

# AMERICA AND MODERN GLOBAL TRADE

FROM BRETTON WOODS TO THE  
AGE OF TRUMP

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Central thesis

–

and a central  
question

Globalization has been a fundamentally positive phenomenon for our economy and culture – although it has negative effects that we should manage actively. US trade policy has reflected that belief.

President Trump has changed course on trade policy. Does this indicate that globalization is no longer viewed as a positive phenomenon, or is he just more active in managing the negative effects?

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1.

## What is Globalization?

The growing awareness in one country of the world's cultures:

**Brought about by cross-border flows of people and information**

The growing interconnection of one economy with other world economies:

**Brought about by cross-border flows of goods and services, technology, investment**

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## What Drives Globalization?

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Transportation costs are falling

Technology makes communication easier

Countries post World War II have had a shared desire to cooperate



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## Two views on globalization

Joseph Stiglitz, Nobel Laureate

“Globalization itself is neither good nor bad. It has the power to do enormous good.”

Stiglitz, J.: Globalization and its Discontents, 2002, p. 20

Jagdish Bhagwati, Nobel Laureate in waiting

“this process [of globalization] has a human face, but we need to make that face more agreeable.”

Bhagwati, J.: In Defense of Globalization, 2004, p. 35.

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## Does US International Trade Exhibit Globalization?

Growing US international trade is a manifestation of globalization at both levels.

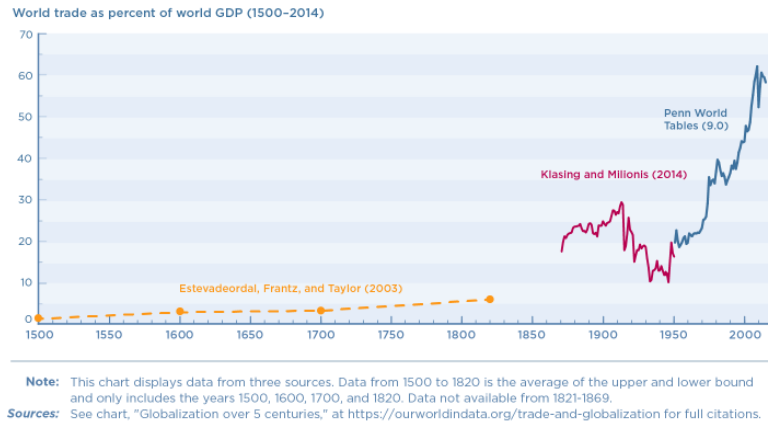
- **We are aware of the value to us of goods, services and communications from other countries.**
- **All countries have grown interdependent – relying upon trading partners to produce specific goods they need.**

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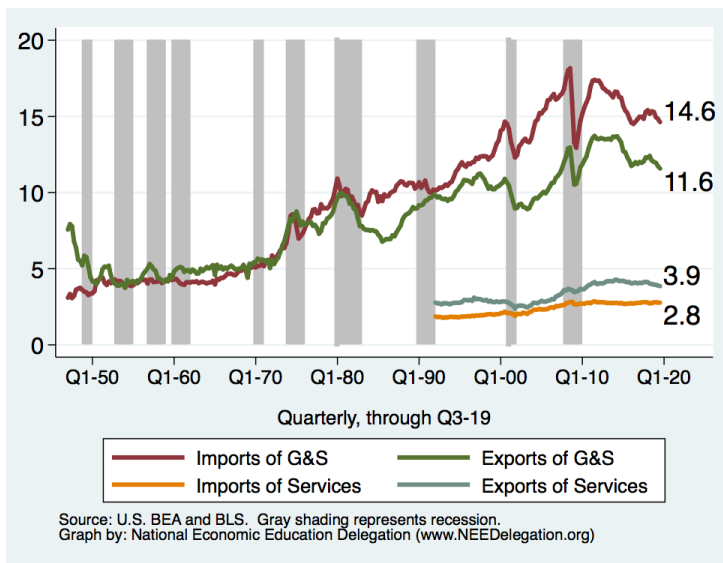
By this measure, we are more global than ever before

Trade has skyrocketed in the past century



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US Trade Value  
(as percent of US GDP)

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Is this  
interdependence  
a good thing?  
(point)

Yes!

- Specialization in a subset of all goods makes it possible to produce those goods relatively more cheaply: comparative advantage.
- Each country will have its own varieties of goods, giving those of us with a taste for variety a benefit as well when we buy their goods and services.

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What Do the  
Data Say?

Trade Lowers  
Prices for  
Consumers

Empirical study of import surge from  
China during the period 2000-2007

**Consumer prices would have been  
about 10% higher without this import  
surge.**

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Is this interdependence a good thing? (counterpoint)

No!

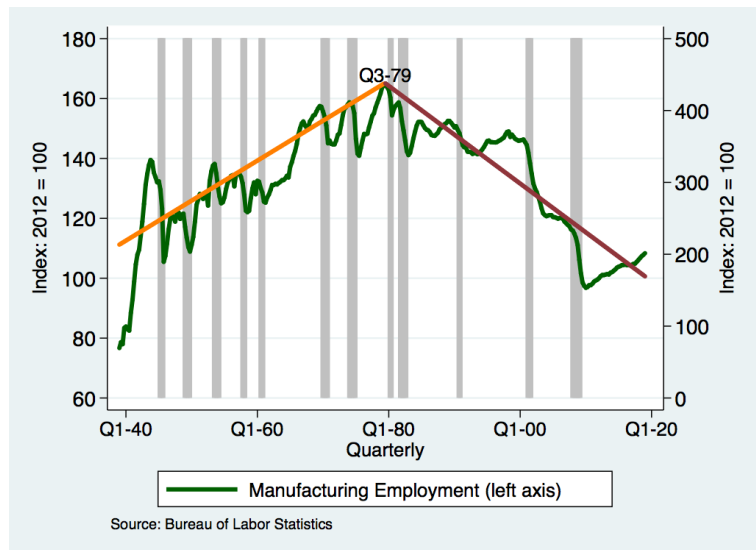
If you don't like change, this can be nerve-racking. Competitors can arise all around the world to compete with the good your country produces. If they have a comparative advantage, then our producers will have to adjust to some other product.

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The Basic Concern: An Inverted V of Jobs in US Manufacturing

Is this due to International Trade?



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David Autor,  
Ford Professor  
at MIT

“Workers displaced by trade cannot change jobs costlessly, and by reshaping skill demands, trade integration is likely to be permanently harmful to some workers and permanently beneficial to others.”

Autor, D.: [IZA World of Labor](#), 2018

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And what  
about large  
trade deficits:

a product of  
globalization?



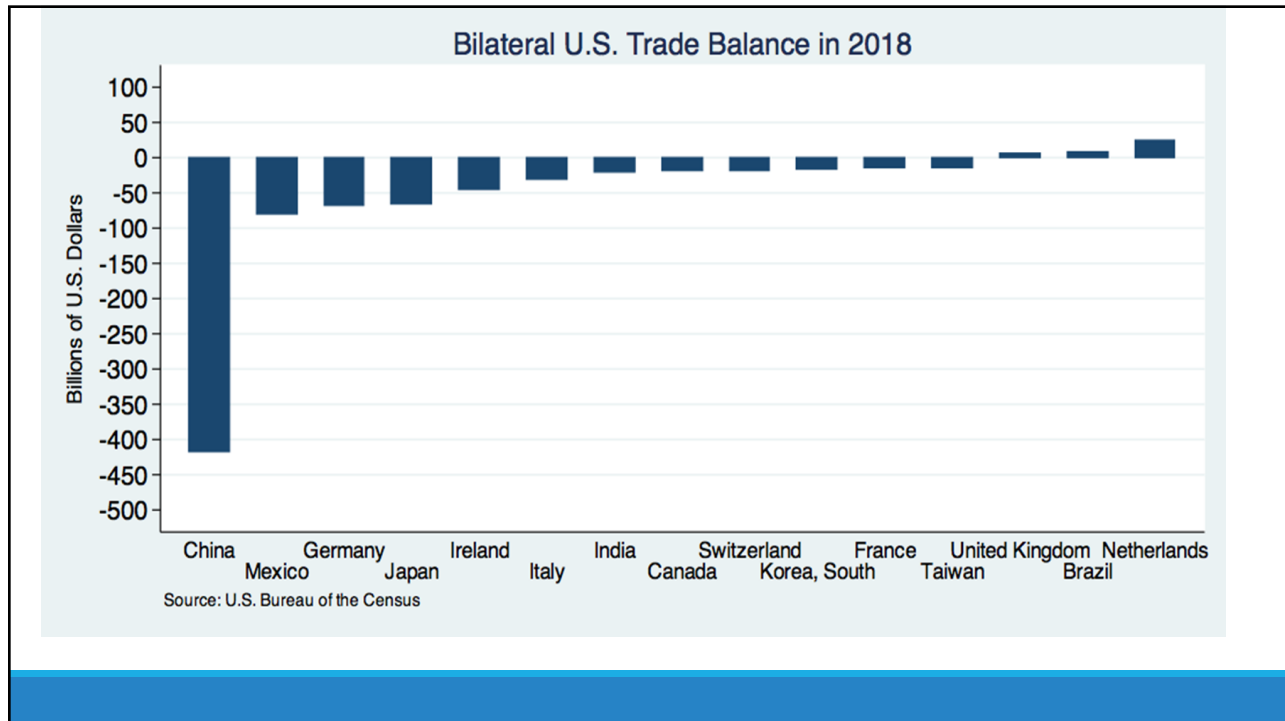
When the US runs an aggregate trade deficit, it is borrowing from the rest of the world. Purchases exceed sales – we are living beyond our means.



The amount of US borrowing that is financed by foreign savers – that is equal to the amount of our aggregate trade deficit in each year.

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Globalization:

the good and  
the bad

- Good:
  - Lower prices
  - Greater variety available
  
- Bad:
  - Firm failure
  - Worker dislocation

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Can anyone  
reverse  
globalization?

Increase transport costs?

Increase the technological costs of  
communication?

Throw up barriers to flows of goods,  
services and information?

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Trade Policy:  
three historical  
motivations

- Douglas Irwin: “Clashing Over Commerce”
- Three motivations for US trade policy:
  1. For the first 150 years: revenue
  2. For the next 60 years: restricting imports
  3. For the last 60 years: reciprocity
- The primary trade instrument: the tariff

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In the beginning ...

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## Alexander Hamilton

First to raise US tariffs

– because the Federal government needed the revenue.

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## The Fathers of the Trade War

Representative Willis Hawley of Oregon  
and Senator Reed Smoot of Utah

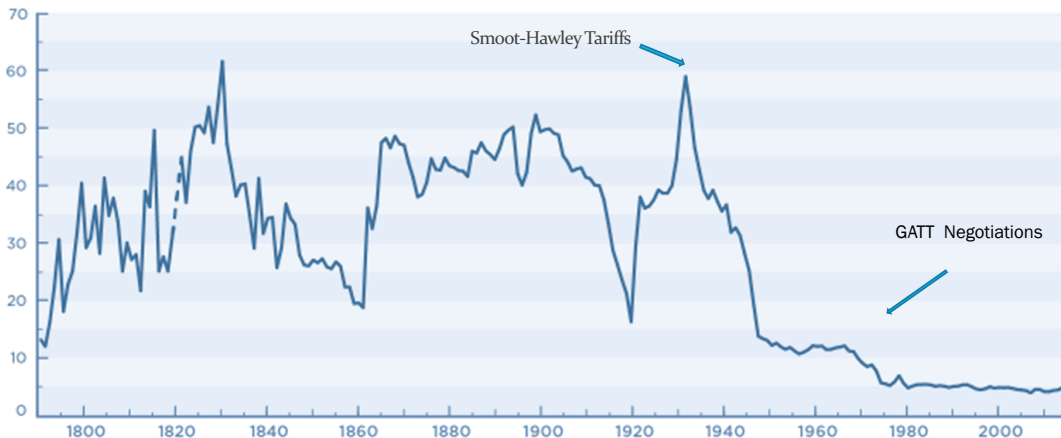
**Their goal: restricting imports into the US during the Great Depression.**

**US trade with Europe fell in value by two-thirds from 1929 to 1932.**

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## US import taxes dropped considerably post-World War II

Average US tariff rates on dutiable imports (1790-2016)



**Note:** Rates are weighted by trade value. Dotted line indicates years when data are not available.  
**Source:** US International Trade Commission. Compiled by Douglas A. Irwin.

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## The GATT years:

### Reciprocity and reduction

A Bretton Woods commitment to reciprocal tariff and trade barrier reduction by signatories. Negotiations led by the US.

Twenty-three signatories in 1947 , up to 123 signatories in 1994.

Average tariffs on major participants fell from 50 percent to 5 percent.

Non-tariff barriers largely eliminated.

The World Trade Organization, created in 1995, is the formal successor organization to the GATT.

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## General Consensus of Economists on Tariffs

**Adding new or higher import duties on products such as air conditioners, cars, and cookies — to encourage producers to make them in the US — would be a good idea.**

**Responses**

Response	Percentage
Strongly Agree	0%
Agree	0%
Uncertain	0%
Disagree	31%
Strongly Disagree	62%
No Opinion	0%

**Responses weighted by each expert's confidence**

Response	Percentage
Strongly Agree	0%
Agree	0%
Uncertain	0%
Disagree	30%
Strongly Disagree	70%

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2017 — 2018

## President Donald Trump Repudiates Trading System

Trump withdraws from the Trans-Pacific Partnership (TPP), threatens to abandon NAFTA (then later negotiates a preliminary deal that adds new restrictions), and criticizes WTO rules as unfair to the United States. His administration imposes tariffs against China and US allies, which escalates into a tit-for-tat trade war.

# The Return to Restricting Imports

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“I want tariffs.  
Bring me some  
tariffs!”

27 August 2017

**Rejection of trade agreements: TPP**

**Renegotiation of trade agreements: NAFTA.**

**Anti-dumping duties: washing machines, solar panels (all countries)**

**Escape-clause duties: Technology products from China**

**National Security duties: Steel and Aluminum**

**Use of WTO Dispute Settlement Mechanism**

**Free Trade with Europe?**

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Trump's rising-tariff policy:  
Are there benefits for the  
US?

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## Trump's Crowbar

inducing market-access  
change abroad without  
actually raising tariffs.

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Trump's Reset

Short-term pain from tariffs leads to long-run benefits by inducing more open markets overseas.

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MAGA

Large countries can gain from increasing tariffs:

Acting like Monopolists.

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## Winners

Rising tariffs redistribute national income from consumers to producers in affected industries – but also cause efficiency losses.

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## Losers

Consumers pay more.

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## Retaliation

When the US imposes trade restrictions, other countries will respond in kind.

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Paul Krugman,  
Nobel laureate

on the impact  
of rising tariffs

“In the short run, there’s a huge amount of disruption: we’d eventually gain jobs in import-competing industries, but we’d immediately lose a lot of jobs both in export sectors (including farming) and in industries that are currently part of global supply chains, like autos and electronics. So we’d be talking about millions of immediate losers, even if some would eventually gain.”

“In the longer run, the economy would just be less efficient: instead of concentrating on stuff we’re especially good at, we’d be doing a lot of labor-intensive stuff for ourselves.”

Krugman, P.: “Paul Krugman Explains Trade and Tariffs”, 15 March 2018, NY Times.

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## Your Conclusions

Globalization and international trade: an opportunity for all, but not a sure thing for anyone. How should we as a nation respond?

US trade deficits: do they matter to us?

The President's aggressive use of tariffs: is it good for the country?

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## Reading List

Bhagwati, Jagdish: In Defense of Globalization. New York: Oxford University Press, 2004.

Irwin, Douglas: Free Trade Under Fire. Princeton, NJ: Princeton University Press, 2015.

Irwin, Douglas: Clashing Over Commerce. Chicago, IL: University of Chicago Press, 2017

Stiglitz, Joseph: Globalization and its Discontents, New York: WW Norton, 2002.

Tankersley, Jim: "Trump Hates the Trade Deficit. Most Economists Don't", New York Times, 5 March 2018.

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