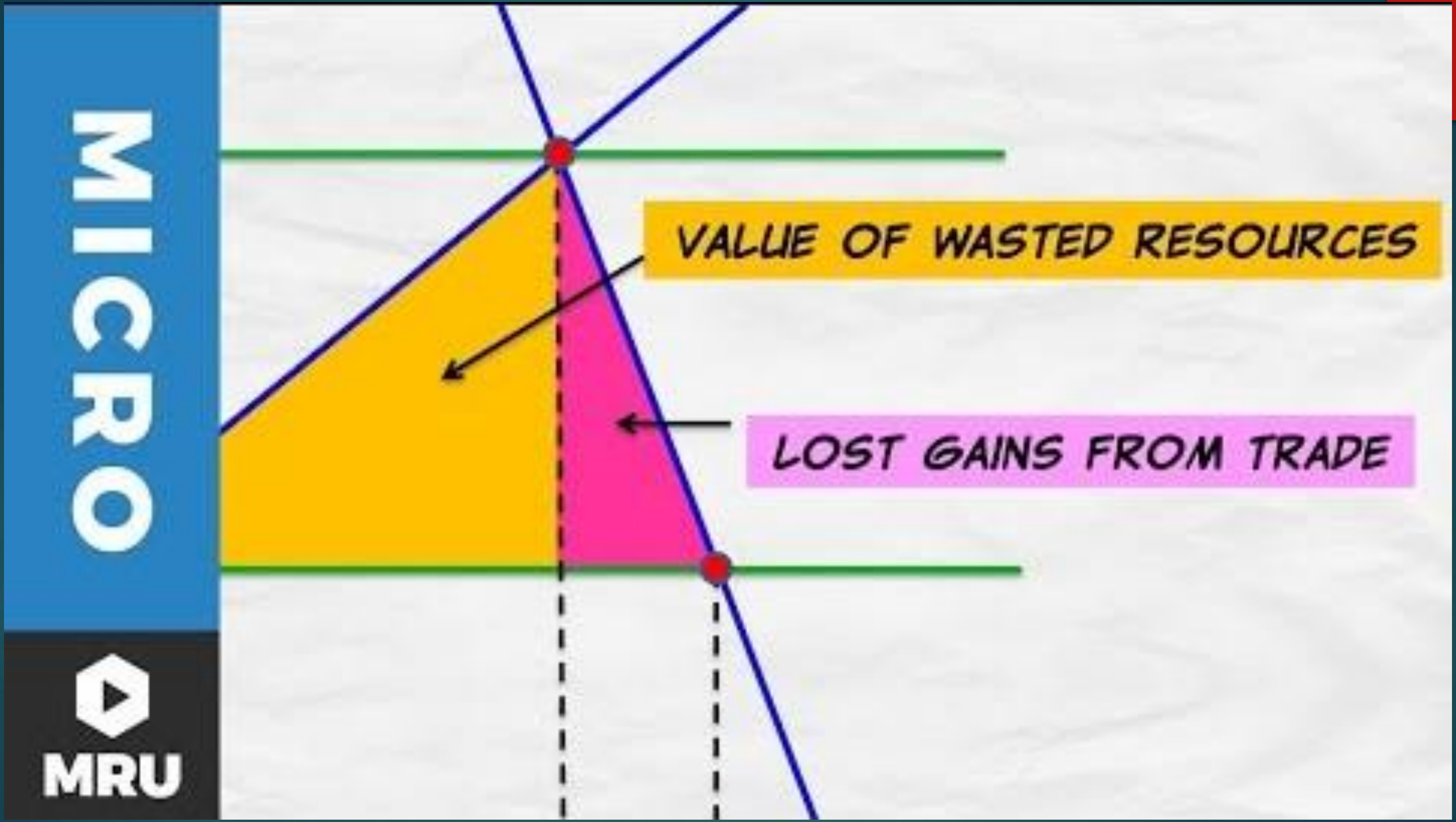
International Trade Part 2

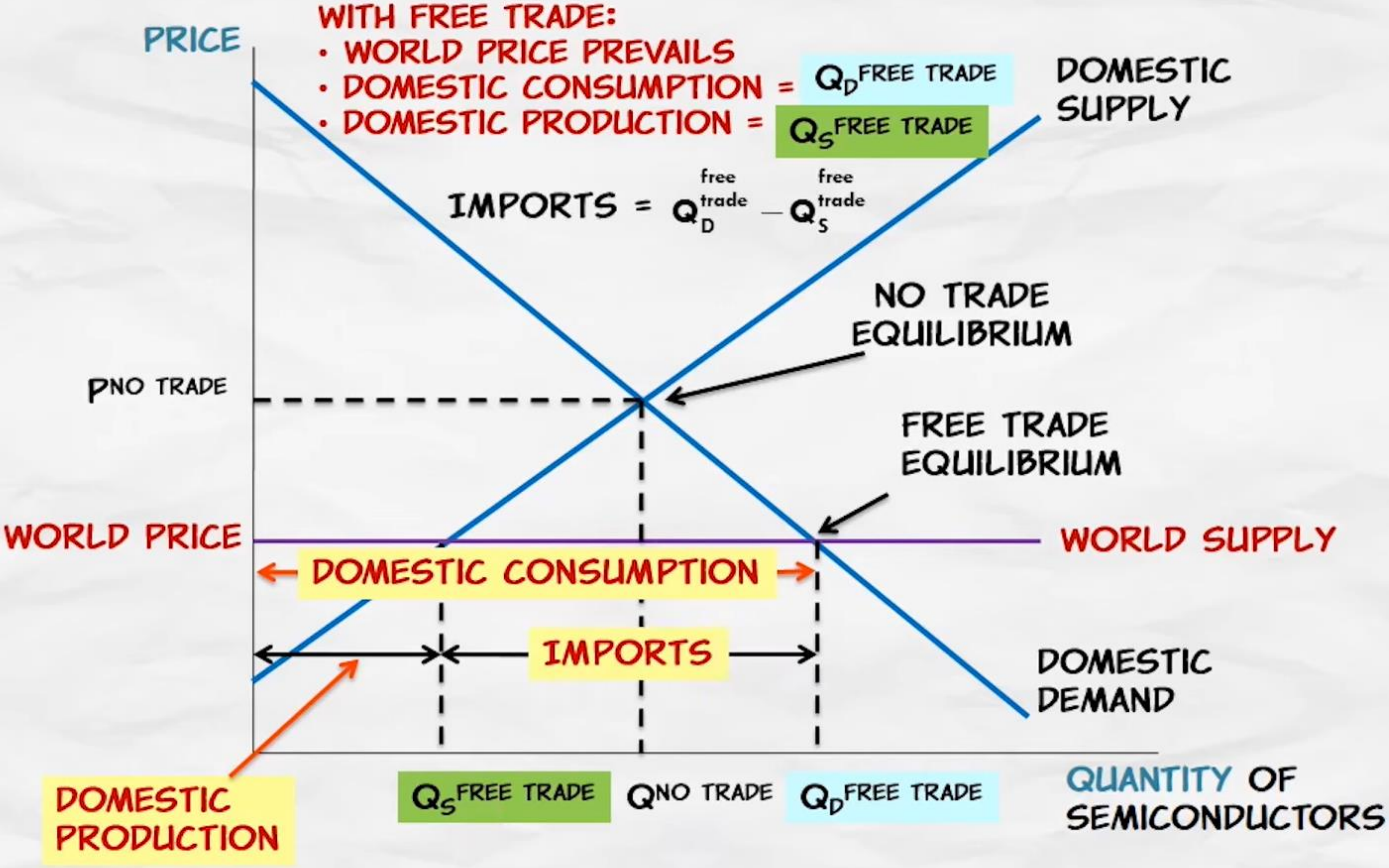
ARGUMENTS AGAINST GLOBALIZATION, PLUS TARIFFS, AND PROTECTIONISM

Analyzing Tari[illegible]
with Demand and Supply

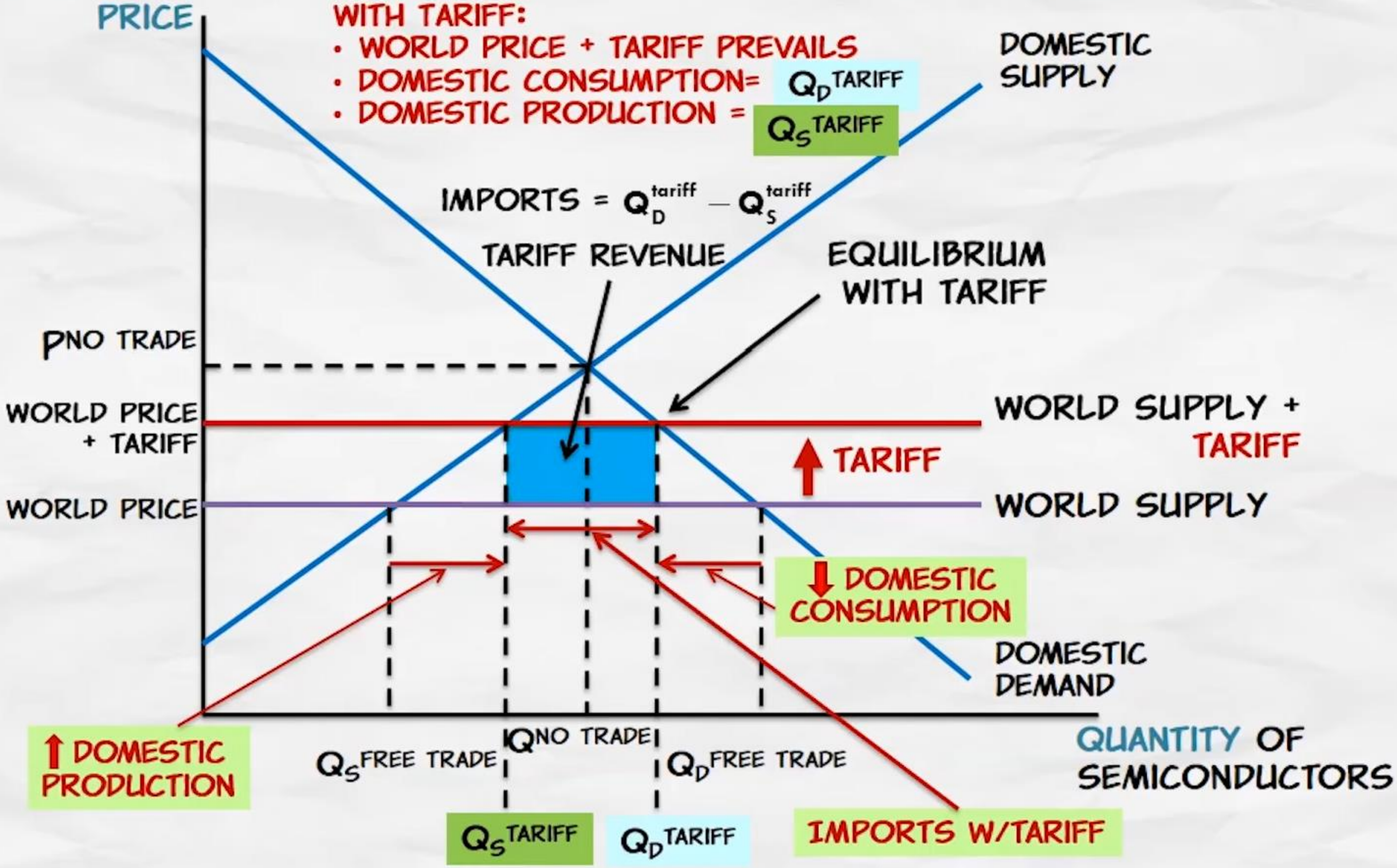
- **Protectionism** – the economic policy of restraining trade through tariffs, quotas or other regulations that burden foreign producers but not domestic producers
- **Tariff** – a tax on imports
- **Quota** – restriction on the quantity of goods that can be imported


MICRO
MRU
VALUE OF WASTED RESOURCES
LOST GAINS FROM TRADE

Analyzing Trade with Supply and Demand



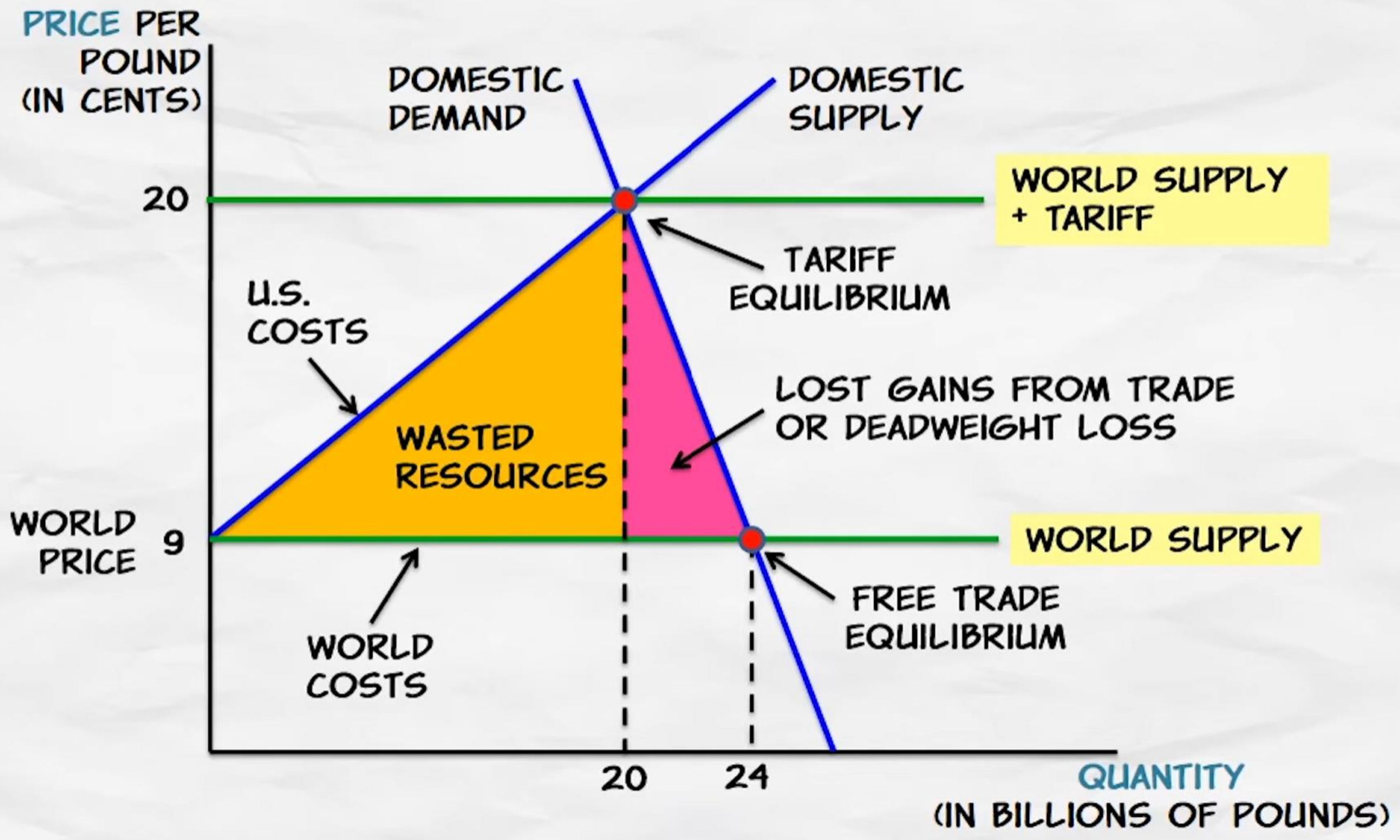
Analyzing Trade with Supply and Demand



The (Net) Welfare Costs of Protectionism

- A Tariff has two effects that influence welfare;
  - 1. Domestic consumption **decreases**
  - 2. Domestic production **increases**
- The Revenues to the Government are net neutral
  - (assume neutrality for this class, as in reality, government revenues are a bit more complex)
- Both of these effects reduce welfare
  - 1. There are lost gains from trade due to decreased domestic consumption
  - 2. Wasted resources since domestic production is higher cost than foreign production

The Costs of Protectionism (Sugar)



Conclusions and Further Reading

- Tariffs increase prices to consumers so domestic consumption falls and this creates a deadweight loss
- Tariffs divert production from low-cost (world) producers to high-cost (domestic) producers and this waste resources
- Distribution of losses and gains
  - Bad for consumers
  - Good for domestic producers
  - Bad overall

Arguments Against Free Trade

1. Protecting High Wages

2. Saving Jobs

3. Dumping

4. Fair Trade: Reciprocal Trade

5. National Defense (THE BEST ARGUMENT!!!)

At What Cost?

- How much are American Jobs Worth?
- This data is several years old (Pre-Trump) but goes to show the effects of Tariffs and the costs

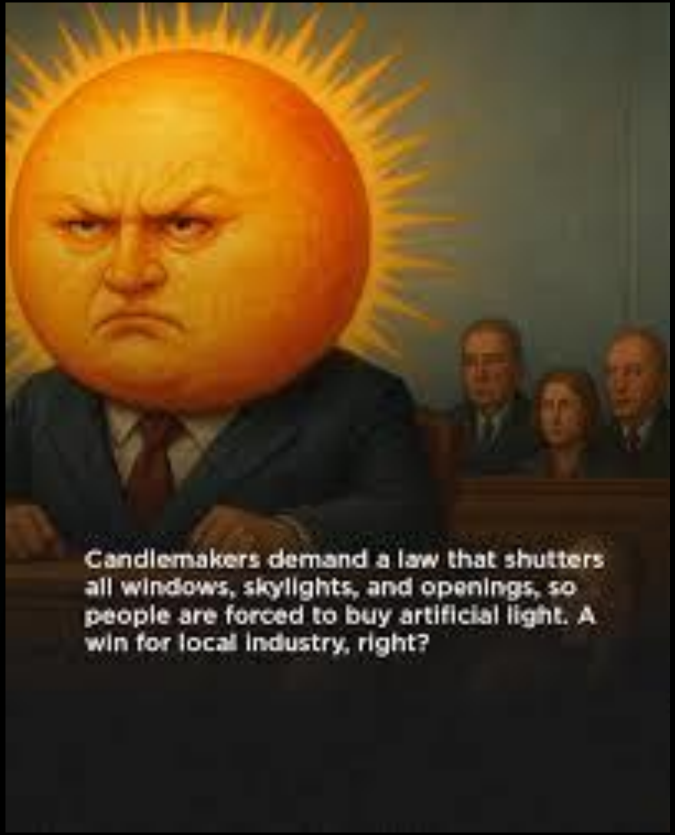
Case Studies of Trade Protection in the U.S.

Case	Consumer Losses (millions, per year)	Producer Gains (millions, per year)	Annual Consumer Losses per Job Saved (1986 dollars)	Annual Consumer Losses per Job Saved (2016 dollars)
Manufacturing				
Book Manufacturing	$500	$305	$100,000	$219,000
Benzenoid Chemicals	$2,650	$2,250	$1,000,000	$2,190,000
Glassware	$200	$130	$200,000	$438,000
Rubber Footwear	$300	$90	$30,000	$65,700
Ceramic Articles	$95	$25	$47,500	$104,025
Ceramic Tiles	$116	$62	$135,000	$295,650
Orange Juice	$525	$390	$240,000	$525,600
Canned Tuna	$91	$74	$78,000	$170,820
Textiles and Apparel	$27,000	$22,000	$42,000	$91,980
Carbon Steel	$6,800	$3,800	$750,000	$1,642,500
Ball Bearings	$45	$21	$90,000	$197,100
Specialty Steel	$520	$420	$1,000,000	$2,190,000
Nonrubber Footwear	$700	$250	$55,000	$120,450
Color TVs	$420	$190	$420,000	$919,800
CB Radios	$55	$14	$93,000	$203,670
Bolts, Nuts, Large Screws	$110	$60	$555,000	$1,215,450
Prepared Mushrooms	$35	$13	$117,000	$256,230
Automobiles	$5,800	$2,600	$105,000	$229,950
Motorcycles	$104	$67	$150,000	$328,500
Services				
Maritime Industries	$3,000	$2,000	$270,000	$591,300
Agriculture and Fisheries				
Sugar	$930	$550	$60,000	$131,400
Dairy Products	$5,500	$5,000	$220,000	$481,800
Meat	$1,800	$1,600	$160,000	$350,400
Fish	$560	$200	$21,000	$45,990
Mining				
Petroleum	$6,900	$4,800	$160,000	$350,400
Lead and Zinc	$67	$46	$30,000	$65,700
	$64,823 Total	**$46,957 Total**	**$235,712 Average**	**$516,208 Average**

Source: Trade Protection in the U.S: 31 Case Studies, Institute for International Economics, 1986

Carpe Diem AEI

Economic Protection Against the Sun?



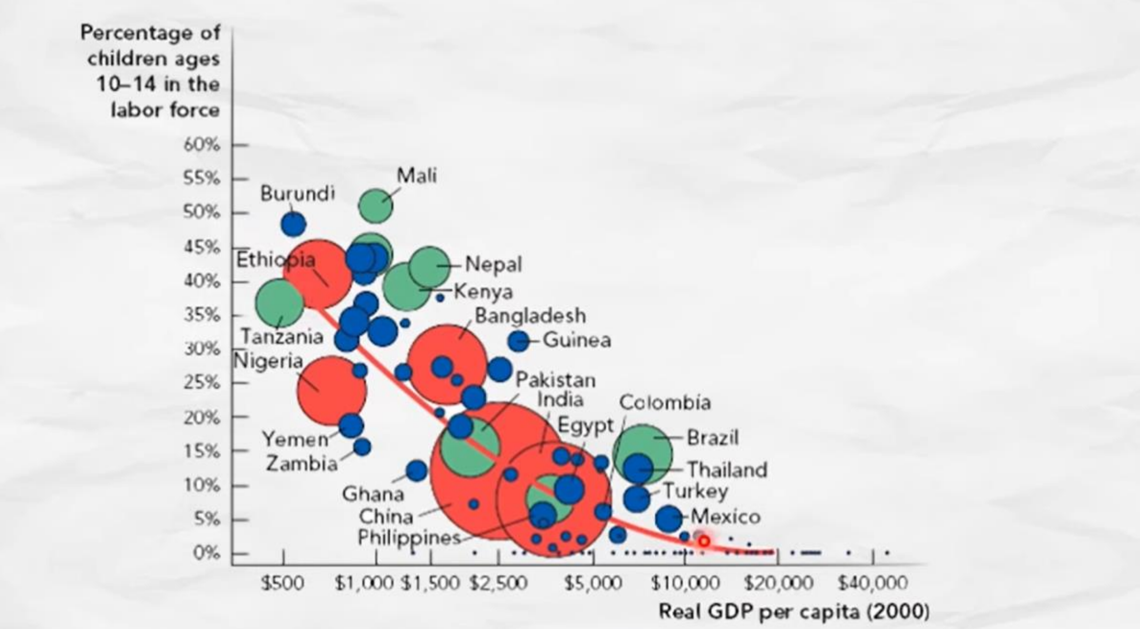
- In an article by Economist Frederic Bastiat, the local producers of artificial light literally petition the government to take action against the sun
- Just because it 'saves' local jobs, doesn't mean it's a good thing to do economically

Dumping

- **Dumping**- Selling a good in a foreign country at a lower price than it's sold for in the domestic market
- Dumping is currently illegal, with laws in place to implement tariffs against foreign firms
- However, high prices attract new firms, including foreign firms, and so the anti-dumping policy may be preventing foreign firms from lowering prices
- Anti-dumping laws weaken price competition
- Due to price competition, if a foreign firm keeps dumping, selling products at or below cost…when they stop doing so, the higher price will incentivize new firms to join the market
- Meaning dumping in a way can be seen as a **gift** from one nation to another

Fair Trade, Labor Standards and Morality

- Some people argue for protectionism because our products are made more **morally**
- With the exception of government-backed slave labor, many moral issues involved with trade in poor countries, such as child labor, are actually improved by access to international markets
- By refusing to trade with the poorest countries over things like child labor, you actually make child labor worse by slowing the economic development needed for these countries to reduce dependency on child labor



Note: size of the circle is proportionate to the number of child workers

Why Don't We Just Have Poor Countries Ban Child Labor First?

- Because it often backfires, when India in the 1980s and again in the 2000s, the amount of hours worked by poor Indian Children actually rose because they were now paid less and under the table
- Preventing Trade with some of the poorest nations on earth actually makes the moral issues you are trying to stop worse
- Such has also been the case with the chocolate industry, many countries tariff the poorest providers of chocolate for this reason, keeping them poor and preventing trade from being a tool for development

National Security

- **The best argument for tariffs**
- If you were Ukraine before the 2022 invasion, how smart would it be to have your **Entire Military** dependent on Russian-made weapons and materials?
- But what industries are **truly vital** to national defense? Military Aircraft, sure makes sense, sugar? Not so much! There is definitely a line somewhere, but where it is isn't well defined

If it's Inefficient…Why Do We Do It?

- Tariffs create **visible winners** (protected firms, workers) and **invisible losers** (all consumers)
- Politicians desire **reelection**, and **visible winners** often form **interest groups** whose support can help them remain in office
- The losses are small and spread out, so the losers don't organize or complain
- **Result**: we get policies that are **good politics** but **bad economics**

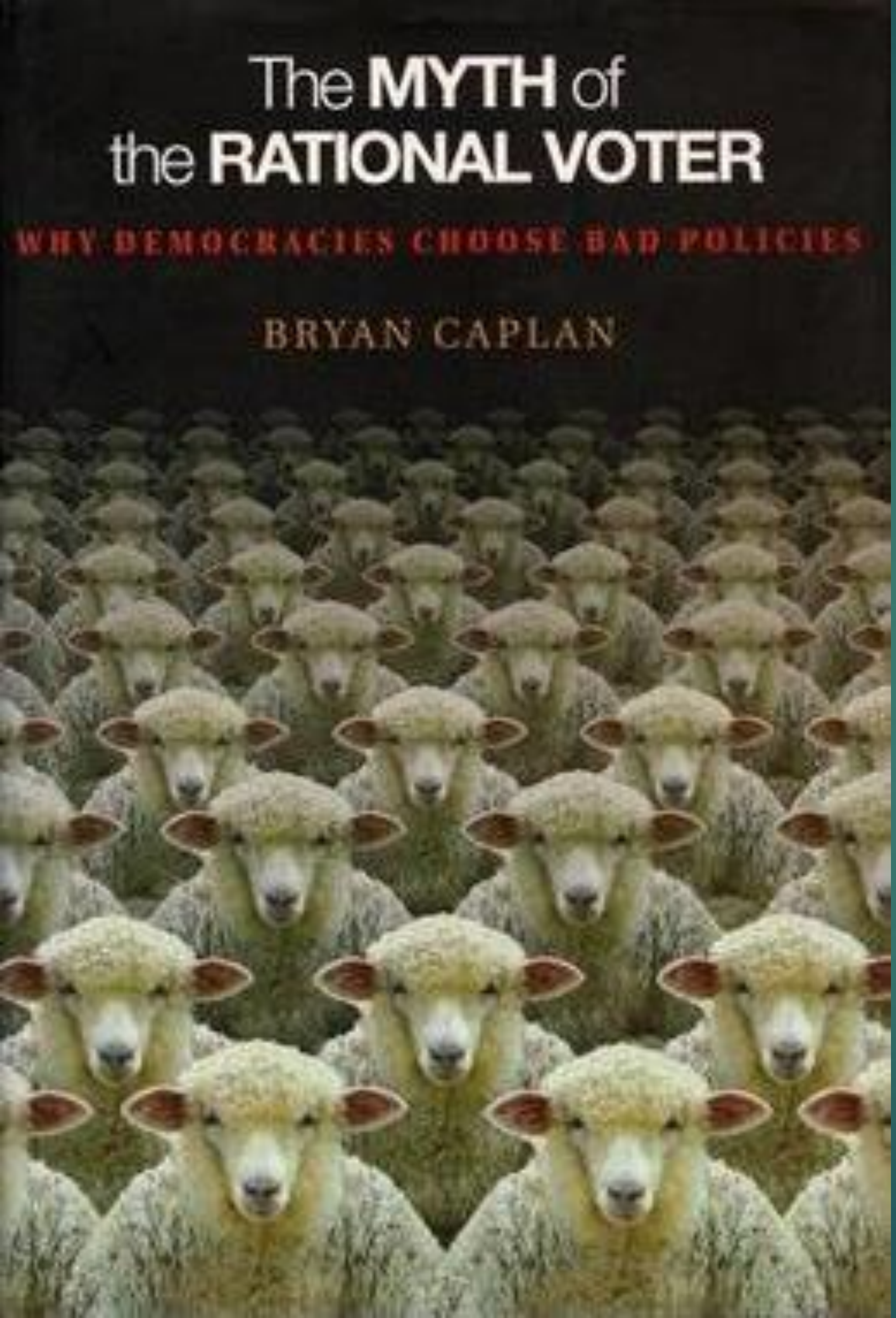
Are The Economists Just Biased?

•In 1996, the *Survey of Americans and Economists on the Economy* (SAEE) compared the views of Ph.D. economists **versus** the general public.

•Even after controlling for income, education, and politics, economists were **much more pro–free trade** than the public.

•This suggests the gap isn't just "economists are rich / elite," but that **more economic training → more support for trade.**

•So when economists say tariffs are inefficient, it's mostly a **knowledge gap**, not a partisan one.



Caplan's Voter Biases

- Using data from the Survey of Americans and Economists on the Economy (SAEE), Caplan categorized 4 types of systematic errors in how the public perceived the economy
- **1. Anti-market bias-** a tendency to underestimate the benefits of the market mechanism
- **2. Anti-foreign bias**- a tendency to underestimate the economic benefits of interaction with foreigners
- **3. Make-work bias-** a tendency to underestimate the economic benefits of conserving labor
- **4. Pessimistic bias-** a tendency to overestimate the severity of economic problems and underestimate the (recent) past, present, and future performance of the economy.

Olson Interest Groups

- Protectionist policies (like tariffs) have **concentrated benefits** and **dispersed losses**.
- **Small groups** with a **big stake** can organize and lobby; **large groups** with a tiny stake (consumers) rarely do.
- Result: organized industries (steel, sugar, shipping, etc.) can win policies that make society poorer.

Homework 3

- Printed copies are available at the front of the class
- Homework 4 will be due at the start of class on March 30th

Closing Video