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Special Feature C

Understanding Current US Trade Policy Through The Lens Of History

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Introduction

The trade policy of the Trump administration has generated consternation around the world. There is widespread concern that the United States is not just moving in a protectionist direction, but actually stepping back from its traditional role as supporter of the multilateral trading system.

A deeper question is how to understand these developments in the context of past US policy. How unusual are the trade policies of the current administration? Are there points of continuity with the past, or does the Trump administration's approach mark a permanent break in post-World War II policy?

In my recent book, *Clashing over Commerce: A History of US Trade Policy*, I examine nearly 250 years of American history and try to understand the forces that have shaped that policy over time. This essay will attempt to distil some of the lessons from that history as a way of shedding light on current developments.

The Three R's Of US Trade Policy

Over the course of history, US trade policy—specifically, the tariffs imposed on imported goods—has been directed towards achieving three principal objectives: raising revenue for the federal government, restricting imports to protect domestic producers from foreign competition, and concluding reciprocity agreements to reduce trade barriers and expand exports. These three R's—revenue, restriction, and reciprocity—have been the main purposes of US trade policy.

All three policy goals have been important throughout US history, and all of them can be seen as playing a part in US trade policy today. The use of tariffs to restrict imports is clearly evident from the protection recently given to steel and aluminium producers. The President has also stressed the importance of making trade agreements more 'reciprocal', even if his goal of getting a 'better deal' remains vague. And even though revenue has been a less important trade policy objective since the introduction of the income tax in 1913, President Trump has tweeted that the United States cannot lose by imposing tariffs since they will increase the revenue flowing into the government's coffers, even if they fail to produce a better deal with other countries.

Of course, revenue, restriction, and reciprocity as trade policy goals, are, at some level, incompatible. The desire to impose tariffs to raise revenue conflicts with their ability to protect domestic producers: modest duties on imports raise more revenue but offer less protection. And if one wants to keep protective tariffs in place, reciprocity agreements to reduce trade barriers become difficult to achieve.

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Therefore, policymakers have to choose which of the three objectives is given priority at any point in time. My book describes how US trade policy can be divided into three eras, in each of which one of the objectives has taken precedence.

In the first era, from the establishment of the federal government until the Civil War (1789–1860), revenue was the key objective of trade policy. In the second era, from the Civil War until the Great Depression (1861–1933), the restriction of imports to protect domestic producers from foreign competition was the primary goal of trade policy. In the third era, from the Great Depression to the present (1934–today), reciprocal trade agreements to reduce tariff and non-tariff barriers to trade have been the main priority.

Given that revenue is no longer a major consideration in trade policy, how have policies of restriction and reciprocity been used in the past and how are things different today?

Early Trade Debates

From the start of the United States, there has been discussion about restriction and reciprocity as goals for trade policy. Two early government reports set the stage for the subsequent debate.

In 1791, Treasury Secretary Alexander Hamilton's famous *Report on the Subject of Manufactures* focused on whether the government should intervene to support certain industries or should refrain from doing so and pursue a *laissez-faire* policy. His report ranks among the most important policy documents in US history. Hamilton made a broad-ranging and powerful case for government promotion of domestic manufacturing, providing not only theoretical justifications for such a policy but specific proposals for action as well. The *Report on Manufactures* influenced the public debate over trade policy and the government's role in promoting manufactures for many decades to come, and to this day one still finds mention of Hamilton's report to justify government protection of certain industries.

The goal of reciprocity in trade relations has an equally long tradition in American history. The country's desire for reciprocity in trade goes back to the country's quest for independence. Among the many grievances cited in the *Declaration of Independence* in 1776 was a complaint about Britain's "cutting off our trade with all parts of the world" through its mercantilist regulations.

The reciprocity counterpart to Hamilton's report was Secretary of State Thomas Jefferson's *Report on Commercial Restrictions* in 1793. This report extolled the idea of free trade but documented the numerous barriers placed on American goods and ships in foreign markets. Jefferson's preferred course of action was 'friendly arrangements' to remove such barriers to trade. But, he argued, "should any nation, contrary to our wishes, suppose it may better find its advantage by continuing its system of prohibitions, duties, and regulations, it behooves us to protect our citizens, their commerce, and navigation, by counter prohibitions, duties, and regulations." He concluded: "Free commerce and navigation are not to be given in exchange for restrictions and vexations, nor are they likely to produce a relaxation of them." Thus, Jefferson proposed reciprocity by retaliation: "Where a nation imposed high duties on our productions, or prohibits them altogether, it may be proper for us to do the same by theirs."

As with Hamilton's report, one can still hear echoes of Jefferson in today's policy discussions. The US Trade Representative releases an annual report, the *National Trade Estimate Report on Foreign Trade Barriers*, that is remarkably similar to Jefferson's report. With respect to China today, the United States is conditioning access to its open market on negotiations to achieve reciprocal access, with the threats of reprisals in case no agreement is forthcoming. This is also reminiscent of US policy with respect to Japan in the 1980s when a similar tactic was employed.

Restriction

The Hamilton and Jefferson reports outlined different strategies that US trade policy could follow. Despite being widely discussed at the time, these reports did not have much impact on actual policy. The balance of power of political forces in Congress determines policy outcomes, rather than lofty goals set out in high-minded reports.

In fact, trade policy has been the source of bitter political conflict throughout American history. This conflict has been fierce because dollars and jobs are at stake: depending on the policy outcome, some industries, farmers, and workers will suffer, while others will prosper. Trade policy therefore involves a struggle that pits different segments of society and regions of the country against one another. They play out this fight in Congress, which remains, to a large extent, the focal point of trade policymaking in Washington DC.

This conflict is nowhere more evident than in the case of restriction, using tariffs to protect certain industries from foreign competition. In that case, the interests of the protected industry are pitted against the interests of consumers and exporters. As James Madison, one of the American founding fathers, wrote in *Federalist No. 10*: "Shall domestic manufactures be encouraged, and in what degree, by restrictions on foreign manufactures? are questions which would be differently decided by the landed and the manufacturing classes, and probably by neither with a sole regard to justice and the public good." As Madison hints, the decision to impose restrictive tariffs is less the result of philosophical theorising than the outcome of special interest politics.

Political and economic geography are key determinants of power in Congress. Different regions of the country specialise in different economic activities, the location of which is persistent. For more than two centuries, cotton has been produced in Mississippi, tobacco in Kentucky and North Carolina, iron and steel in Pennsylvania, and so forth. These specialised regions have sharply different interests with respect to trade: some produce goods that are exported, while others produce goods facing competition from imports. The export-oriented industries have an interest in open trade through reciprocity agreements, whereas import-competing producers have an interest in limiting trade through protectionist tariffs. In representing these different regions, members of Congress usually vote on legislation according to the interests of their constituents, giving rise to regional voting patterns in Congress.

For much of the nation's history, the most important geographic divide over trade policy has been a North-South one. A manufacturing belt stretching across the North developed in the early and mid-nineteenth century, where cotton textiles and iron and steel were produced. These industries usually faced competition from imports and wanted high tariffs. Meanwhile, the South was the home of agricultural crops such as cotton and tobacco, both of which were exported, and these farmers wanted low tariffs. The restriction era—the period from 1861 to 1933—emerged because the Civil War redistributed political power between the different regions of the country, empowering the North at the expense of the South.

The political geography of trade policy continues to matter for Congressional decisions today. When President Trump considered withdrawing from the North American Free Trade Agreement in early 2017, he was reminded by his political advisers that many Republican members of Congress from the agricultural states of the Midwest supported the trade agreement because it granted them greater access to the Mexican market for corn, wheat, and soybeans. Without the support of Congress, any president will have difficulty making progress on his or her trade policy agenda.

Reciprocity

The shift towards reciprocity came in the mid-1930s in the wake of the disastrous Smoot-Hawley tariff of 1930. That was an opening salvo in a trade war that occurred as the world was sinking into the Great Depression. The result was a worldwide increase in trade barriers and retaliatory action against the United States specifically, resulting in widespread discrimination against US exports around the world.

The shift to reciprocity occurred because of a political realignment that took place with the 1932 election. In the midst of the Great Depression, the Democratic party, with its strong ties to the South, overwhelmed the Republican party, with its strong ties to the North. Cordell

Hull, the new Secretary of State in the Franklin Roosevelt administration, believed that trade friction between countries bred political friction and conflict, including World War I. He convinced Congress to pass the Reciprocal Trade Agreements Act of 1934 (RTAA), a landmark piece of legislation which gave the president the authority to reduce tariffs in trade agreements with other countries. Hull's main goal was to eliminate foreign discrimination against US exports. Hull called Imperial Preference—the trade bloc formed by Britain, Canada, and members of the Commonwealth and largely aimed at excluding the United States—"the greatest injury, in a commercial way, that has been inflicted on this country since I have been in public life."

The RTAA changed the politics of US trade policy. The locus of trade policy decision-making shifted from the legislative branch, which had proven susceptible to special interest politics and thus biased in favour of higher tariffs, to the executive branch, which tended to link trade policy to foreign policy and view trade policy in light of the broader national interest. The RTAA also shifted the political balance of power towards export interests at the expense of import-competing interests. By directly tying lower foreign tariffs to lower domestic tariffs, the RTAA encouraged exporters to organise in opposition to high tariffs and in support of trade agreements.

In an effort to roll back some of the protectionism of the 1930s, the United States helped organise a multilateral conference in 1947 that established the General Agreement on Tariffs and Trade (GATT). The GATT, a legal text regarding commercial policy, remains the principal framework of the world trading system today. In addition, the participating countries agreed on a package of tariff reductions, a step towards reducing the many trade barriers that had materialised during the Great Depression. While the GATT did not equalise the tariff treatment of goods in all markets, it began to chip away at the discriminatory policies targeted at American export interests.

Under the auspices of the GATT, trade barriers in developed countries came down and world trade expanded considerably in the post-World War II period. The GATT was the predecessor to the World Trade Organization (WTO) and the system of world trade that we see today, but which is now under threat.

Lessons

The post-World War II era has been one largely of reciprocity, but US trade policy has always been a mix of restriction and reciprocity.

For example, almost every recent president has succumbed to political pressure to limit imports to protect certain industries from foreign competition. In the early 1960s, President John Kennedy forced foreign exporters of cotton textiles to limit their sales to the United States. In late 1967, President Lyndon Johnson persuaded foreign exporters of steel to limit their sales to the United States. In 1971, President Richard Nixon imposed a 10% import surcharge to get other countries to allow their currencies to appreciate against the dollar and eliminate the US trade deficit. President Jimmy Carter negotiated a trigger price mechanism on imported steel and orderly marketing arrangements in footwear in the late 1970s. President Ronald Reagan oversaw many protectionist measures (automobiles, steel, textiles, sugar) in the early 1980s and threatened Japan with trade sanctions unless it opened its market to foreign goods. President George H. W. Bush and President George W. Bush renewed or instituted special measures to help the steel industry in the early 1990s and early 2000s, respectively. President Bill Clinton imposed safeguard measures to help domestic lamb producers. President Barack Obama invoked a special China safeguard measure to help domestic tire producers.

With this litany of restrictions, can one really say that the post-war period was one of reciprocity? In fact, one should not mistake these separate actions for specific industries as representing the main thrust of US trade policy. President

Kennedy also persuaded Congress to enact the Trade Expansion Act of 1962 which laid the groundwork for the Kennedy Round of GATT negotiations, concluded under President Johnson. President Nixon persuaded Congress to enact the Trade Act of 1974, which laid the groundwork for the Tokyo Round of GATT negotiations, concluded under President Carter. President Reagan persuaded Congress to enact the Omnibus Trade Act of 1988 that laid the groundwork for the Uruguay Round of GATT, which continued under President Bush and was concluded by President Clinton. President Reagan also negotiated the US-Canada Free Trade Agreement, which became the North American Free Trade Agreement under Presidents Bush and Clinton. President Bush concluded many bilateral and regional trade agreements and President Obama finalised the Trans-Pacific Partnership (TPP).

With respect to the Trump administration, there are historical continuities with the past. And yet, the tone of administration statements on trade—with the air of grievance and the obsession with the balance of trade—is different, as is the weight put on restriction versus reciprocity. The current president is no different from his predecessors in expressing a desire for reciprocity. What is different is that he also embraces protection as a good thing. President Trump has protected not just steel and aluminium (under the guise of national security), but has taken safeguard actions on washing machines and solar panels, in addition to imposing trade sanctions against China. Unlike previous presidents, he did not undertake these actions to 'cave in' to domestic political pressure, or (except in the possible case of China) to have greater bargaining leverage. Rather, he seems to be acting out of conviction rather than political calculation, believing that these were the right policies to pursue—full stop. The timing of the administration's actions is also different—in the past, presidents have responded to demands for assistance from domestic industries during difficult economic times. The current president has initiated actions during a period when US economic performance was strong (in terms of high growth and low unemployment) and even when the domestic industry did not necessarily desire it.

Will, therefore, the Trump administration mark a new break in US trade policy? Are we entering a new era of US trade policy, a fourth 'R', perhaps 'retreat'?

The delineation of US trade policy history into the three R's suggests that there have been only two major exogenous shocks to American trade politics that have produced a transition from one objective to another. The first was the Civil War, which led to a political realignment in favour of the Republicans and a shift from revenue to restriction as the primary goal of trade policy. The second was the Great Depression, which led to a political realignment in favour of the Democrats and a shift from restriction to reciprocity as the primary goal of trade policy. Within each of these three eras, existing policies were heatedly disputed by the two political parties. The status quo never went unchallenged, with one side or the other complaining that the country would be ruined if tariffs were not raised higher or lowered further. Yet, despite all the debate and controversy that different, clashing interests generated, it has proven very difficult to dislodge existing policies once they were established.

The same is true today. The President has very strong views on trade. Congress is still a key actor that seems to value the status quo. While the President has some unilateral authority to impose tariffs, under Section 301 (unfair trade) or Section 232 (national security), he may not have the unilateral authority to withdraw the US from trade agreements that have been approved by Congress.

To those who value an open, rules-based world trading system, one historical pattern may be a silver lining to the current US approach to trade policy. In the past, discrimination against US exports in major world markets has stimulated US action to address that problem through negotiations to reduce trade barriers. Every major trade initiative in the reciprocity era—the first GATT negotiation in 1947, the Kennedy Round in the 1960s, and the Uruguay Round in the 1980s—arose as a way of dealing with significant obstacles facing US exporters: Imperial Preference in the 1930s, the creation of the European Economic Community in the 1950s, and then European agricultural subsidies and the lack of intellectual property protection in the 1980s. In each case, a broad political consensus emerged that solving the problems facing exporters through negotiations with trade partners was in the national economic interest.

With the US out of the TPP, and other countries moving ahead with new trade agreements that do not include the US and therefore create preferences that American exporters cannot take advantage of, there will be pressure at some point to level the playing field. As discrimination against US exporters in foreign markets grows, a consensus could emerge that something should be done to address that situation by rejoining trade agreements such as the TPP. Accordingly, there might be a future impetus to reengage with the world community to preserve America's place in world markets.

Conclusion

"The overriding commitment of this administration in trade policy has been to open markets and expand trade—multilaterally where possible, and bilaterally where necessary—and to enforce trade laws against unfair trade practices by other trading nations."

This statement came from the Clinton administration in 1993, but it could have described the trade policy of almost any presidential administration over the past 80 years. The declaration reflects a basic continuity of purpose in US trade policy. It even reflects, at a basic level, the beliefs of the current President, albeit with some major qualifications—an emphasis on bilateral approaches, and a questioning of the desire to expand trade, along with the focus on the consequences for trade flows and the trade deficit. And yet one can imagine the next administration jettisoning those unusual views and returning to the basic principles set out in that 1993 statement.

The Trump administration seems to mark a radical departure from these past norms. Yet it is far from obvious that the administration will usher in a new era of US trade policy that departs from the sentiments expressed in that statement.