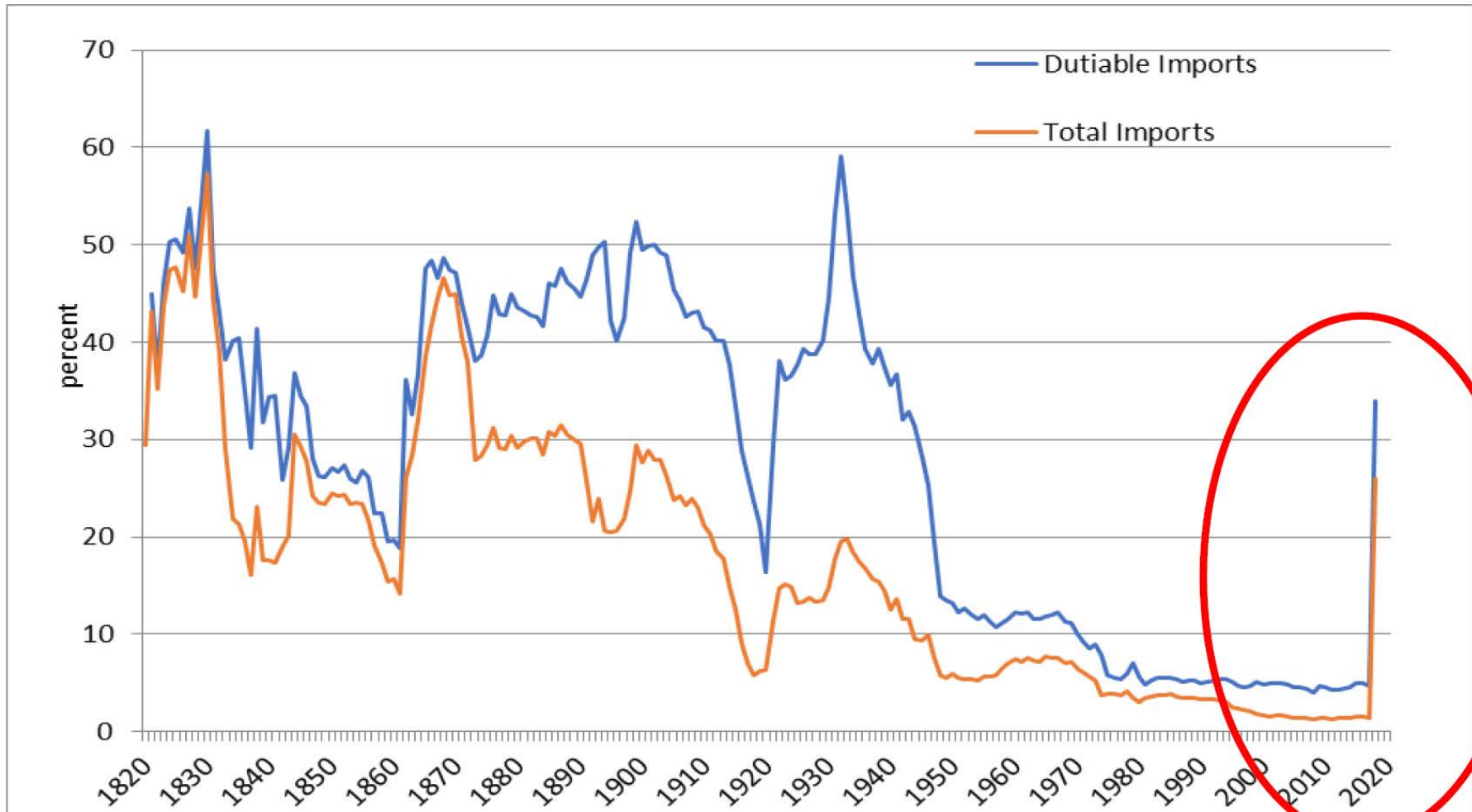
## Harmonized Tariff Schedule of the United States (2018) Revision 11

Annotated for Statistical Reporting Purposes

XV  
80-3

Heading/ Subheading	Stat. Suf- fix	Article Description	Unit of Quantity	Rates of Duty		
				1		2
				General	Special	
8001		Unwrought tin:				
8001.10.00	00	Tin, not alloyed.....	kg.....	Free		Free
8001.20.00		Tin alloys.....		Free		Free
	10	Containing, by weight, 5 percent or less of lead.....	kg			
	50	Containing, by weight, more than 5 percent but not more than 25 percent of lead.....	kg Pb kg			
	90	Containing, by weight, more than 25 percent of lead...	kg Pb kg			
8002.00.00	00	Tin waste and scrap.....	kg.....	Free		Free
8003.00.00	00	Tin bars, rods, profiles and wire.....	kg.....	3%	Free (A, AU, BH, CA, CL, CO, D, E, IL, JO, KR, MA, MX, OM, P, PA, PE, SG)	45%
8007.00		Other articles of tin:				
8007.00.10		Articles not elsewhere specified or included of a type used for household, table or kitchen use; toilet and sanitary wares; all the foregoing not coated or plated with precious metal.....		2.1%	Free (A, AU, BH, CA, CL, CO, D, E, IL, JO, KR, MA, MX, OM, P, PA, PE, SG)	40%
	10	Suitable for food or beverage service.....	No.			
	50	Other.....	X			
8007.00.20	00	Tin plates, sheets and strip, of a thickness exceeding 0.2 mm.....	kg.....	2.4%	Free (A, AU, BH, CA, CL, CO, D, E)	45%

# What If the US Reverted to Column 2 Tariffs?



# Trading Places

- **US may be in the midst of a major political realignment**
  - Whereas for over a century, the North supported barriers to trade and the South opposed them, their positions later flipped
  - Support for globalization is now concentrated on the coasts and in large cities, while opposition is concentrated in Midwest, Southeast
- **Is economic nationalism the future of the GOP? Will Democrats become the party of globalization?**
  - Key constituencies appear to be fretting over their political allegiances (tech, Wall Street, unions, business elite)
  - US Chamber of Commerce is a leading advocate for free trade and a stalwart of the GOP – how will the Chamber align in the future?