

# 2020 Presidential Election: Trade

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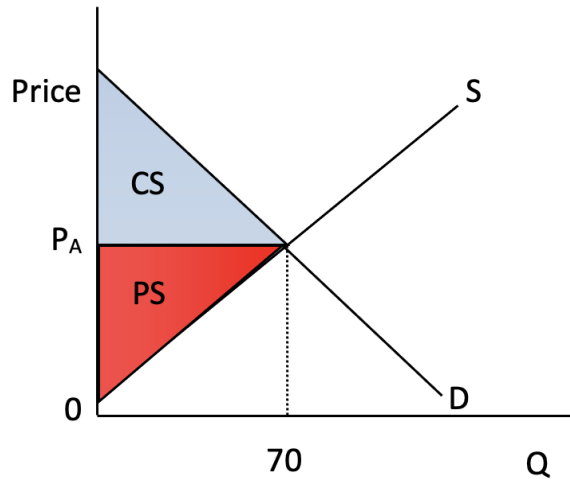
# Economics of Trade

## Why do we trade?

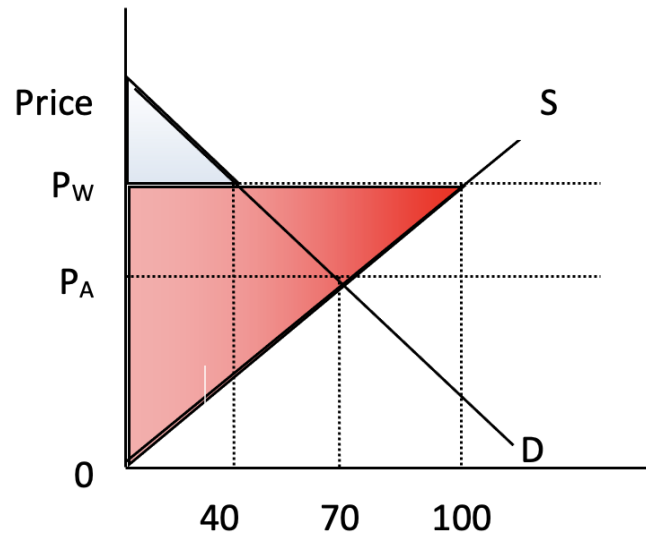
- Theory of Comparative Advantage
  - Two countries can benefit (create surplus, wealth, etc.) when they focus on producing good for which they have a comparative advantage.
- Create new markets for domestic firms
- Consume products that cannot be produced as efficiently (or at all) domestically

# Economics of Trade

Closed Economy Scenario



Free Trade Scenario (Net Exporter)

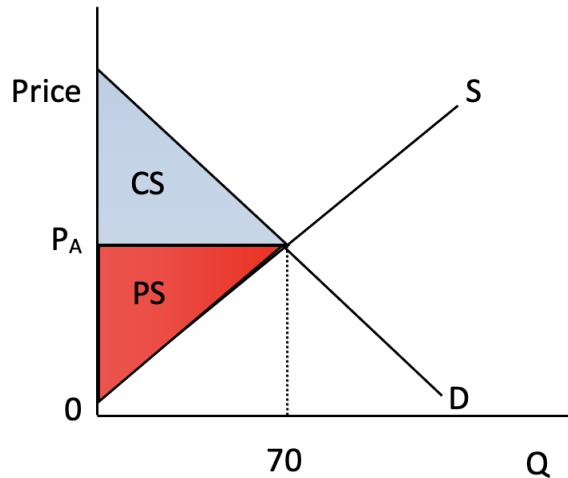


Impacts of Free Trade

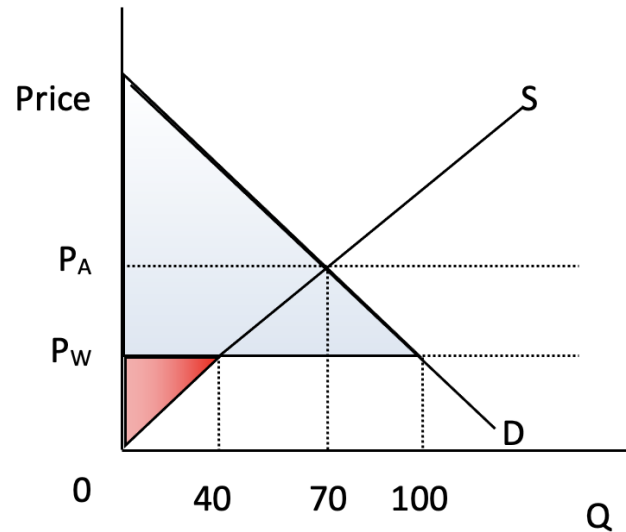
- Producers are better off as their market expands  
**(Higher PS)**
- Domestic consumers pay more and consume less  
**(Lower CS)**
- Gains in PS > Losses in CS  
**Society is better off**

# Economics of Trade

Closed Economy Scenario



Free Trade Scenario (Net Importer)



## Impacts of Free Trade

- Producers are worse off as international competition drives down prices  
**(Lower PS)**
- Domestic consumers pay less and consume more  
**(Higher CS)**
- Gains in CS > Losses in PS  
**Society is better off**

# Political Economics of Trade

## Downside of free trade

- Loss of jobs can devastate local economies and government expenditures (Autor 2013)
- Transition of low-skilled workers into other jobs not seamless (Autor et al, 2014)
- Concentrated benefits and diffuse costs (Olsen 1965)

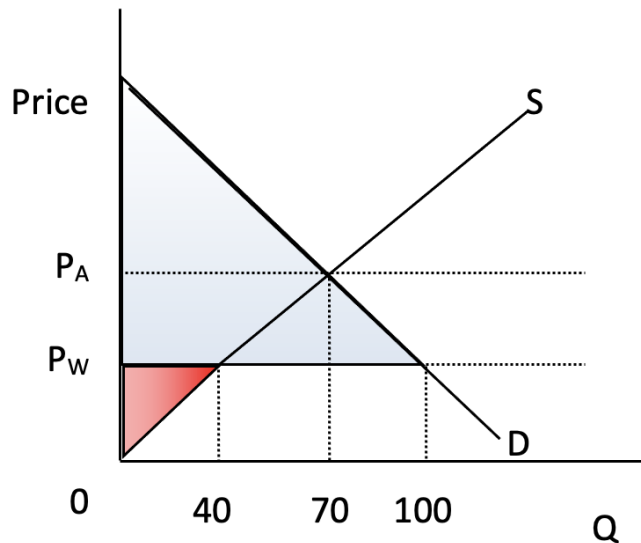


# Why Tariffs?

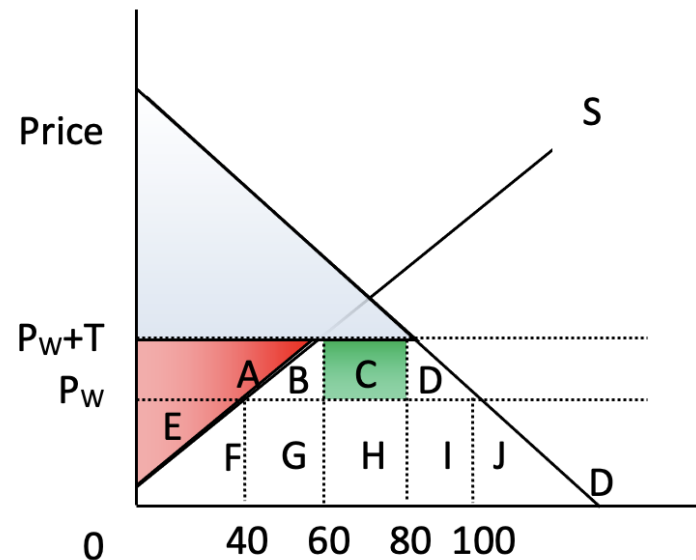
- **What are Tariffs?**

A tax on goods as they enter another country

Free Trade Scenario (Net Importer)

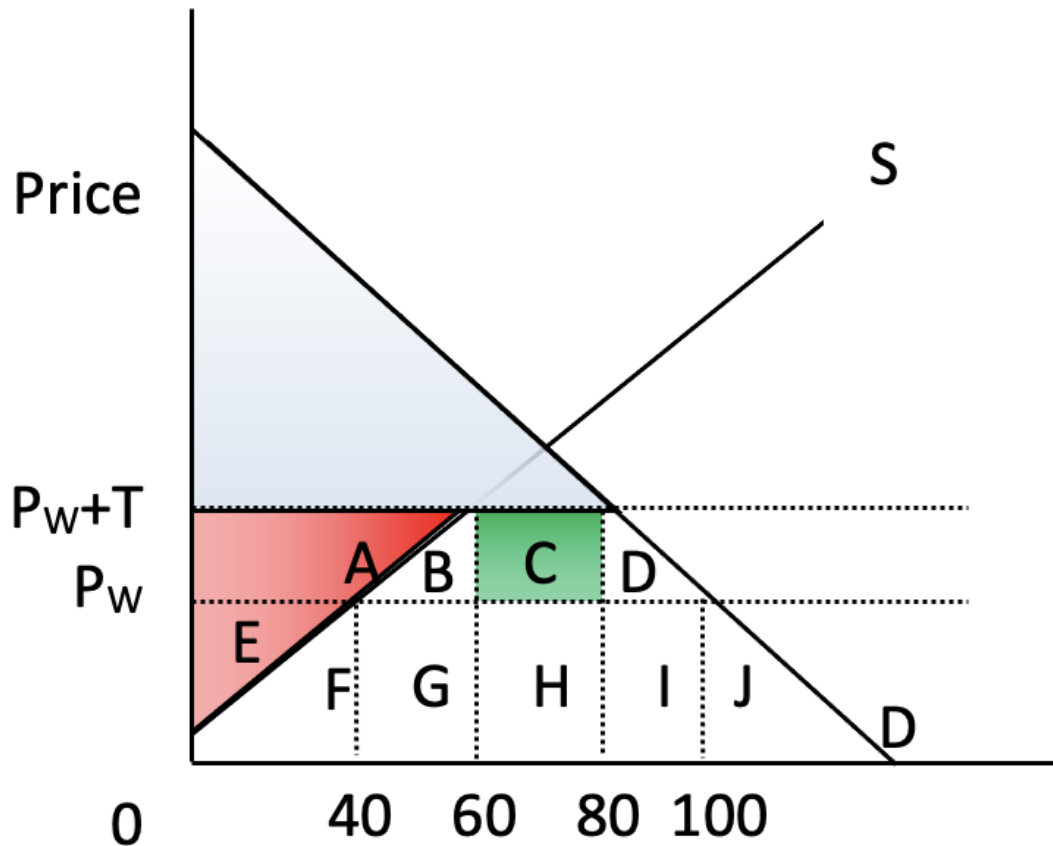


Tariff Scenario



# Why Tariffs?

## Tariff Scenario



## Impacts of Tariff

- Producers are better off. More jobs, higher wages, stronger local economies (A)  
**(Higher PS)**
- Domestic consumers higher prices, lower purchasing power, and consume less (-BCD)  
**(Lower CS)**
- Tariff revenue (C) paid by sellers and consumers
- Creation of Deadweight loss (B, D)
- Gains in PS < Losses in CS + DWL  
**Society is worse off**

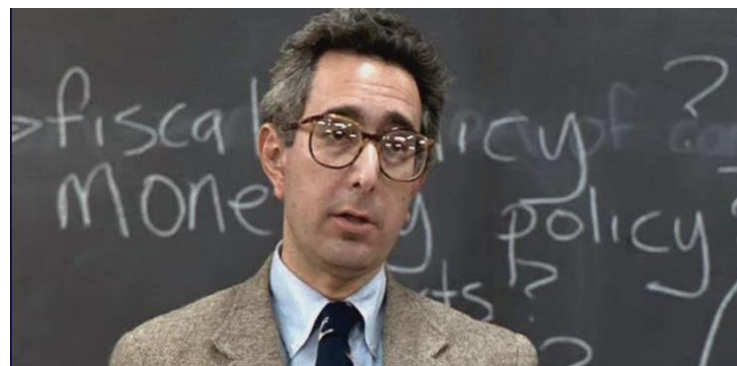
# Summarizing Tariffs

- Do tariffs increase prices for consumers?
  - Yes
- Do tariffs generate revenue for governments?
  - Yes
- Who pays for the tariffs?
  - Consumers and sellers
- Is there an upside to tariffs?
  - Yes, the protection of industries vulnerable to foreign competition



# Smoot-Hawley Tariff Act (1930)

- Federal response to Great Depression
  - 25% unemployment rate
  - Quickly falling stock market
  - Bread lines, food riots, etc.
- Raised average import tariffs by 20%
- Letter from AEA:
  - Raise the cost of living for Americans
  - Not help most US industries
  - Provoke retaliatory tariffs and exports would suffer
- US Exports fell from \$7B in 1929 to \$2.4B in 1932.
- US Imports also fell by 40%.



# Who does the US trade with?

## Top Export Destinations

- Canada (\$352B)
- Mexico (\$323B)
- China (\$151B)
- Japan (\$80B)
- United Kingdom (\$76B)
- **Total (\$2.1T)**

## Top Import Destinations

- China (\$551B)
- Mexico (\$455B)
- Canada (\$437B)
- Japan (\$148B)
- Germany (\$147B)
- **Total (\$3.2T)**

Source: [ustr.gov](http://ustr.gov)



# Trump Administration (2016 – 2020)

- Estimated \$88.1B in Tariffs collected
- Steel and Aluminum (\$9.8B)
  - 25% tariff on steel and 10% tariff on aluminum
  - Initially included Canada/Mexico, but later removed
- Chinese Products (\$75.9B)
  - 10%-25% tariffs on a range of products from China
- Solar Panels and Washing Machines (\$2.4B)
  - TRQ ranging from 20% to 40% tariff on washing machines
  - TRQ starting at 30% and falling to 15% in year 4 (2022)

Source: Tax Foundation, based on data from US Customs and Border Protection, “Trade Statistics.”

# Biden Administration (2020 – 2024)

- Estimated \$143.2B in Tariffs collected
- Steel and Aluminum (\$6.6B)
  - Replaced tariffs with TRQs for EU, Japan, UK
- Chinese Products (\$135.4B)
  - Increased steel and alumini tariffs on China to 25%
  - Increased EV tariffs to 100%
  - Also increased tariffs on semiconductors, batteries, battery parts, and many other goods
- Solar Panels and Washing Machines (\$1.2B)
  - Tariffs on washing machines expired
  - Extended solar panel tariffs

Source: Tax Foundation, based on data from US Customs and Border Protection, “Trade Statistics.”

# Economic Research

- US Importers took on the entire burden of import duties on Chinese goods in the form of higher after-duty prices (Fajgelbaum et al., NBER, 2019)
- Steel-consuming jobs outnumbered steel-producing jobs by 80-1, indicating greater losses from steel tariffs than job gains (Russ and Cox, 2018)
- Tariffs on washing machines led to an increase in price by \$86 per washer and \$92 per dryer, resulting in \$1.5B in consumer costs
- Agriculture lost \$27B in exports due to retaliatory tariffs (USDA 2022)
- Import tariffs had no impact on employment in protected sectors. Retaliatory tariffs from China had clear negative impacts in rural employment that was partially offset by subsidies. Residents in impacted regions became more likely to vote Republican. (Autor et al., 2024)

# Economic Research

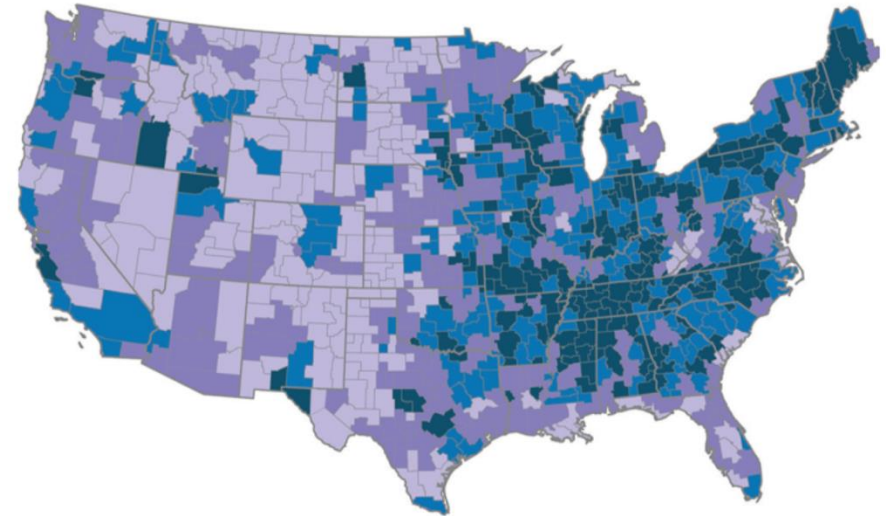
“It certainly is the case that trade contributes to certain lower-priced goods and services, and on the average, that lowers the cost of living. But for displaced workers, the fact that things are 10 percent cheaper at Walmart is just not making up for the fact that they’re not employed.”

(David Autor, 2016)

Source: Interview in MIT News  
<https://news.mit.edu/2016/united-states-lost-millions-jobs-china-0309>

## Free Trade's Impact on the United States

Which U.S. regions have been most susceptible to competition from Chinese imports?



■ Lowest quartile (least exposed)    ■ 3rd quartile  
■ 2nd quartile    ■ Highest quartile (most exposed)

Extent to which local areas' businesses faced competition from China, 1990–2007, divided into four levels of economic impact.

MIT Technology Review

Source: Data from David Autor



# Potential Trade Policies (2024-2028)

## Kamala Harris

- Boost trade with allies in Europe, Asia, and N. America
- Maintain tariffs and limit trade with rivals such as China

## Donald Trump

- Expand tariffs on all imported goods to 10%-20%
- Increase tariffs on Chinese goods “as high as 100%”



**Thank you for your time.**

Questions, comments, feedback?

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