



**PIIE** PETERSON INSTITUTE FOR  
INTERNATIONAL ECONOMICS

# **The Politics and Reality of US Trade Policy**

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# What's wrong with the United States

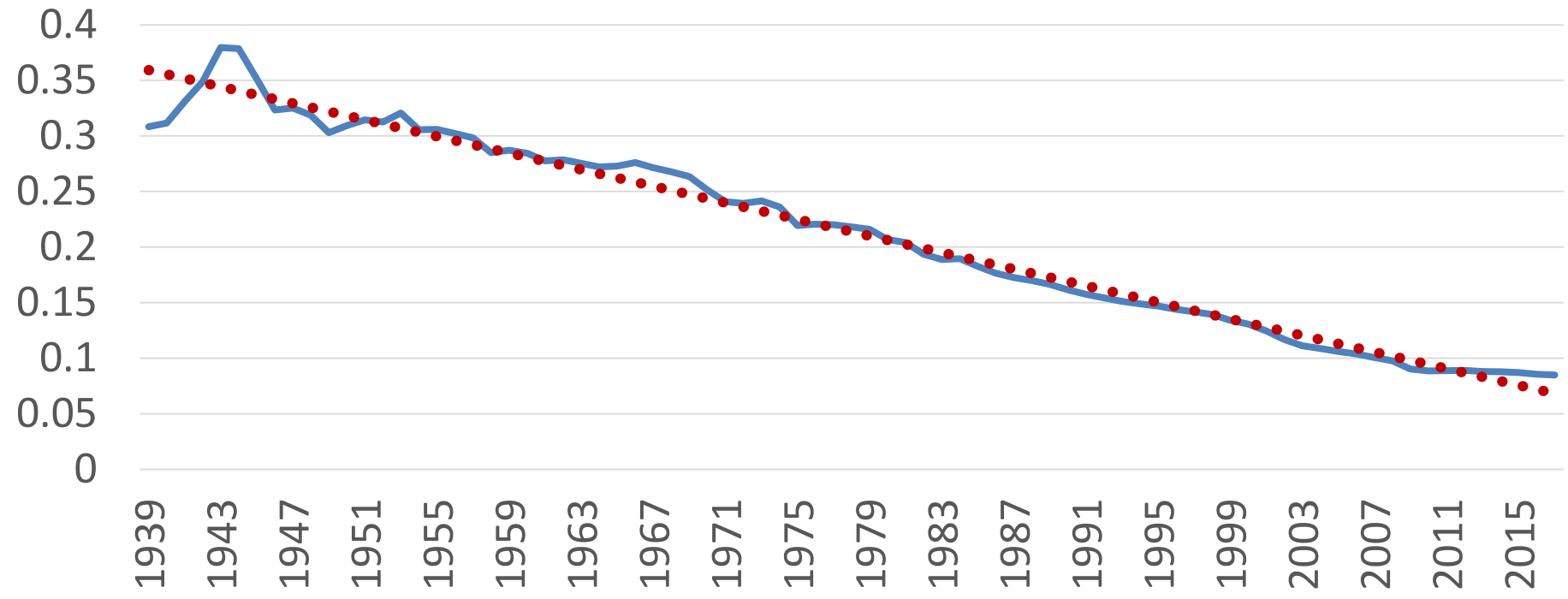
How did we get here?

Where are we going?

# Technology, Trade and Demand Shifts have Big Labor Market Effects

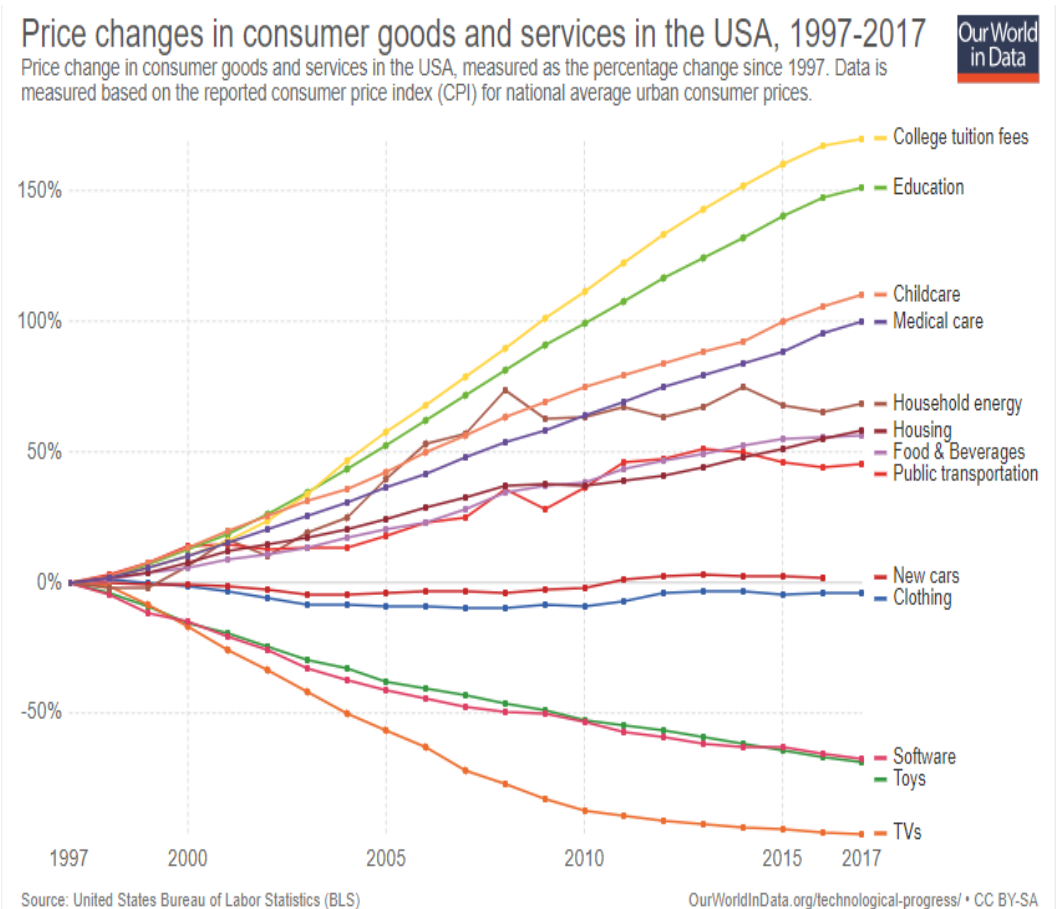
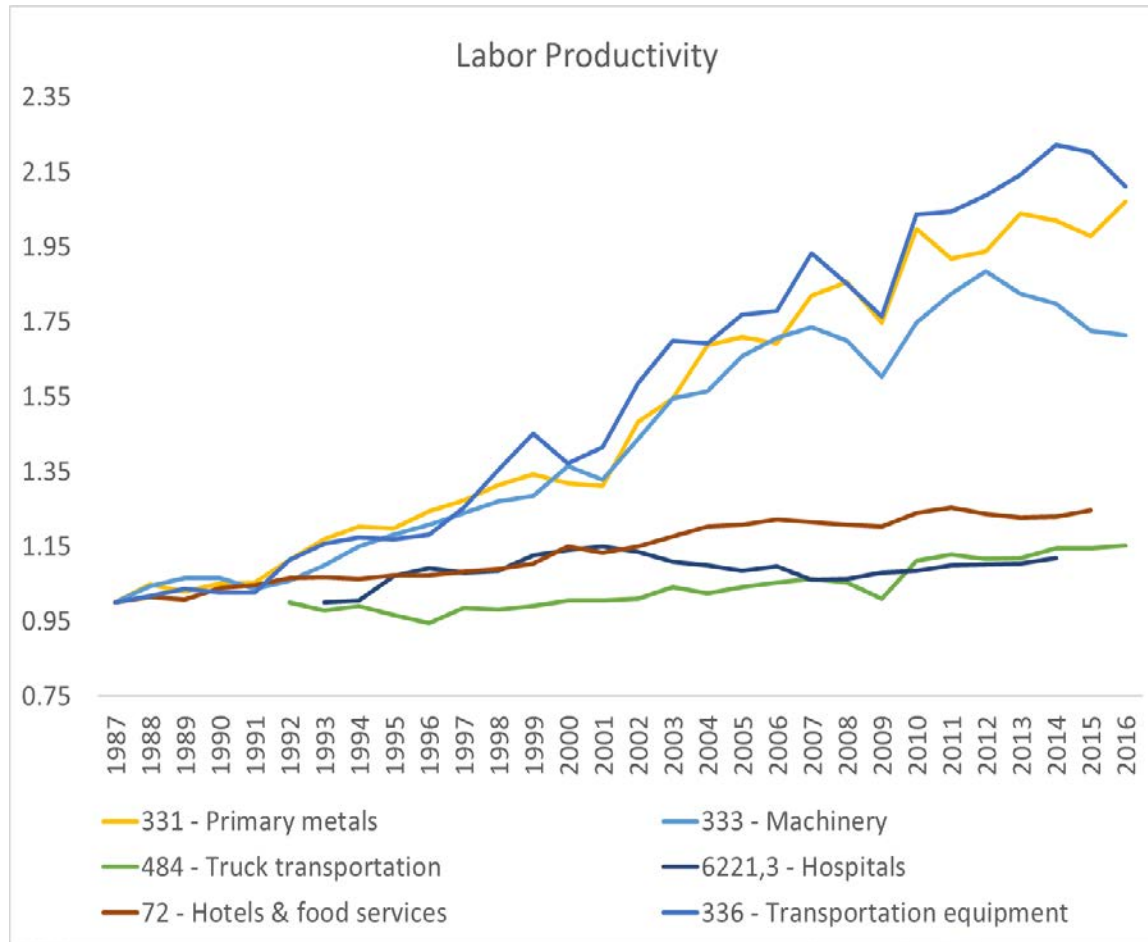


Manufacturing Share of (Nonfarm) Employment



Source: Federal Reserve Economic Data

# Technology: Large Productivity Gains in Manufactures

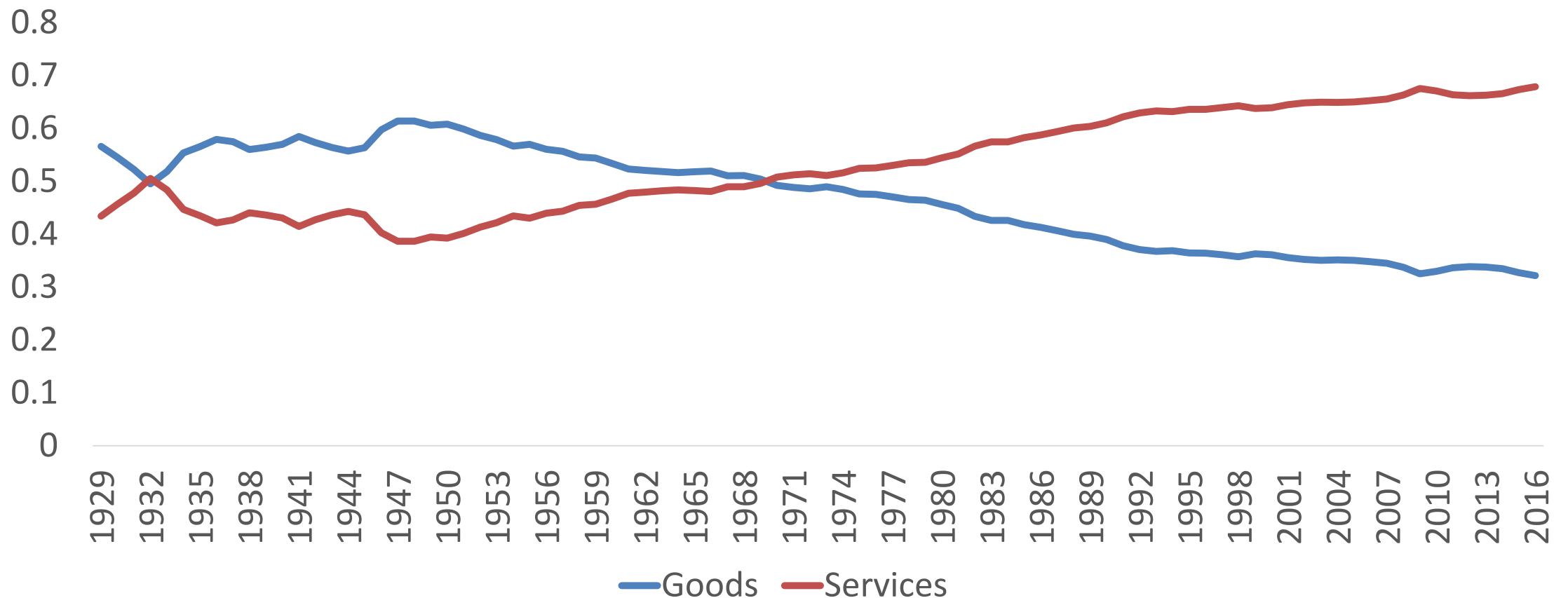


Source: BLS



# Demand has shifted to services

## Share of Personal Consumption Expenditure

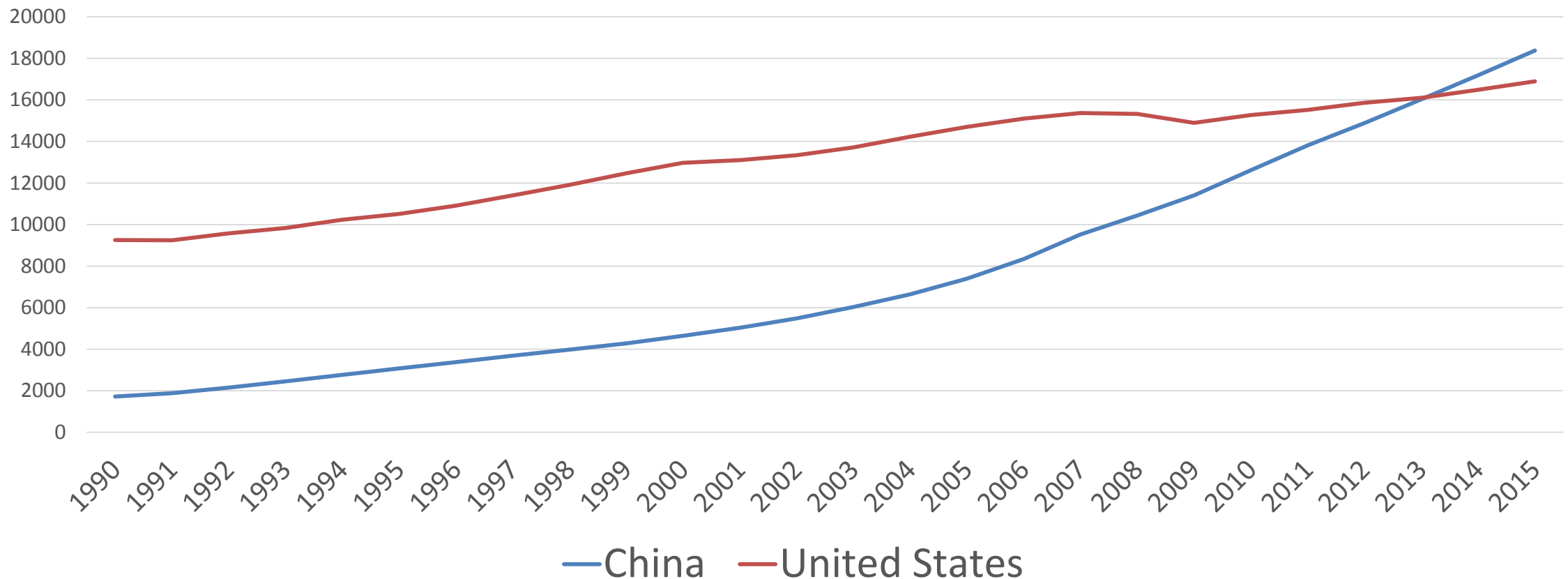


Source: Federal Reserve Economic Data



# The Rise of China

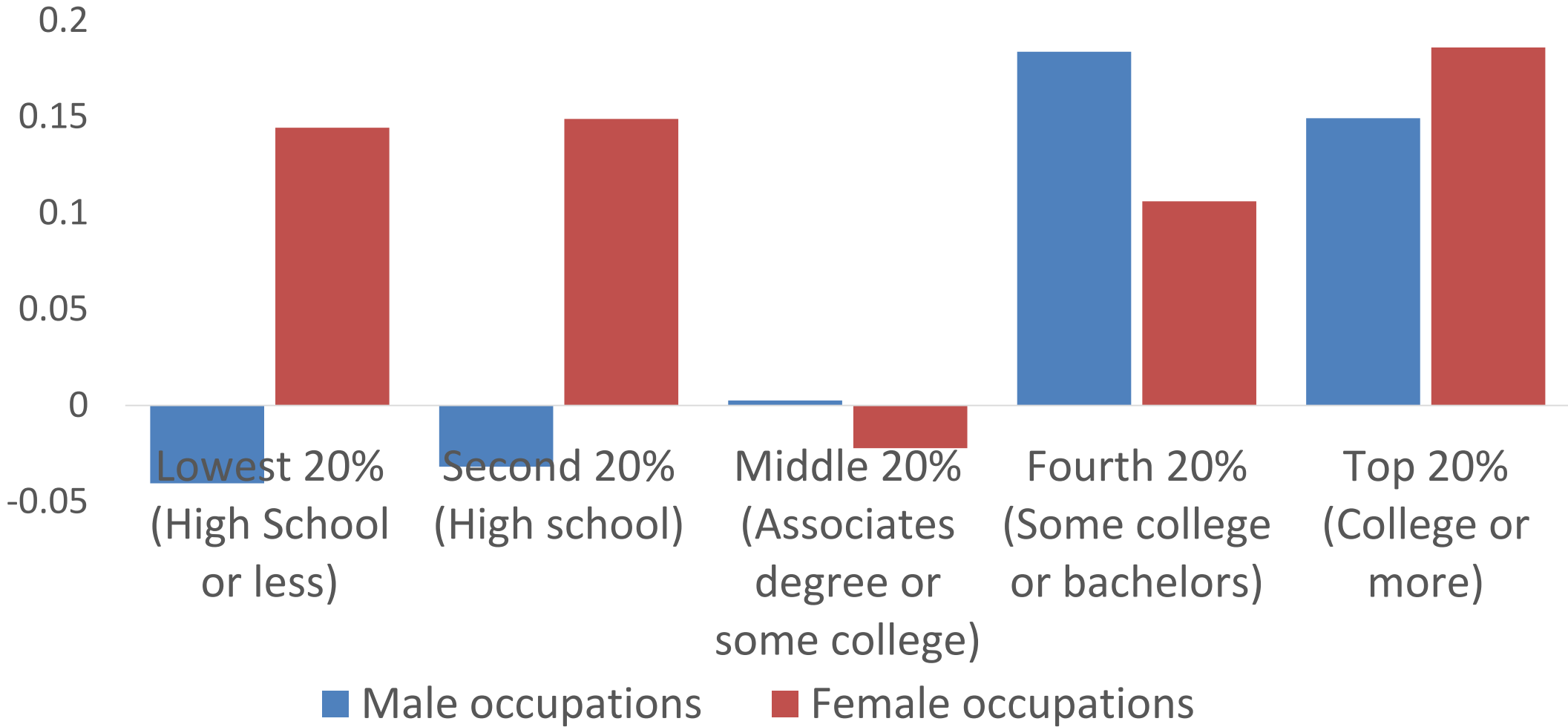
GDP at PPP  
(billions of 2011 international \$)



Source: World Bank, World Development Indicators



# Demand Shifts: Tougher on Uneducated Men

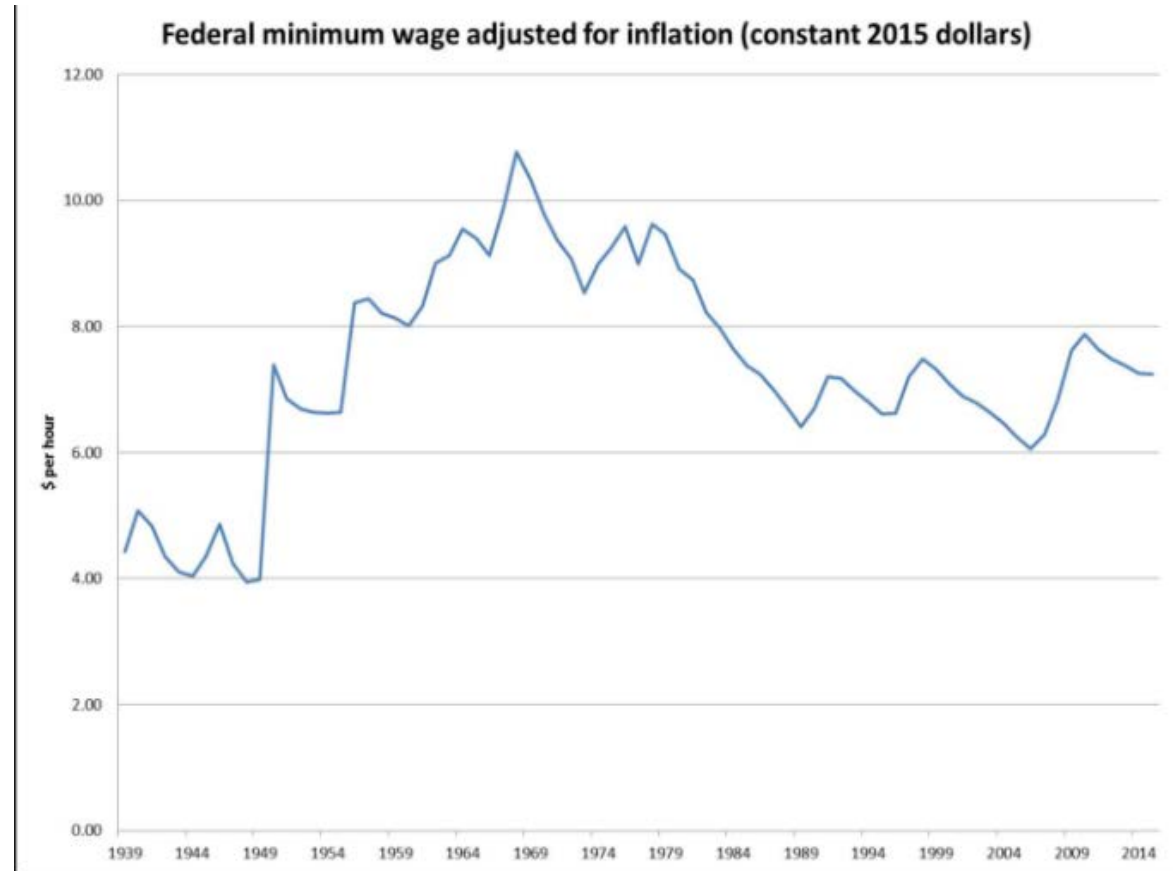


Source: Freund and McDaniel (2017)



# US Policies Magnified Wage Effects

- Tax cuts for the rich
- End of labor unions in private sector
  - 17% in 1983 to 6% now
- Business deregulation



Source: AIER





# Stagnant Wages for Men





**Structural change is difficult**

**Discontent among workers**

**But, do workers really blame trade?**

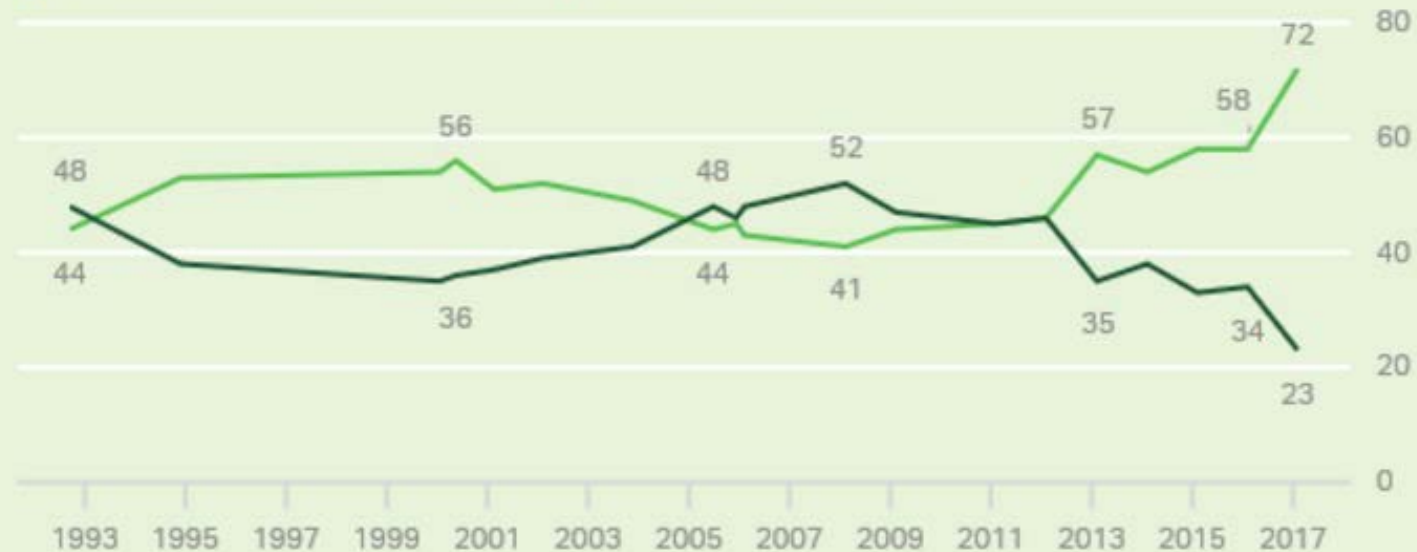


# Views on Foreign Trade at all Time High

## Americans' Views on Foreign Trade

What do you think foreign trade means for America? Do you see foreign trade more as an opportunity for economic growth through increased U.S. exports or a threat to the economy from foreign imports?

■ % Opportunity for economic growth ■ % Threat to the economy



GALLUP

# Worry about terrorism and immigration up worry about economy down



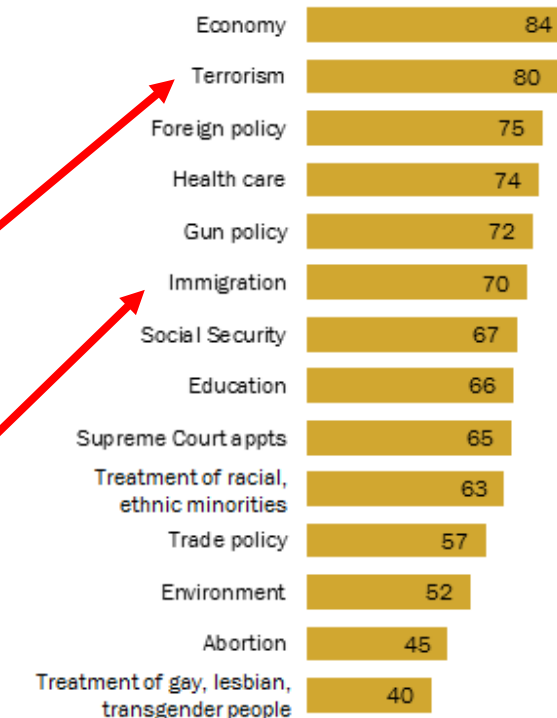
## Voters' Priorities: 2008-2012

| % of voters saying each is "very important" to their vote ... | 2008 % | 2012 % | Change |
|---|--------|--------|--------|
| Economy   | 87     | 87     | 0      |
| Jobs*   | 80     | 83     | +3     |
| Health care   | 73     | 74     | +1     |
| Education   | 73     | 69     | -4     |
| Budget deficit**  | 69     | 68     | -1     |
| Taxes*  | 71     | 66     | -5     |
| Medicare  | --     | 65     | --     |
| Terrorism   | 72     | 60     | -12    |
| Foreign policy  | --     | 60     | --     |
| Energy  | 77     | 55     | -22    |
| Abortion  | 39     | 46     | +7     |
| Immigration   | 52     | 41     | -11    |

PEW RESEARCH CENTER Sept. 12-16, 2012.  
Based on registered voters. All 2008 figures from August except\* October 2008 and \*\* May 2008.

## Economy and terrorism are top issues for voters in 2016

% of registered voters saying each is "very important" to their vote in 2016 ...



Note: Based on registered voters. Q40.  
Source: Survey conducted June 15-26, 2016.



# Election

- 3000 counties, Clinton and Trump votes
- By the numbers: Not voting for Clinton was more important than voting for Trump
- By vote share:
  - Education and race explain more than 70% of variation
  - Manufacturing and manufacturing job loss not significant



## **Even if election was not about trade, trade policy is under threat now...**

- Anti-trade policies are anti-establishment and directed at a “villain”
- Anti-trade policies help Trump keep his base, while passing tax cuts for the rich
- Focus is US bilateral trade deficits in goods



# Unusual US Trade Policies

- Actions or near actions
  - TPP withdrawal
  - Section 201 Solar (we'll see soon)
- Threats and delays on unusual policies
  - ~~Border Adjustment Tax~~
  - Trade deficit report
  - Section 232 steel
  - Section 301 China
  - NAFTA withdrawal
  - KORUS withdrawal
- Unlikely to change
  - Administration is understaffed, split, and inexperienced
  - Republican Congress is pro-trade
  - Civil servants are smart and experienced
  - Lobbying works
  - Tax reform is real priority



# US Trade Policy: Extreme but not yet Unusual

- Antidumping encouraged
  - 51 orders in 2016
  - 46 so far in 2017
- CFIUS
  - More scrutiny of foreign investment
- WTO Appellate body
  - US blocking approval of new members
  - Obama started this





# Risks from Tax Reform

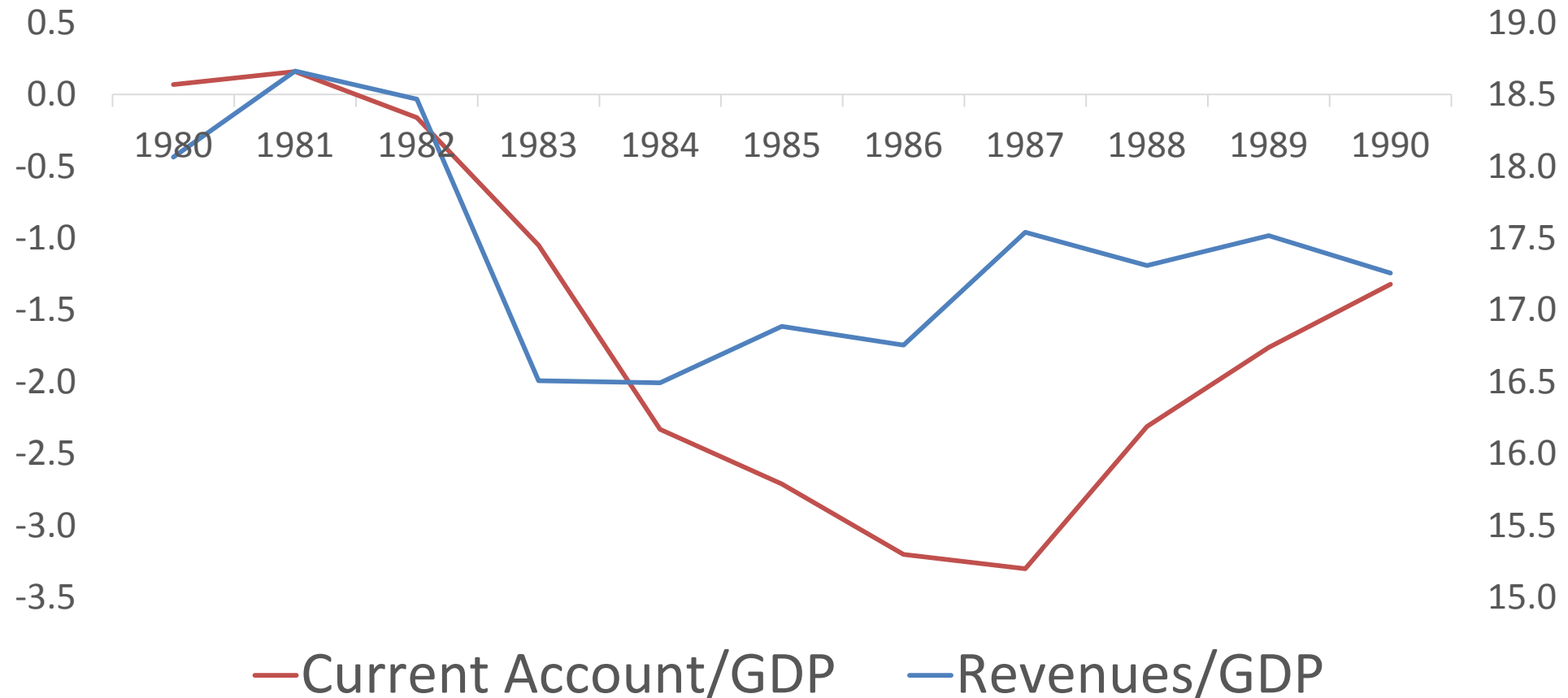
- Unfunded tax cuts will run up the trade deficit
- \$1-1.5 trillion tax cut over a decade
  - More domestic consumption means more imports
  - More borrowing means higher interest rates and a stronger dollar
- Potential trade protection becomes real



# Reagan Tax Cuts and Current Account

Current Account/GDP

Revenues/GDP





# Moving Forward (or at least not going backward)

- Encourage the backlash against the backlash against globalization
  - Anti-Brexit rallies & pro-EU rallies, TPP 11, EU-Japan, Pacific Alliance etc.
- Media's negative bias is helpful
  - Trade bashing raged in 2016, not so much now
- Export industries are lobbying (agriculture, autos, and retail)
- Think tanks and academics offer data and evidence
- Need more momentum and coordination from international institutions