

Osher Lifelong Learning Institute, Spring 2019

What Economists Know About Important Policy Issues

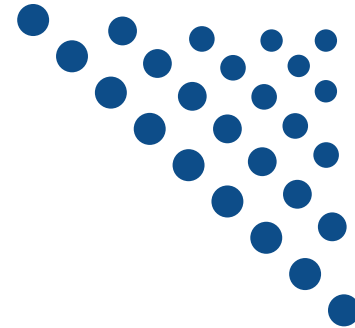


Lecture 8: Housing Policy and Trade Wars

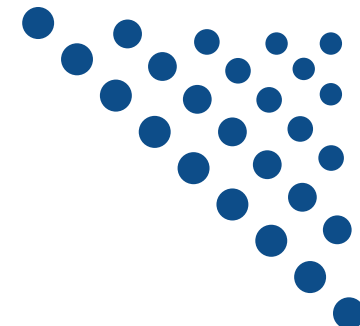
May 14, 2019

Jon Haveman, Ph.D.
National Economic Education Delegation

Invitations:



- **Join the NEED Community:** www.needelegation.org/friends.php
 - ThinkTank Tuesdays: Wine, Water, and Policy Whimsy
- **Testimonials:** www.needelegation.org/testimonials.php
- **Invite me to your other clubs!**



National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

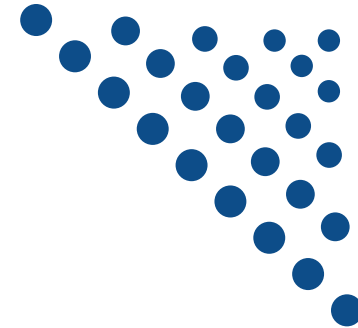
- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States

- **NEED Presentations**

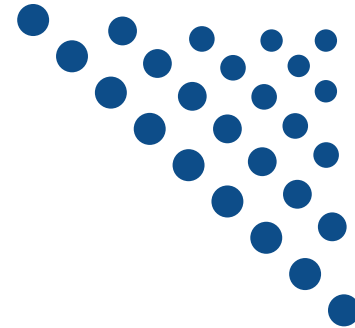
- Are **nonpartisan** and intended to reflect the consensus of the economics profession

Credits and Disclaimer



- **This slide deck was authored by:**
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 - Jon Haveman, PhD, NEED
- **Disclaimer**
 - The views presented today are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED)

Outline

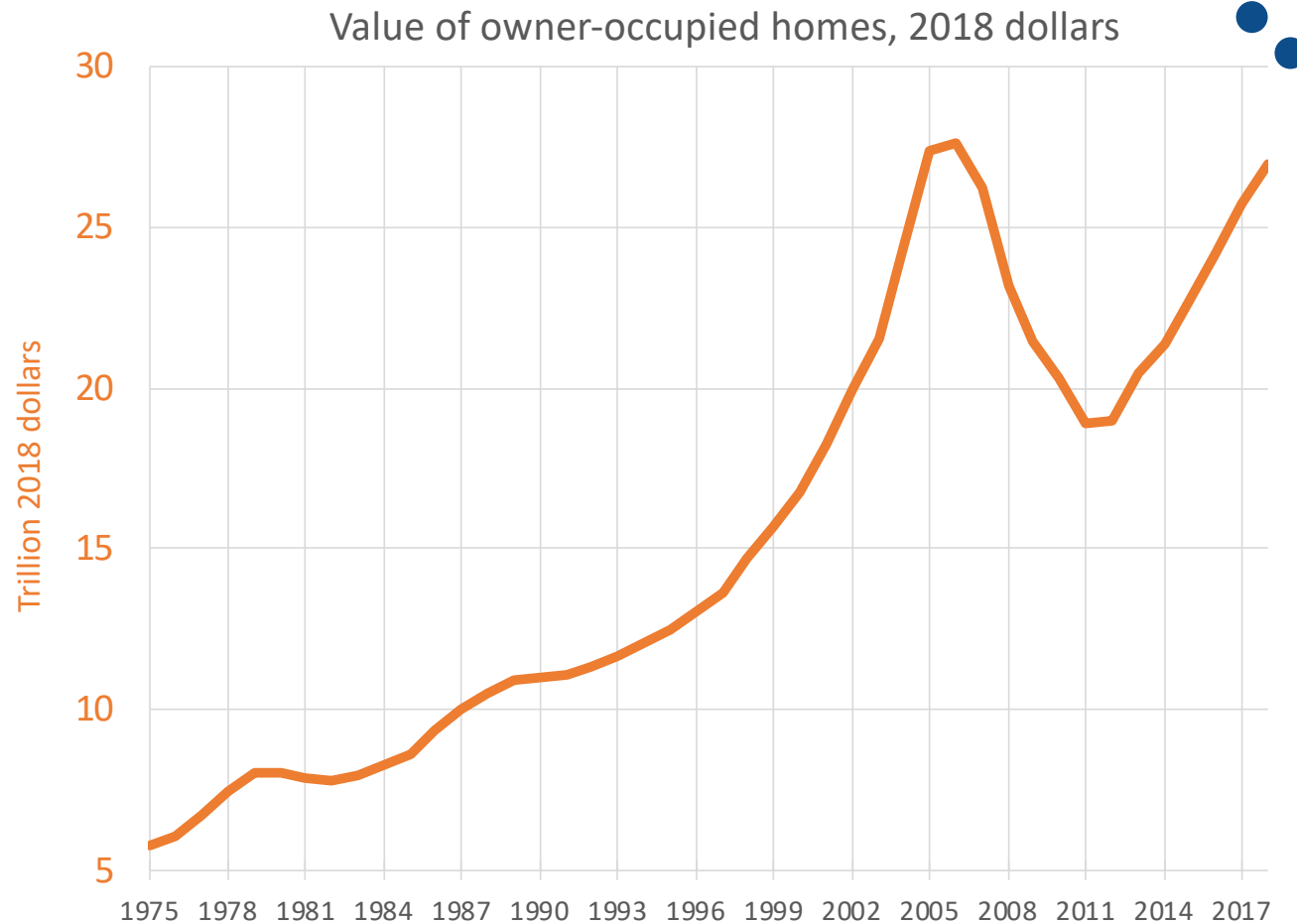


- **Introduction**
- **Home prices**
- **Housing as a store of wealth**
- **Housing as an Investment**
- **Understanding home prices**
- **Affordability**
- **Government Regulation of Housing**

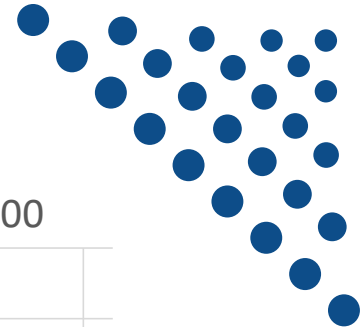
Total Value of Homes

The total value of owner-occupied homes in the US was about 27 trillion dollars in 2018

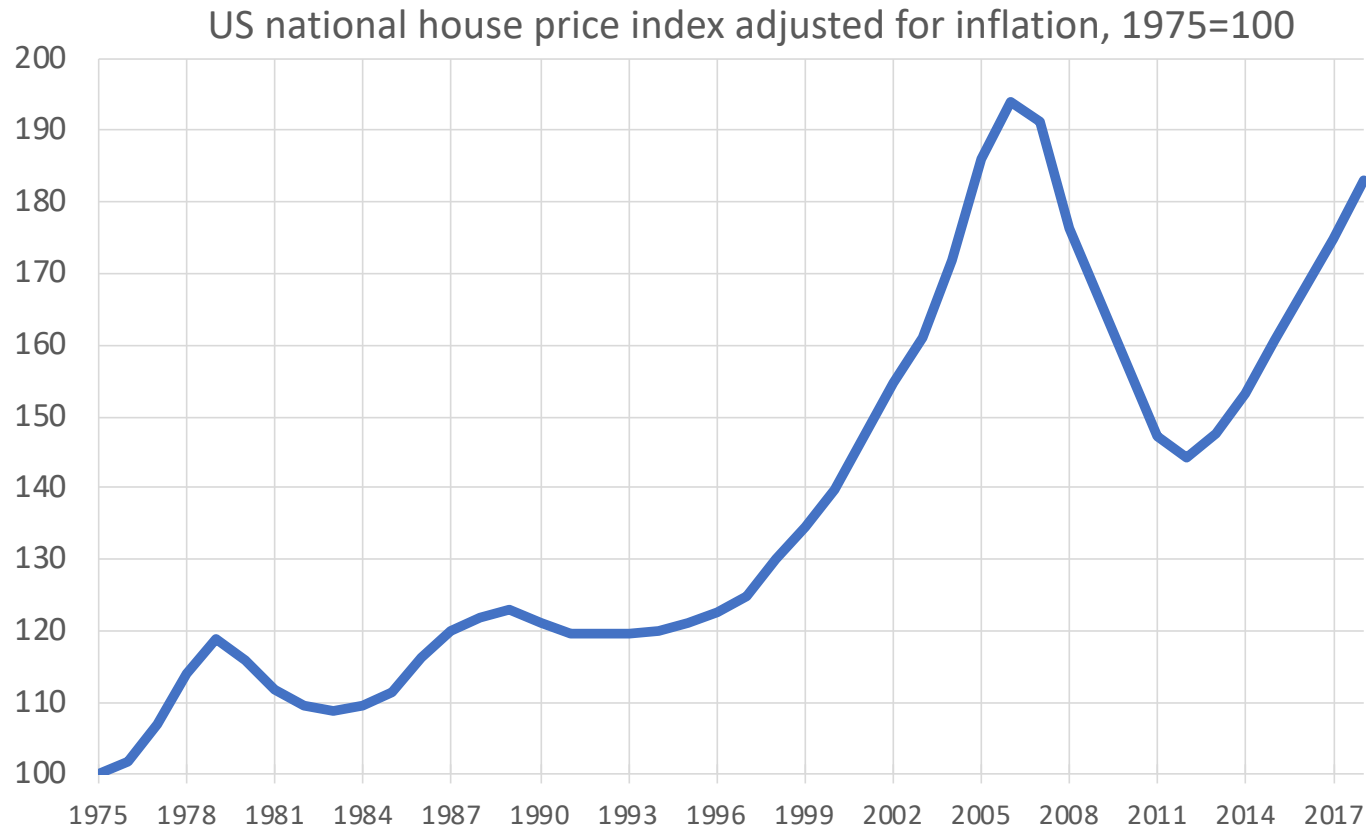
This is almost twice as large as 2018 consumer spending



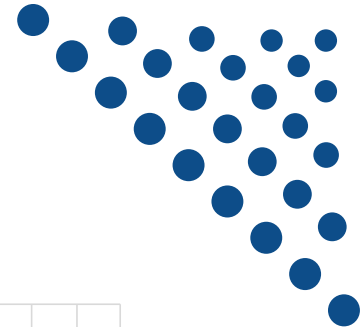
Home Price Trends



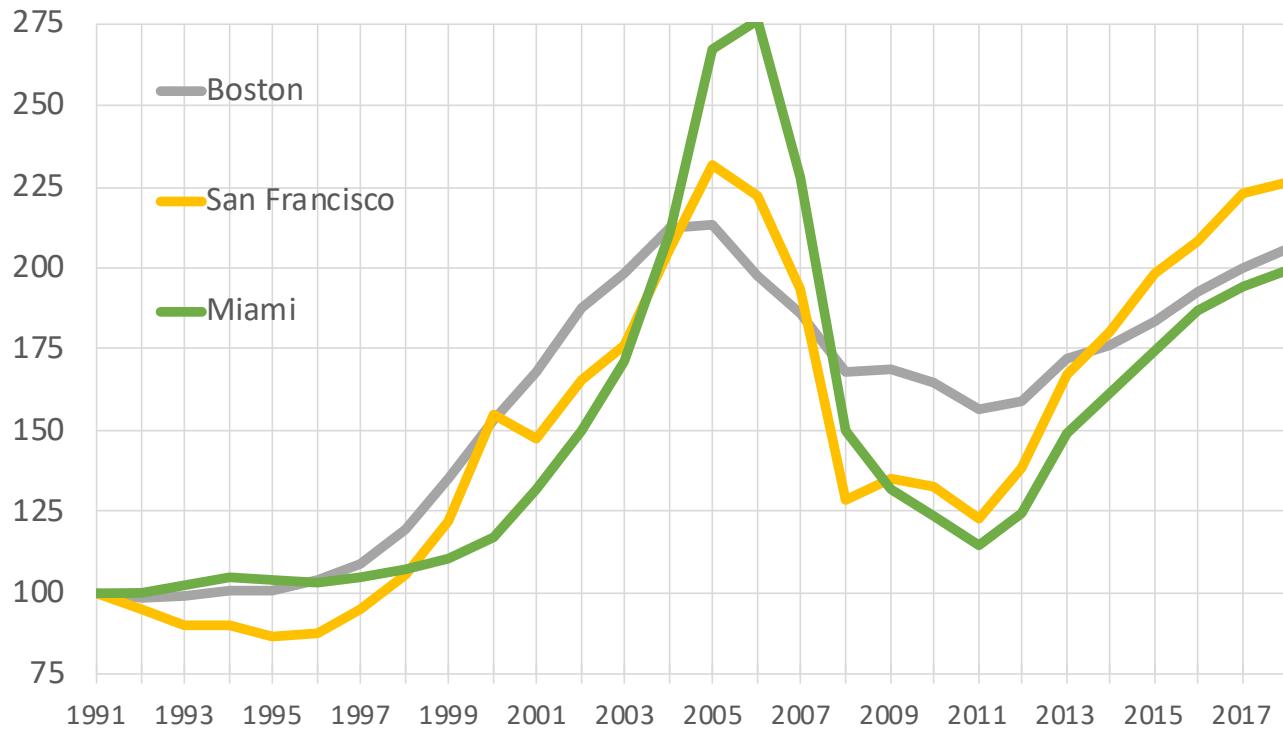
On average,
home prices
outpaced
inflation by
1.4% per year



Price Appreciation Varies by City

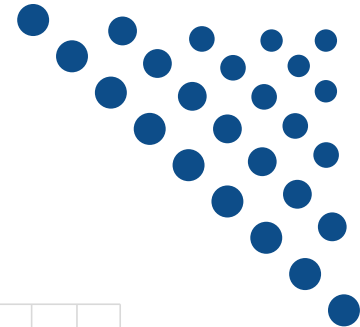


House appreciation horse-race, 1991=100

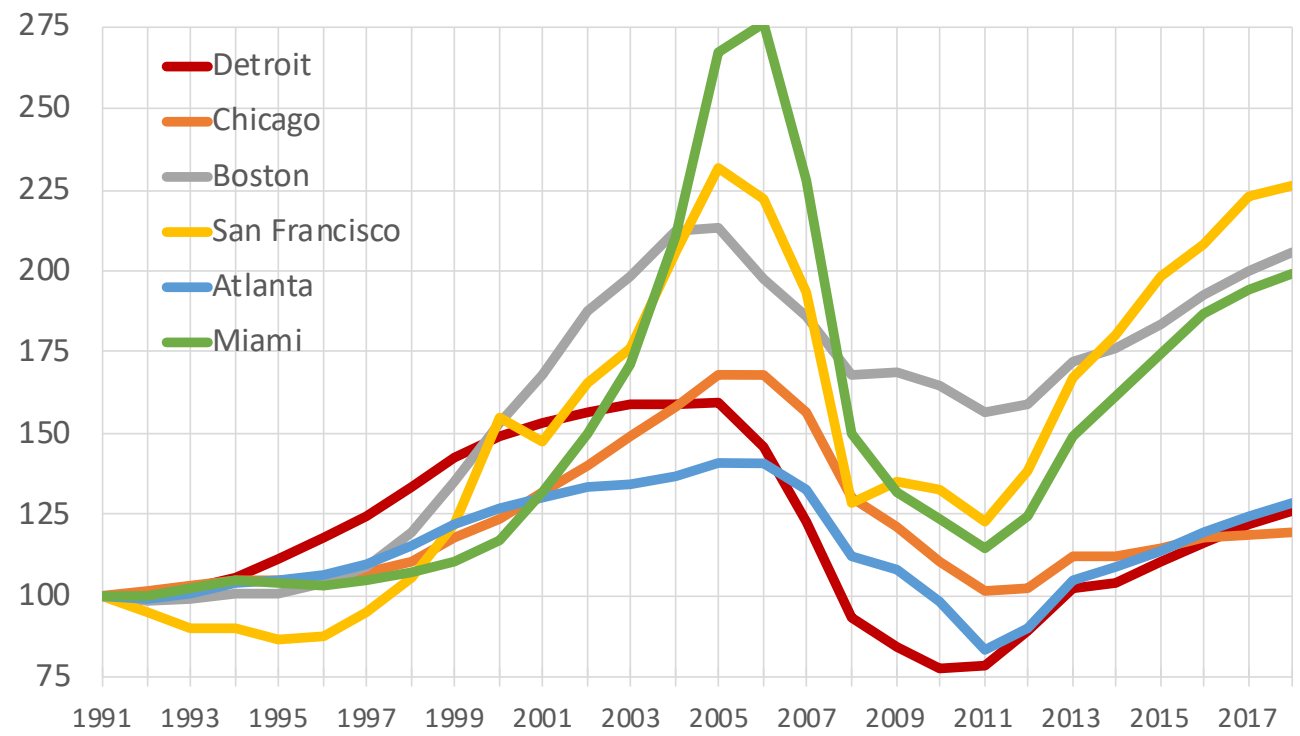


Prices in coastal cities outpaced inflation by 2.7% per year

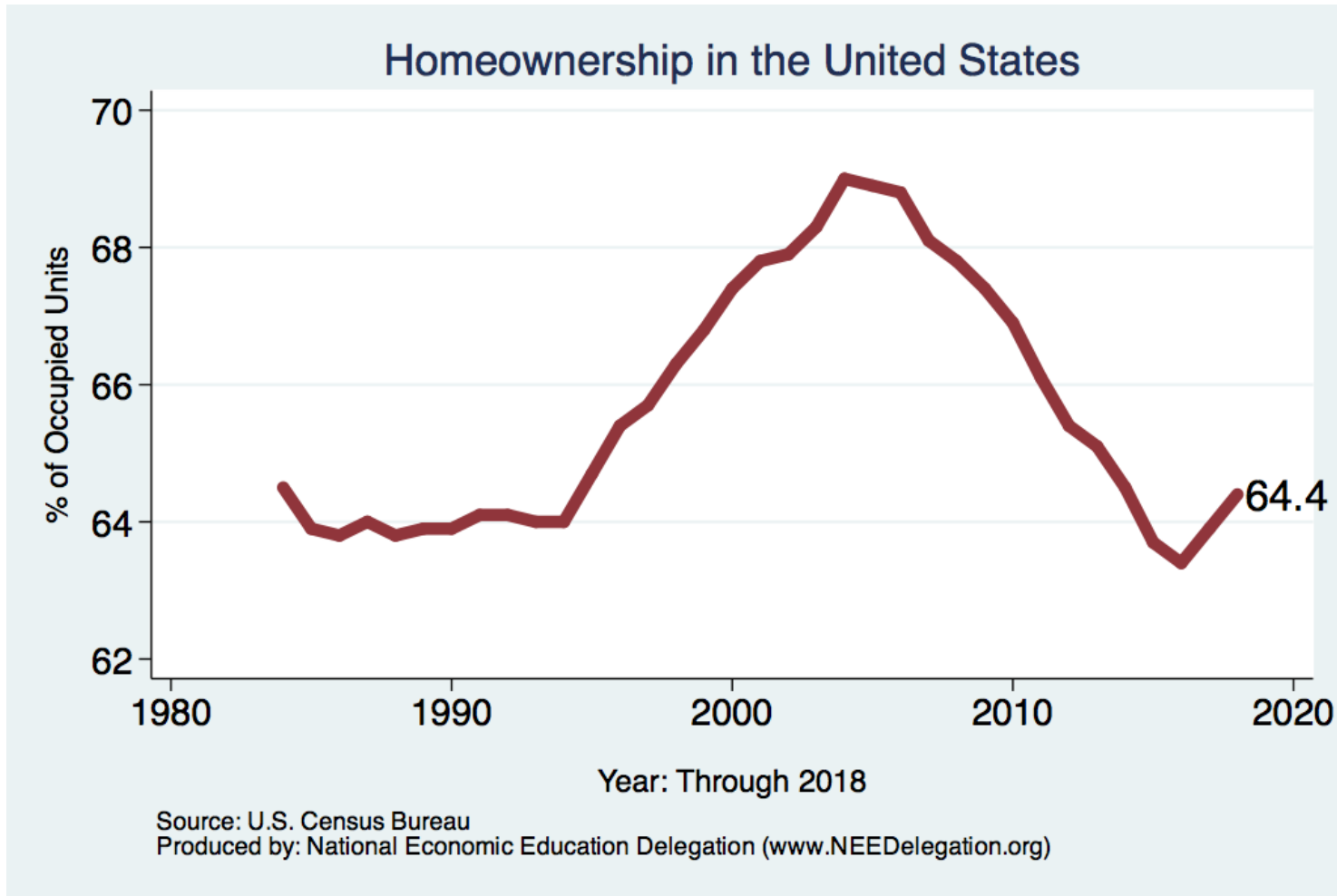
Price Appreciation Varies by City

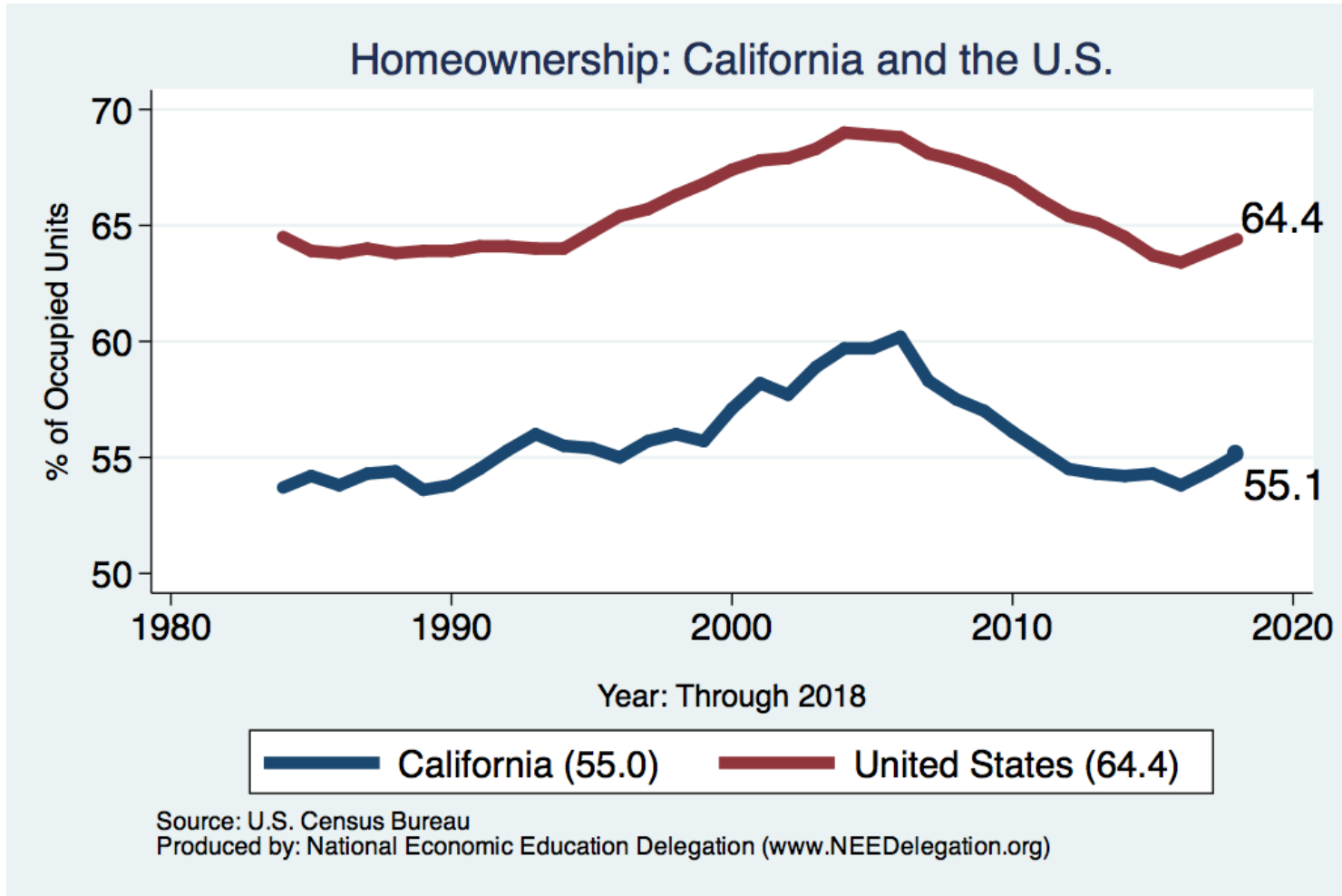


House appreciation horse-race, 1991=100

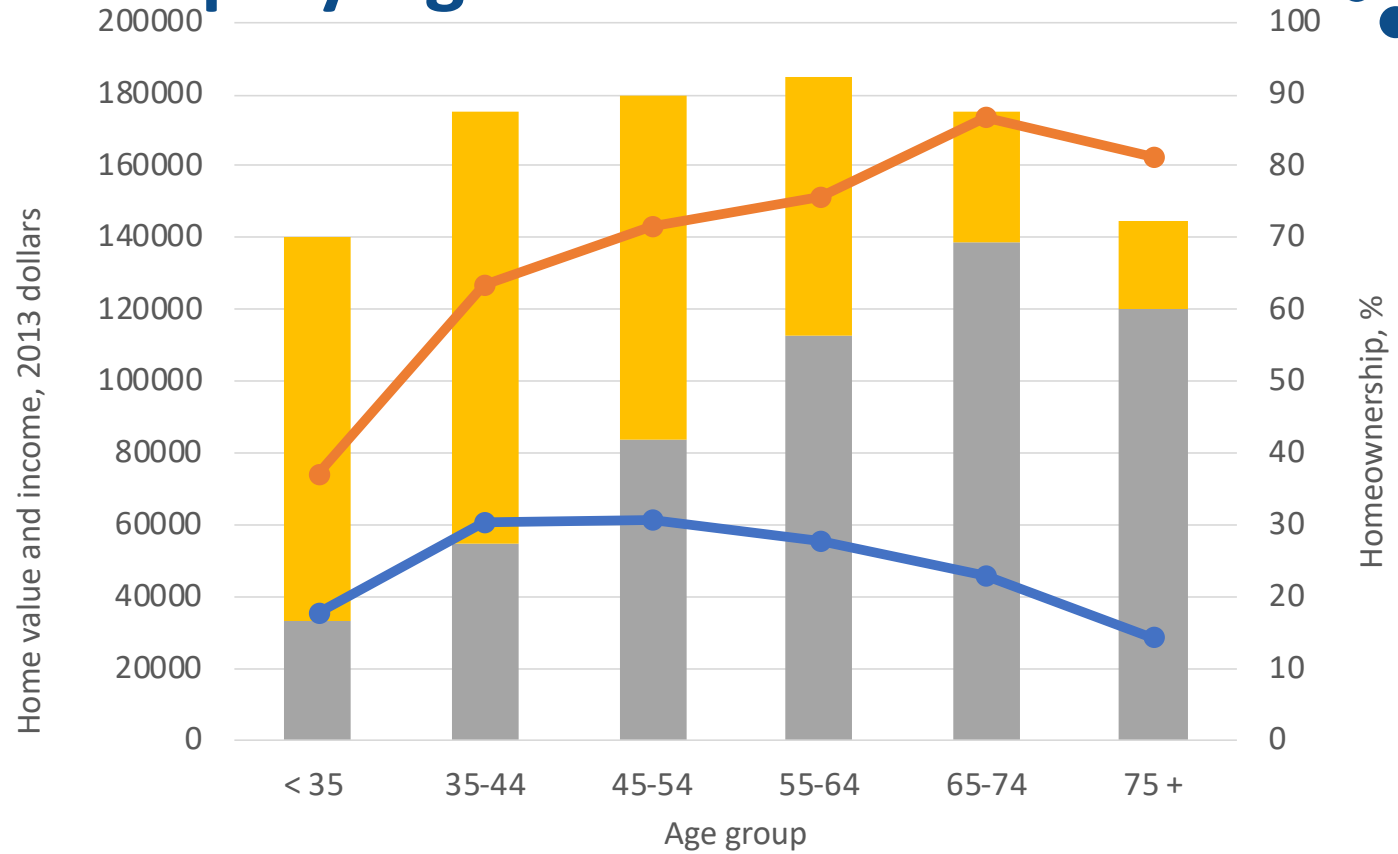


Prices in Atlanta, Chicago, and Detroit, barely kept up with inflation

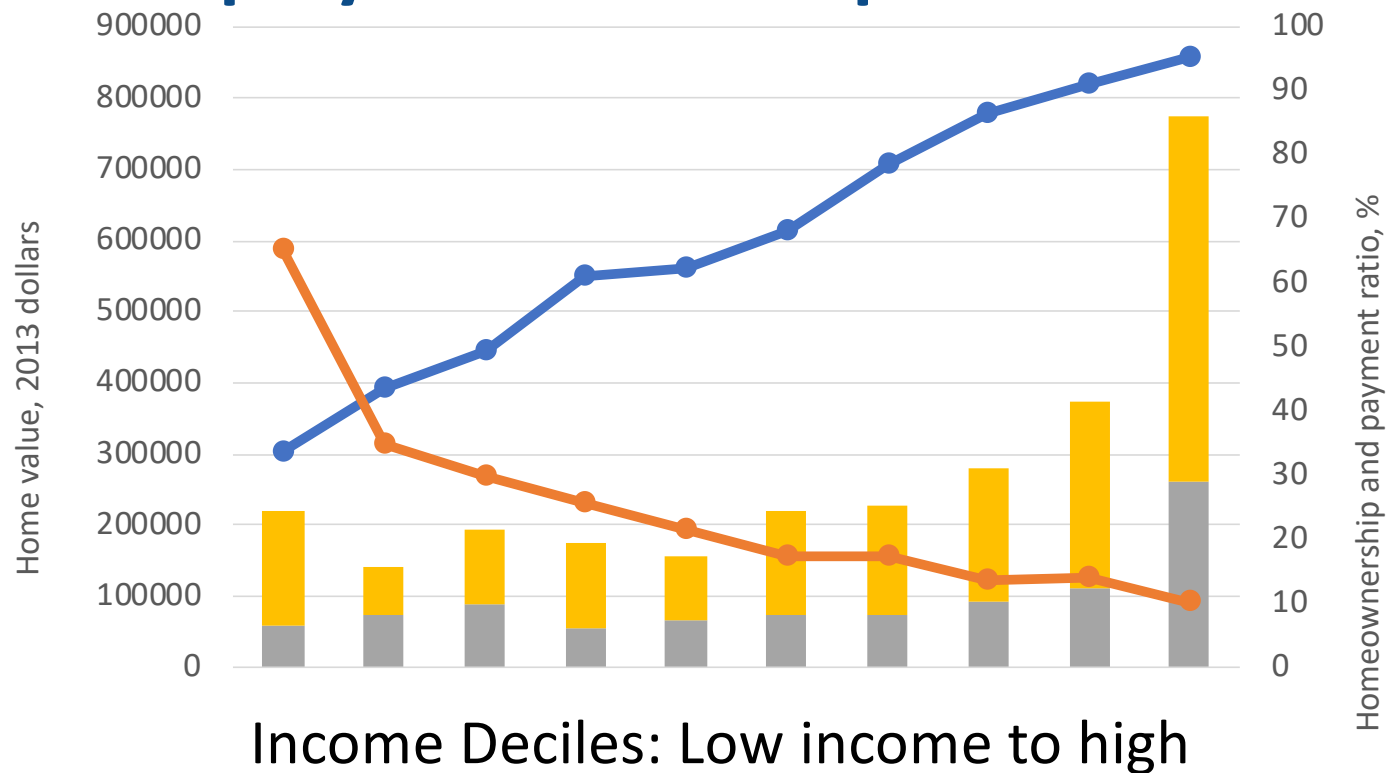




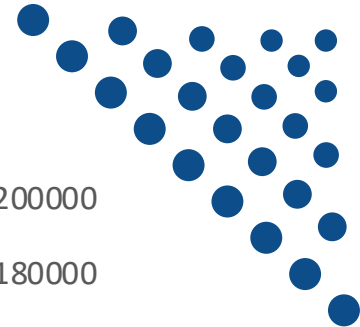
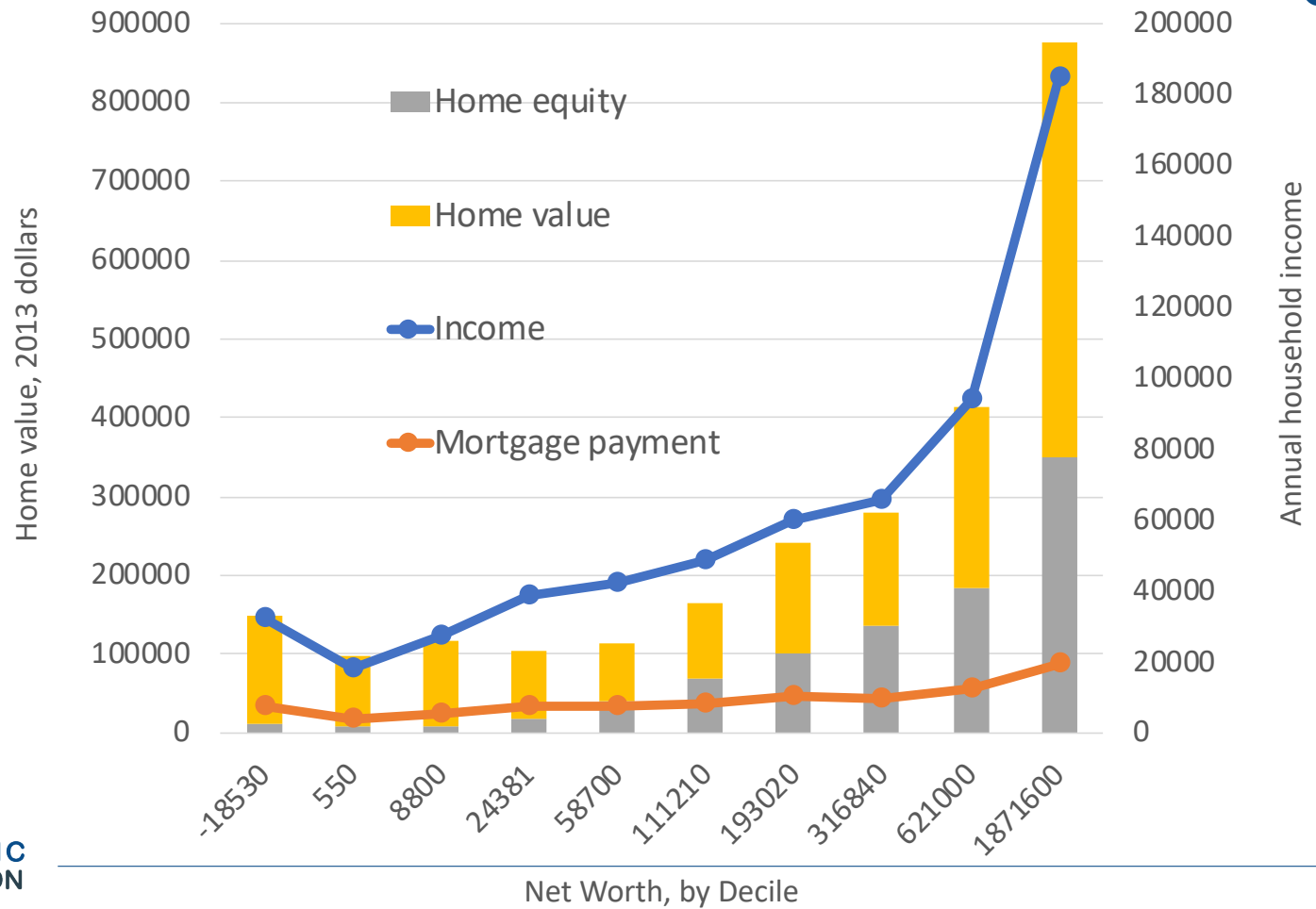
Homeownership by Age



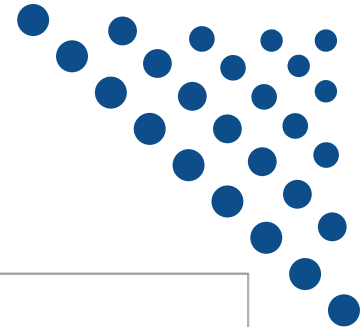
Homeownership by Income Group



Homes and Household Net Worth

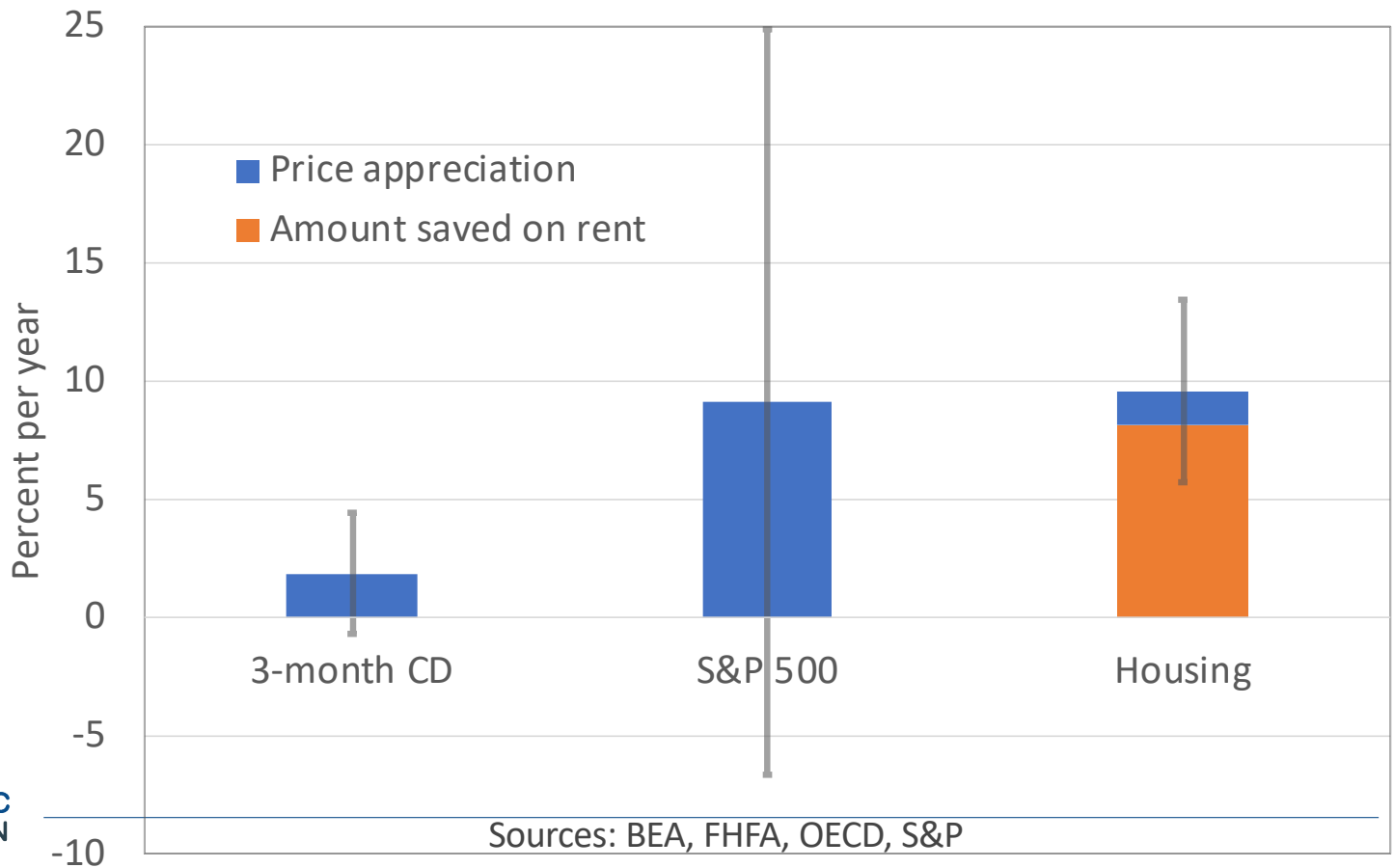


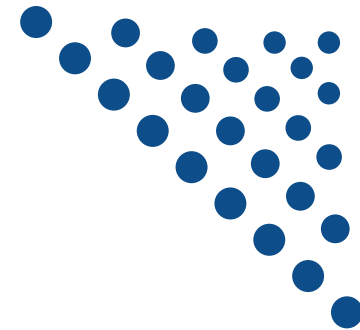
Is Housing A “Good Investment”?



Most of the financial return on housing comes from the amount saved on rent

Financial rate of return, 1975-2018





Benefits and Costs of Homeownership

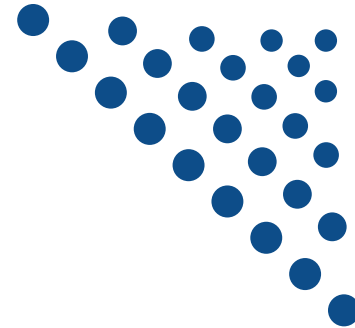
Financial benefits of homeownership

- Money saved on rent
- House price appreciation (if any)

Financial costs of homeownership

- Maintenance/upkeep, insurance, property tax
- Mortgage interest (if any)
- House price depreciation (if any)

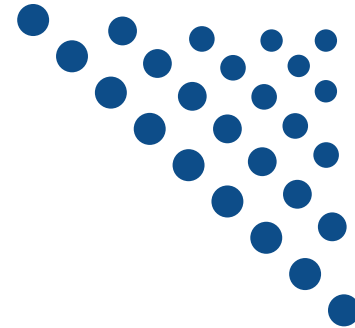
Benefits and Costs of Homeownership



Tax benefits of owning a home:

- Homeowners typically pay ***lower property taxes*** than landlords.
- Mortgage interest and property tax can sometimes be ***deducted from taxable income*** (same is true for landlords).
- ***Capital gains*** from selling a primary house are ***tax-free*** (up to a point).

Why are House Prices Rising?



- **SUPPLY AND DEMAND**

- **Supply:**

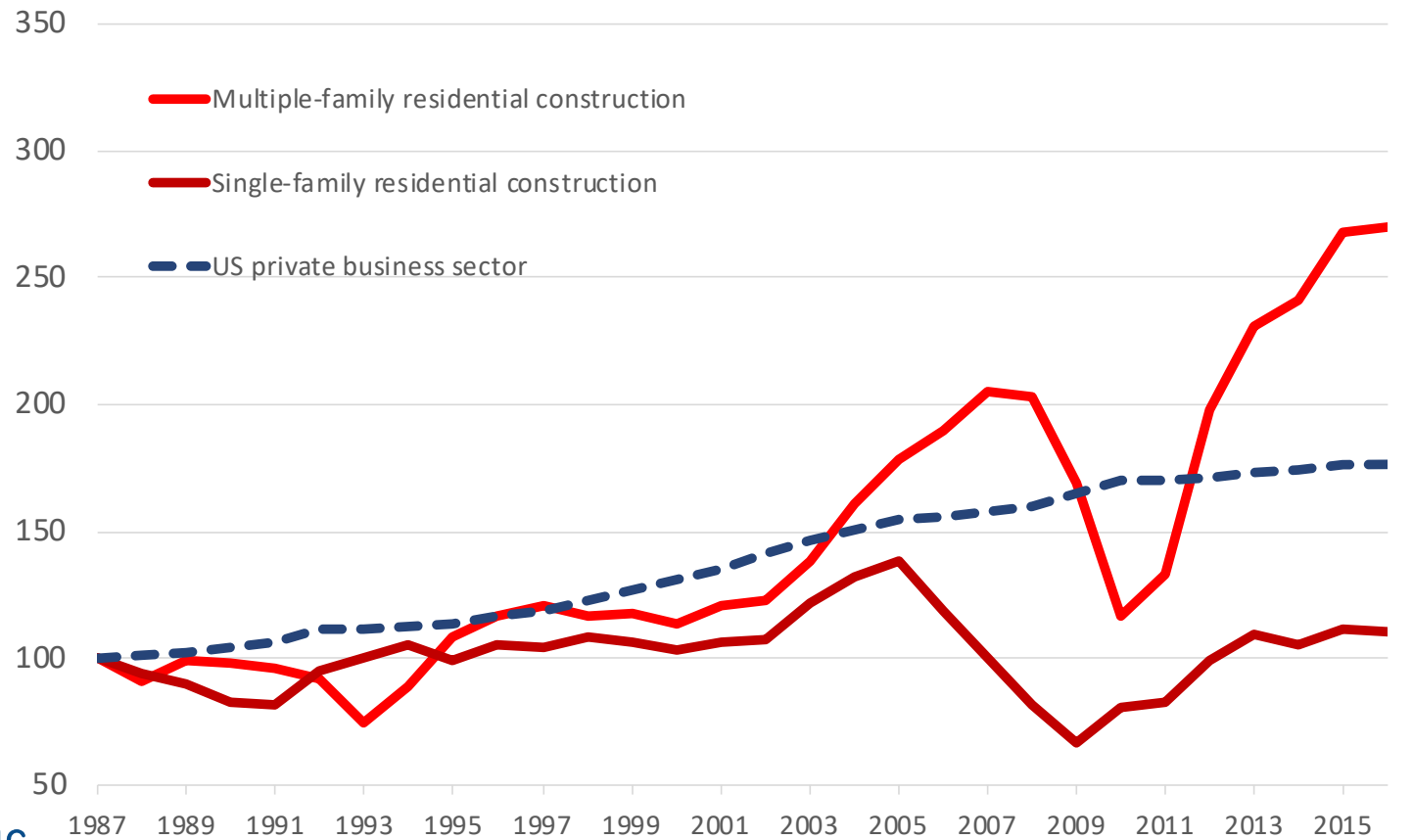
- Is it becoming more expensive to build?
 - Productivity
 - Local fees
- What are restrictions on building and how do they vary by location?

- **Demand:**

- Capacity to afford: income and interest rates

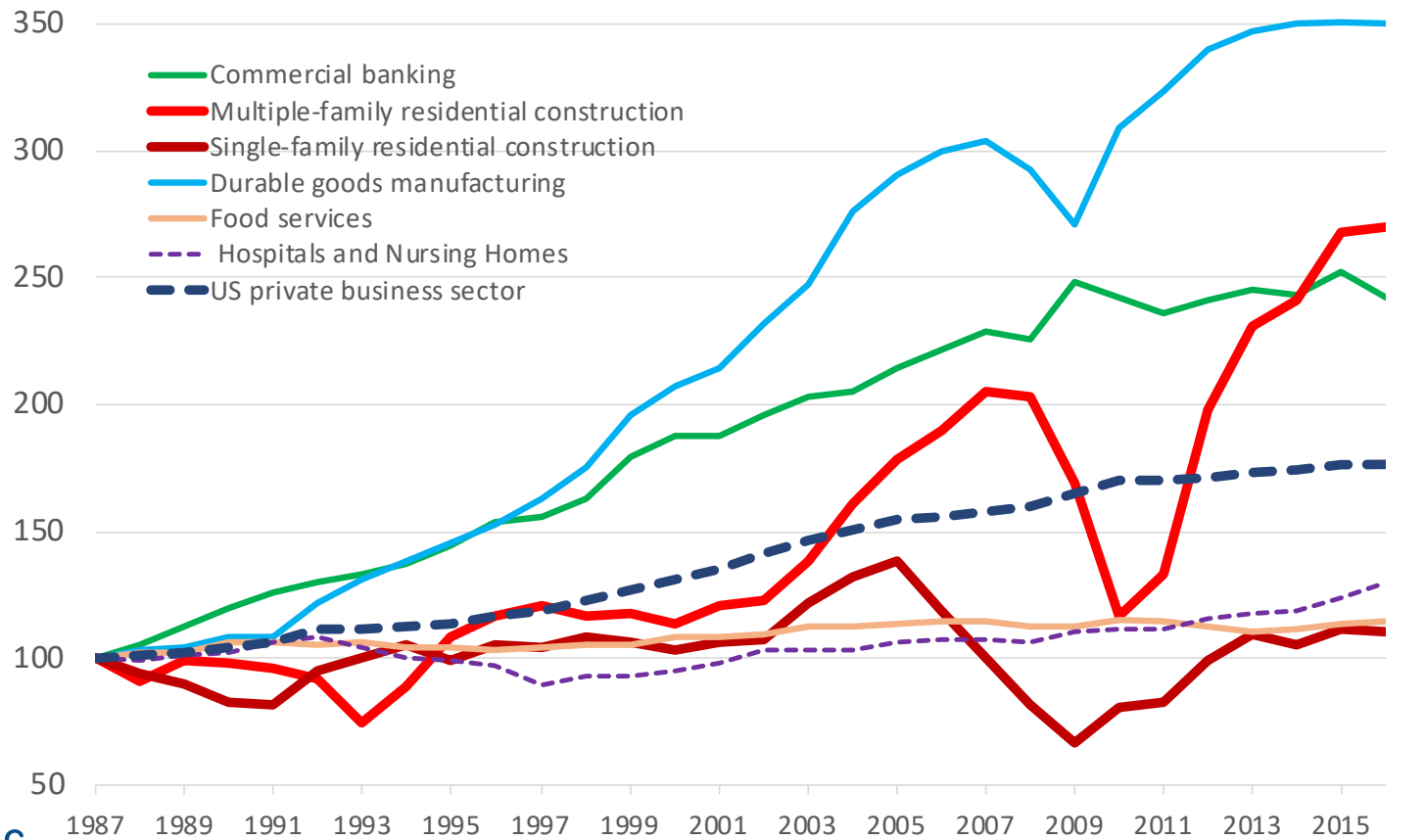
Is Construction Becoming More Efficient?

Labor productivity in construction, 1987=100



Is Construction Becoming More Efficient?

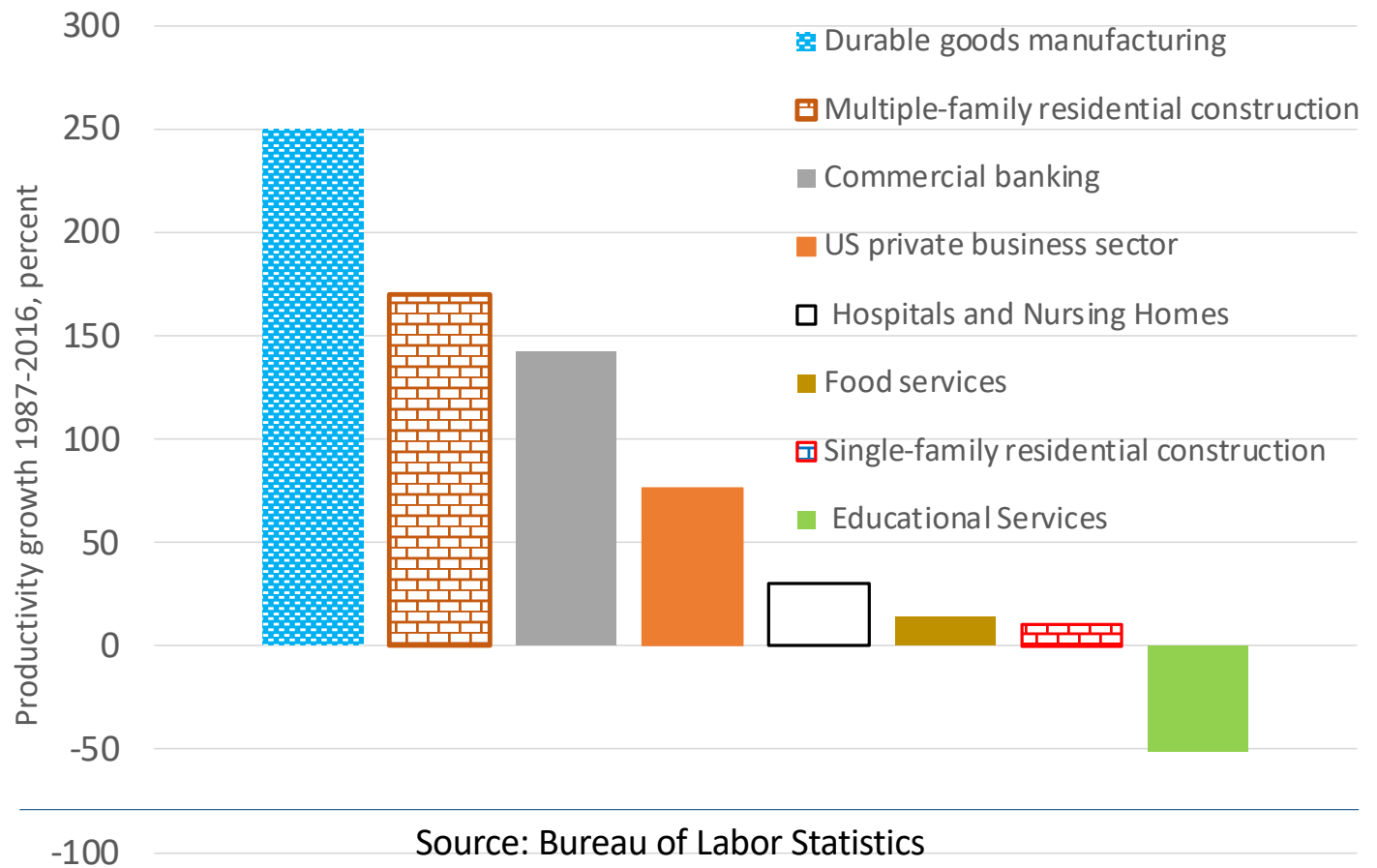
Labor productivity in US industries, 1987=100



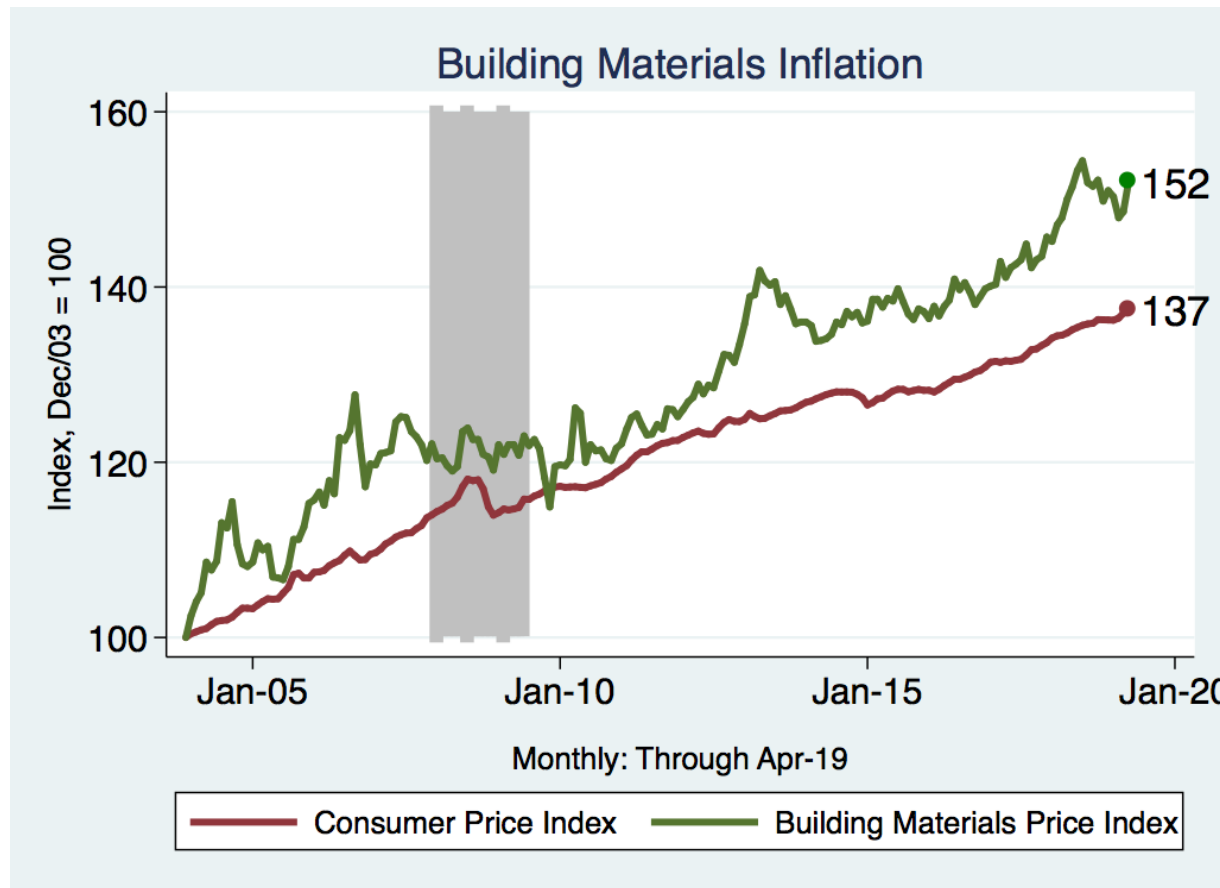
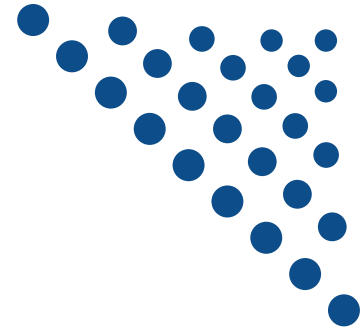
Productivity Growth Comparisons



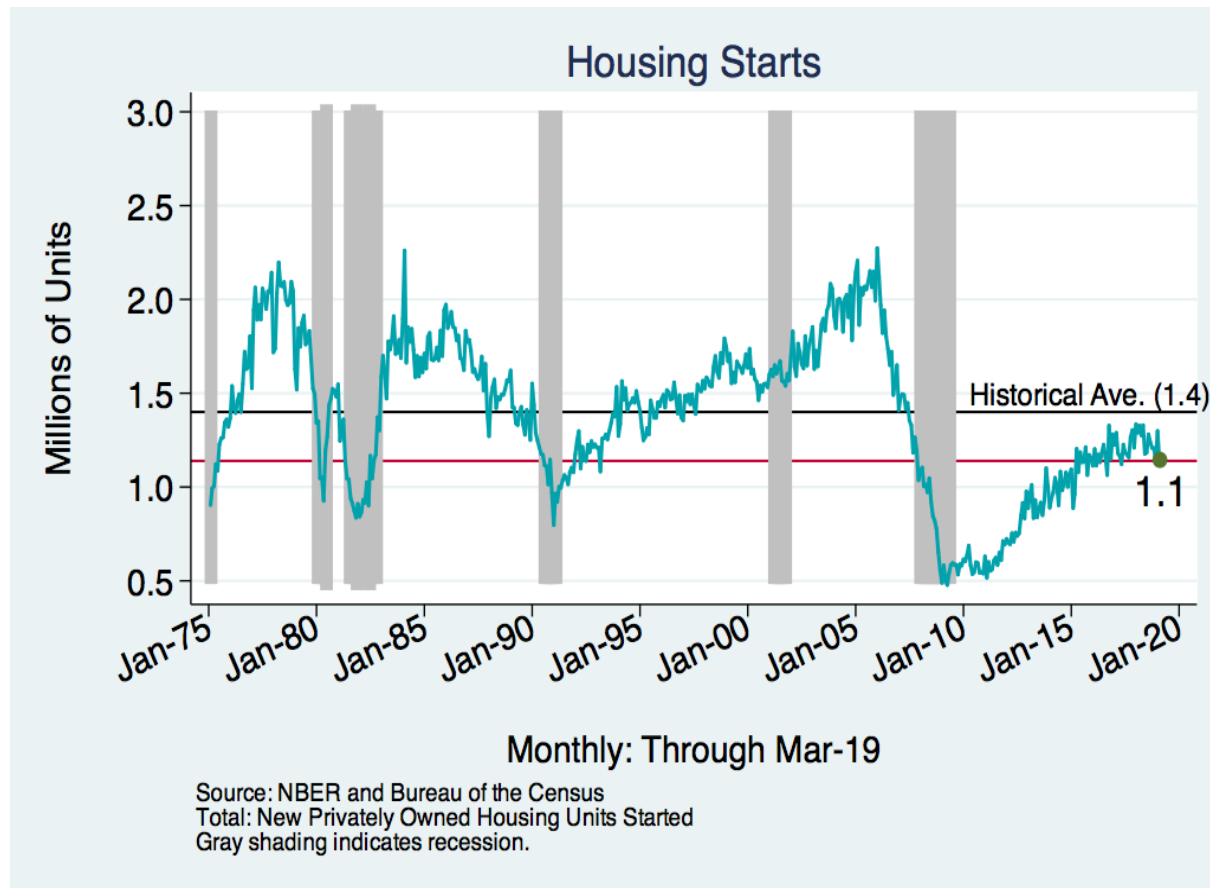
Productivity growth in US industries, 1987-2016



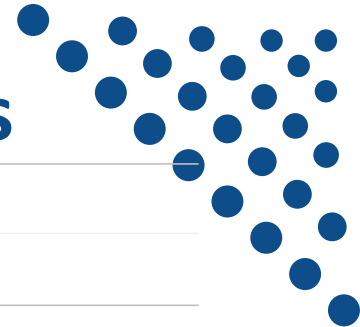
What About Building Materials Costs



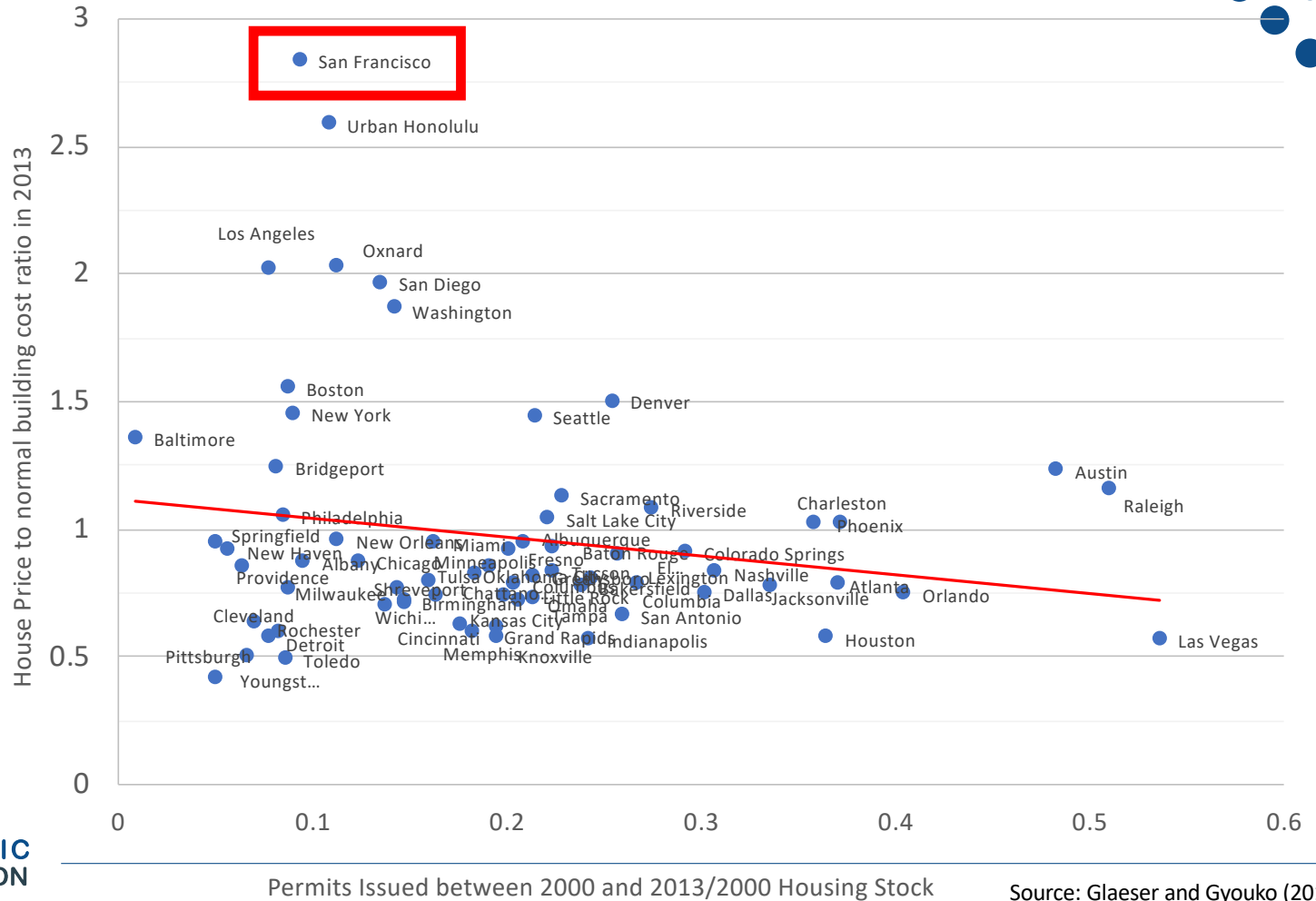
Housing Starts



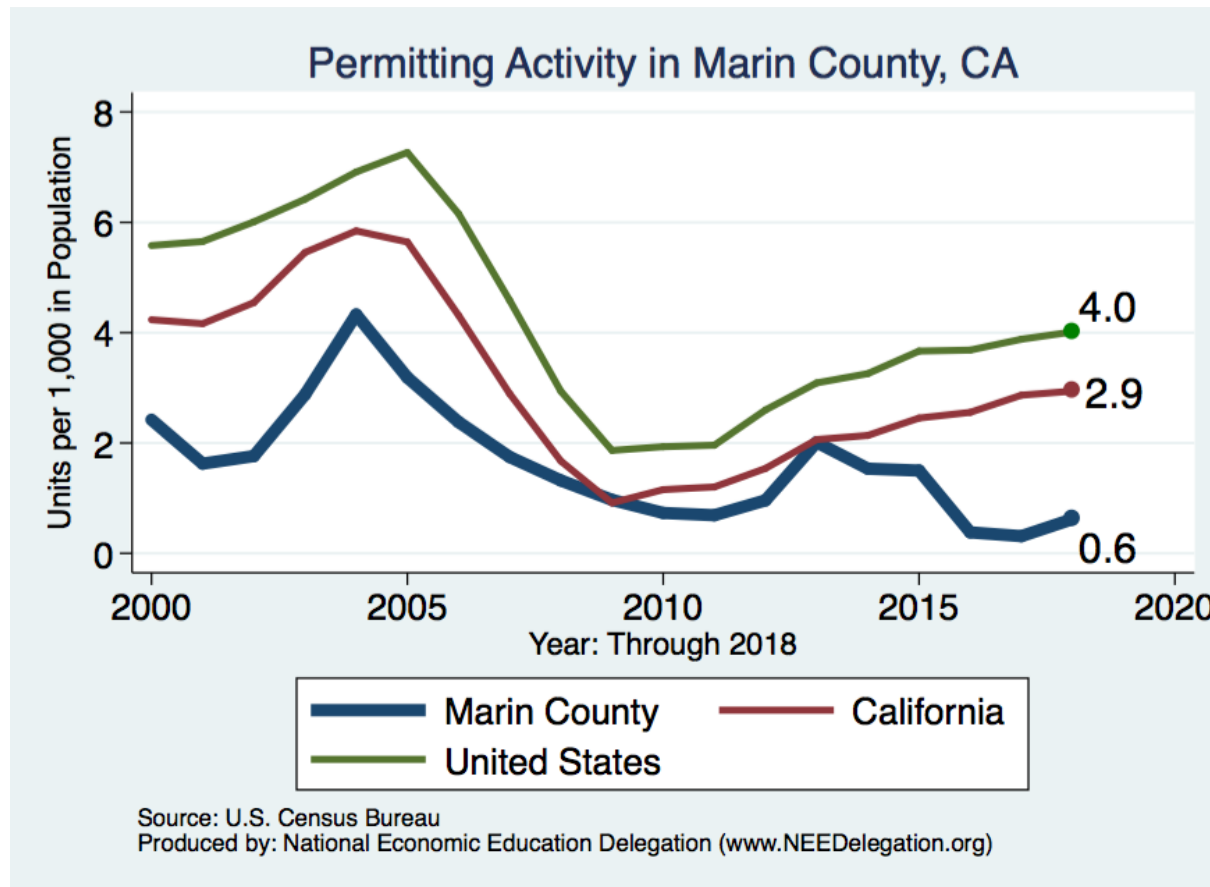
New Construction Permits and House Prices



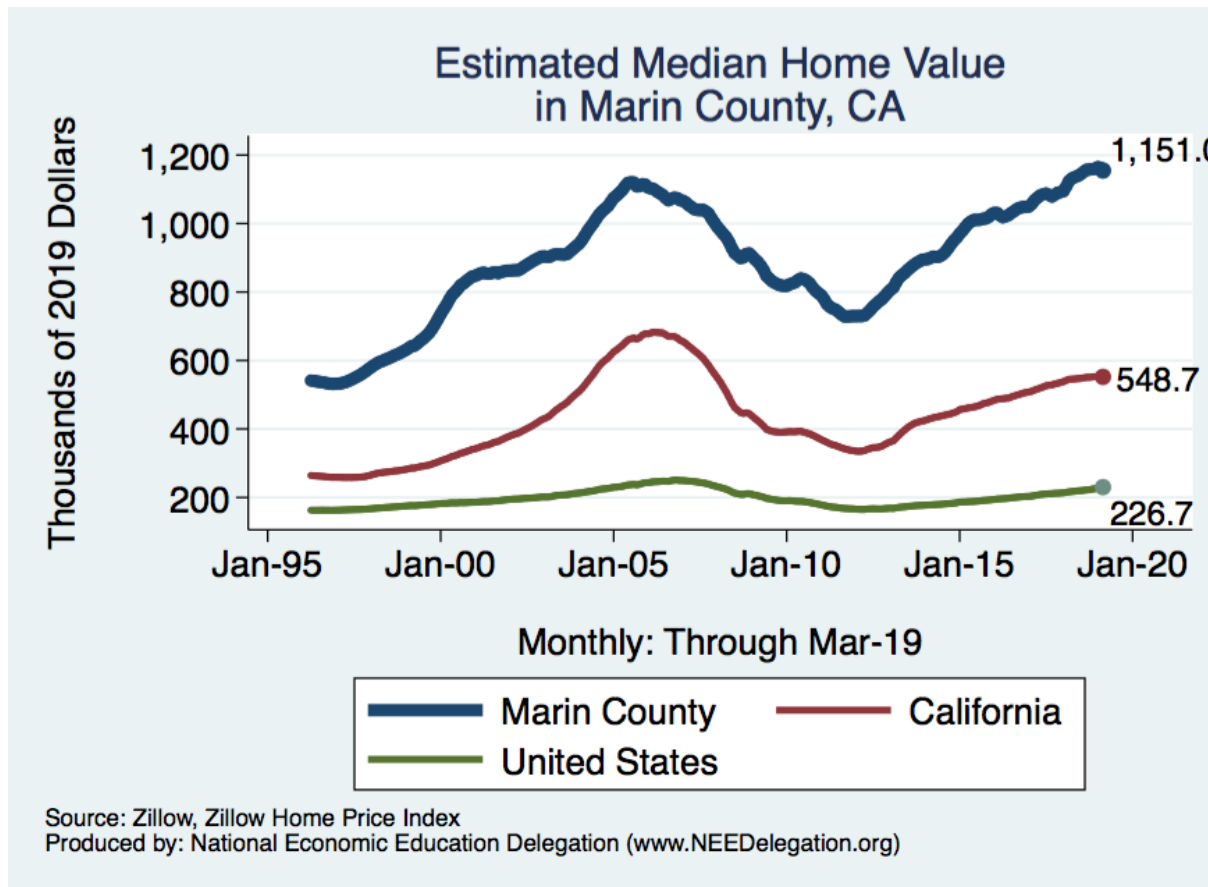
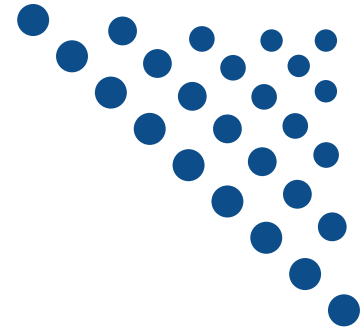
House prices are generally higher where fewer permits are issued



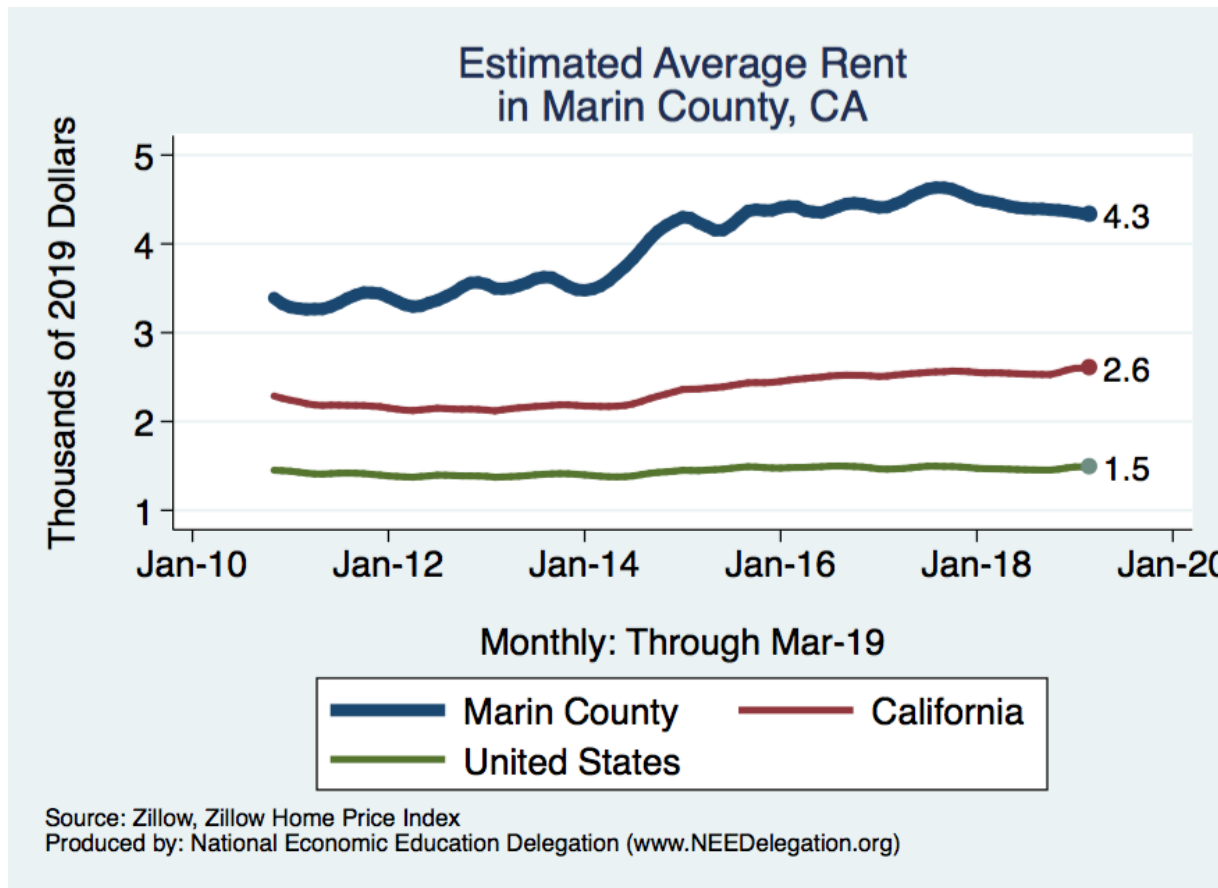
Marin is Not Keeping Up



...And Prices Reflect it!



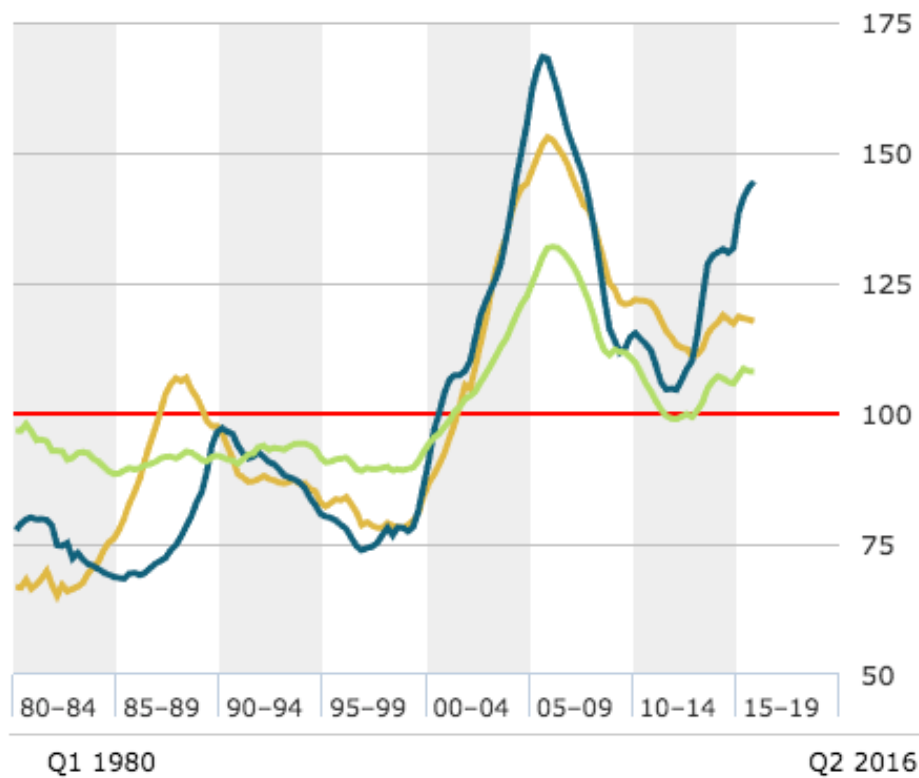
Rents in Marin County



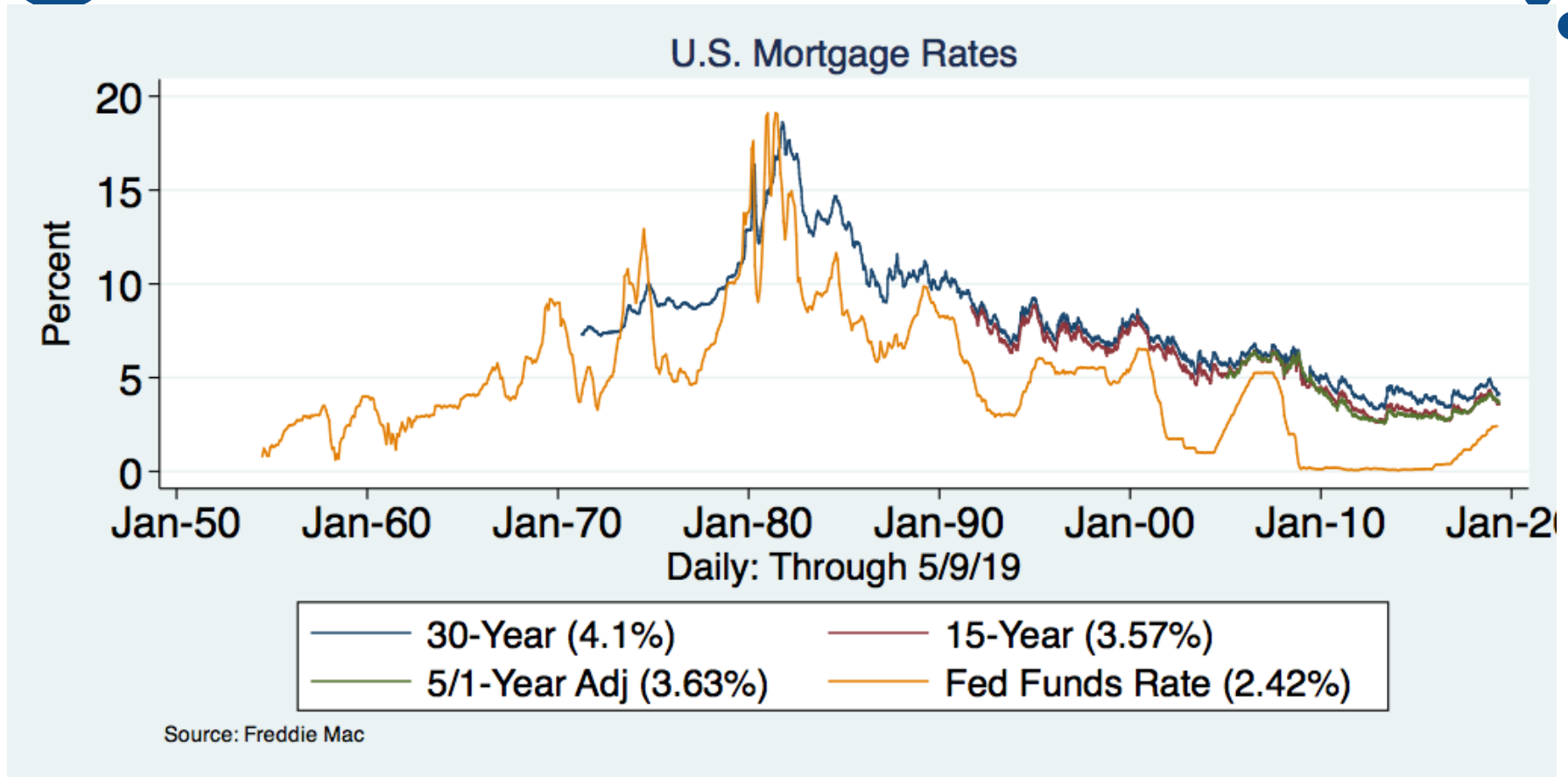
The Relationship Between Prices and Income



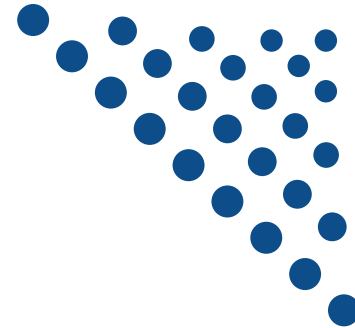
Ratio of house prices to median household income, long-run average=100



Mortgage Rates



Policy Issues: Government Influence



- **Restrictions on new housing construction**
- **Affordability**
- **Government housing programs**



Examples of Local Restrictions



- Lot size requirements
- Setbacks
- Availability of on street parking
- Multiplexes – du or triplex
- Limits on # of people/lot
- Cost increases through fees

Local Restrictions on New Construction



- Why is there so little new construction in some areas?
- Edward Glaeser (Harvard economist):



“Arguably, land use controls have a more widespread impact on the lives of ordinary Americans than any other regulation.

These controls, typically imposed by localities, make housing more expensive and restrict the growth of America’s most successful metropolitan areas.”

Building Restrictions and Economic Inequality



- **Glaeser, continued:**

“These regulations have accreted over time with virtually no cost-benefit analysis. Restricting growth is often locally popular.

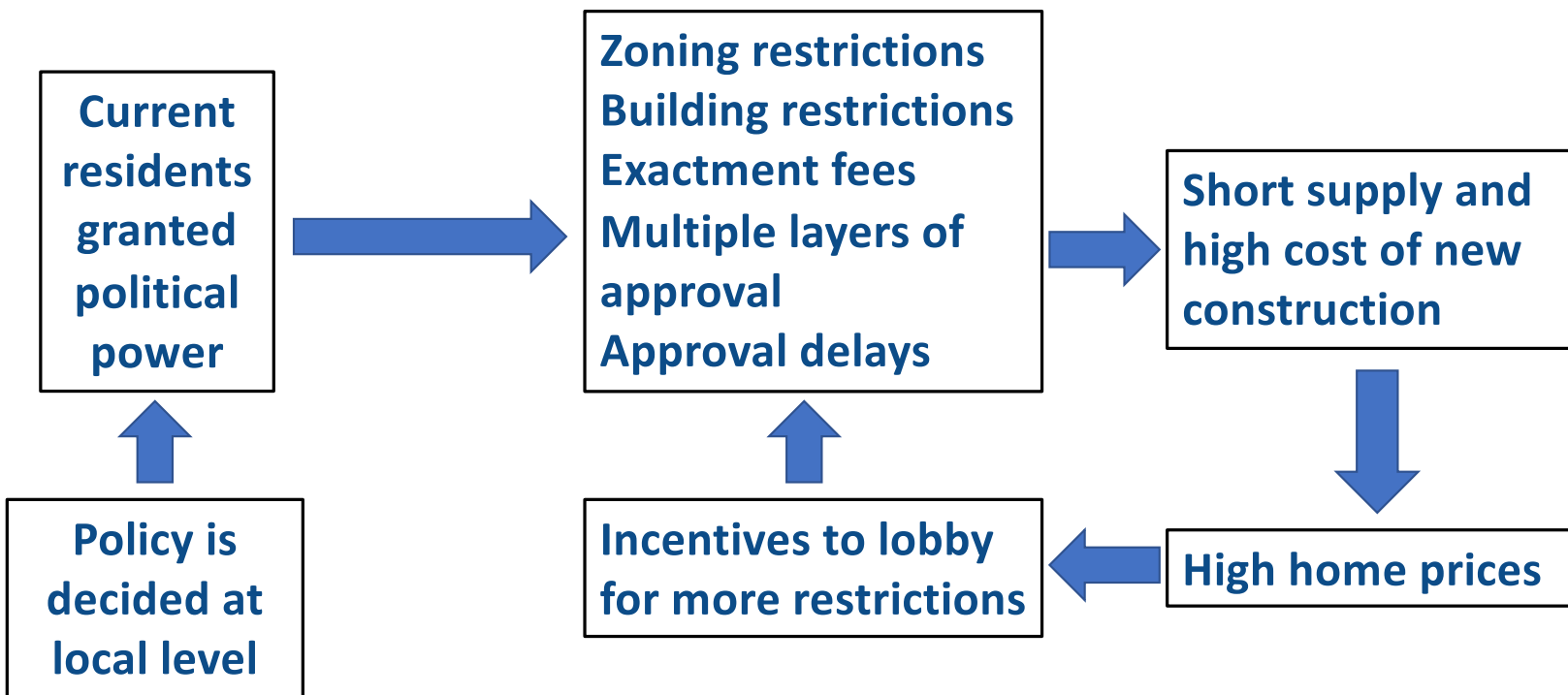
Promoting affordability is hardly a financially attractive aim for someone who owns a home.

Yet the maze of local land use controls imposes costs on outsiders, and on the American economy as a whole.”

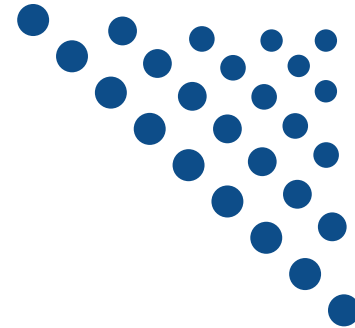
- **“There is no better way to reduce inequality than building more housing.”**



The Vicious NIMBY Political Cycle



Home Prices: Summary



- Housing market is not a free market.
- Differences in home prices across locations often have to do with local building restrictions in the face of economic growth.
- US coastal areas experienced an economic boom and tightening of building restrictions at the same time.

For example, there were 13,000 new housing units permitted in Manhattan in the single year of 1960 alone. Compare this to 21,000 new units permitted throughout the *entire decade of the 1990s*.

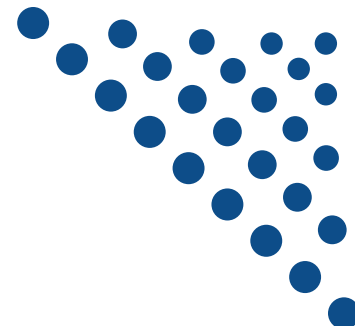
Source: Glaeser, Gyourko and Saks 2005.

Economic Damage From Building Restrictions



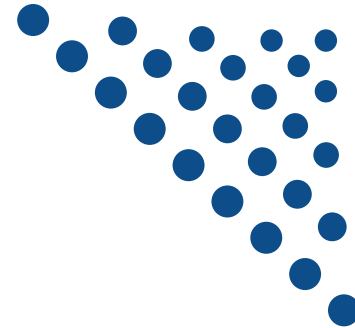
- National income would have been higher if workers could afford to move to high-wage locations.
- The economists' estimate of potential income lost to low housing affordability caused by building restrictions is 2-9 % of US output (400-1800 billion current dollars per year).
- By way of comparison, the cost of the entire Medicare (health care for 65+ population) program is about 600 billion annually.





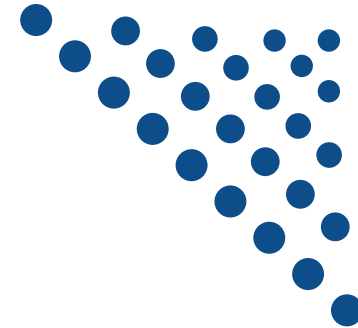
Policy Reforms and Debates: Government Regulation of the Housing Market

Affordability



- **What is the best way to make affordable housing?**
 - Free market?
 - Mandates?
 - Rent control?
 - Subsidies to low income households?

How Does Rent Control Work?



- **Sets limits on rent increases**

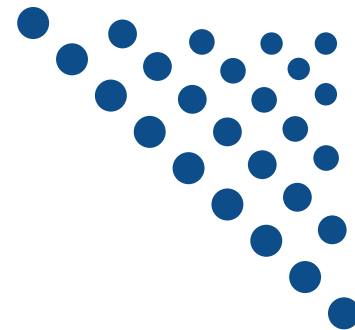
- Could set a cap on rent
- Regulates frequency of rent increases
- Usually w/in a tenancy

- **Limits reasons for evictions**

- E.g., non-payment or significant damage to the rental property

- **Implications:**

- Increases well-being of current tenants
- Can reduce the supply of or lead to decay of rental housing stock
- Can lower the value of nearby housing
- Contribute to gentrification

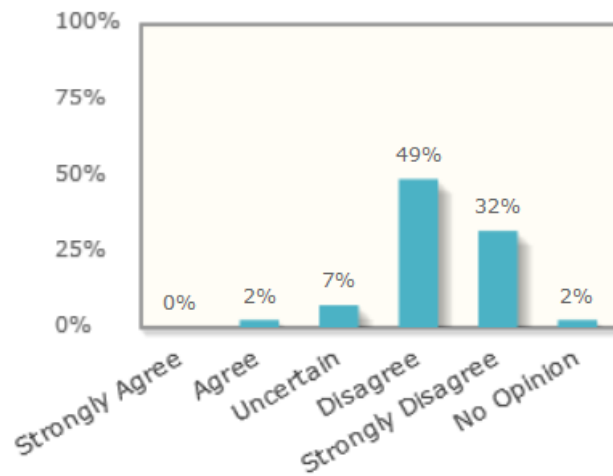


Rent Control – There is no “Other Hand”

Rent Control

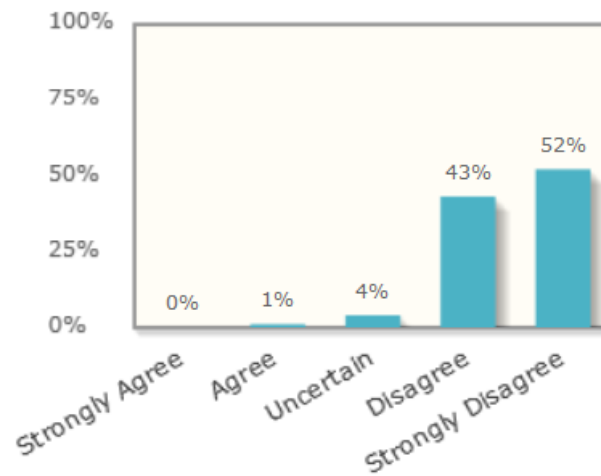
Local ordinances that limit rent increases for some rental housing units, such as in New York and San Francisco, have had a positive impact over the past three decades on the amount and quality of broadly affordable rental housing in cities that have used them.

Responses

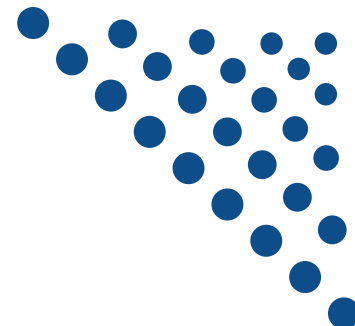


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Responses weighted by each expert's confidence



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Rent Control – What’s Not to Like?

- **Why don’t economists like rent control?**
 - We usually think housing costs too much because there’s not enough of it to go around.
 - If there were more places to live, the landlord could not raise rent as easily.
 - *It’s a supply issue.*
- **Rent control does nothing to stop the increase in prices in uncontrolled units. And controlled units may see neglect, since they will often lose their owners money.**

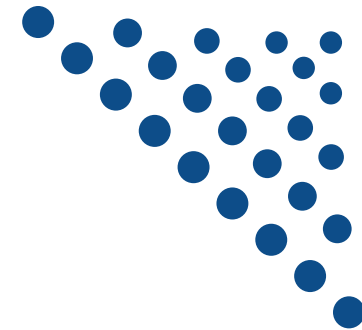
Rent Control – The San Francisco Experience



- **A 2018 study of San Francisco rent control showed:**
 - Renters were 20% more likely to stay at their address
 - But, landlords stopped renting 15% of rent-controlled units
 - The lower number of units was related to a 5.1% citywide rent increase.

The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco

Rebecca Diamond, Timothy McQuade, Franklin Qian, NBER Working Paper No. 24181, Issued in January 2018, <https://www.nber.org/papers/w24181>



Rent Control – The Cambridge Experience

- **Elimination of rent control in 1994.**
- **Decontrolled properties' market value increased by 45%.**
 - Neighboring properties also increased in value.
- **Value of the changes is significant between 1994 and 2004.**
 - Direct effect: \$300 million for decontrolled properties
 - Indirect effect: \$1.7 billion for nearby never controlled properties
- **Rent control is a VERY expensive way of increasing affordability.**

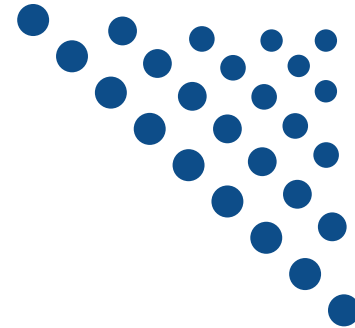
Government Regulation



- **There is a federal agency involved in housing, commonly known as HUD (Department of Housing and Urban Development).**
- **HUD has a few main ways in which it acts in the housing market**
 - Public Housing
 - FHA Mortgage Insurance
 - Housing vouchers
 - Community Development Block Grants
 - Fair Housing
- **Some of these solve issues like discrimination, and some address affordability issues**



HUD - Affordability



- **FHA Mortgage Insurance**

- Makes loans available to those who have lower credit scores, or cannot afford a 20% down payment

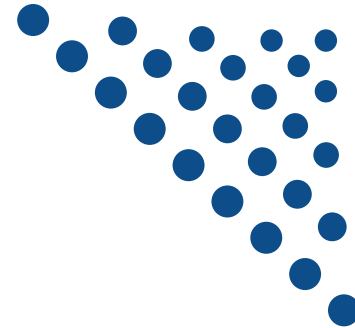
- **Section 8 Vouchers**

- Allows households to find rental housing, but the waiting lists are too long and many landlords do not accept the vouchers
- About 1 in 4 eligible households receives a voucher.

- **Public Housing**



HUD - Discrimination



- **Fair Housing:** the market may include discriminatory landlords, realtors, mortgage brokers, etc., and the government needs to correct this.
- **For example, HUD sued Facebook in April 2019, since Facebook was (allegedly) allowing landlords to only show their apartment listings to certain racial groups.**



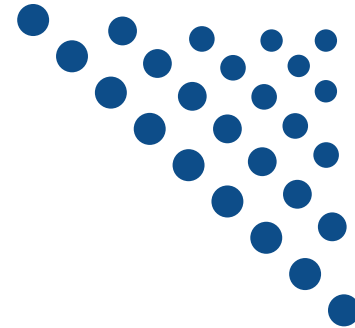
HUD – Fair Housing and Local Land Use



- **Some argue that the Fair Housing Act allows the federal government to prohibit exclusionary and burdensome zoning regulations, as they disproportionately work against the classes protected by the FHA.**
- **This has been a popular idea with both left-wing and right-wing HUD secretaries.**



Local Government and Housing Policy



- **Public Housing Agencies**

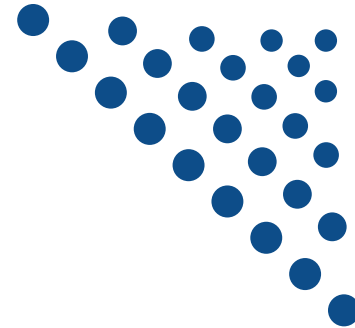
- HUD leaves the administration of public housing and vouchers to local Public Housing Agencies; there are over 3,000 PHAs.

- **Other**

- Local government is far more involved in the housing market via land use policies like zoning.
 - Community input process
 - Historical designation
 - Permitting



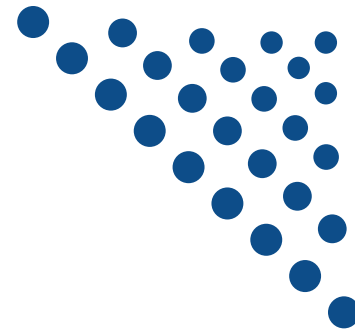
Proposed Reforms - Federal



- **Further subsidization of more building?**
 - Some reformers have proposed that rent is too expensive, and therefore should be subsidized.
 - However, it may make sense to spend that subsidy money building new public housing, to expand the supply, rather than demand.
- **Stronger anti-discrimination policies, including for discrimination against voucher holders.**



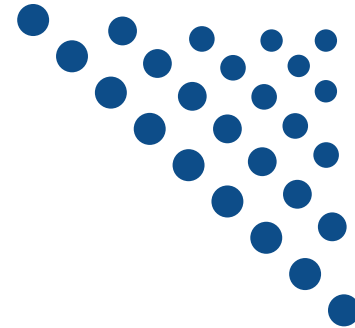
Proposed Reforms – State and Local



- **Taxation on absentee owners, investors, AirBnB, etc.**
 - These are attacking symptoms rather than causes. AirBnB is profitable because there are not enough hotel rooms. Investors buy properties because they expect the returns to be high.
- **States can give or take money from localities in their states**
 - For example, a recent budget proposal in California would link transportation funding to housing production. Localities that don't add enough housing would lose money.



Proposed Reforms – State and Local



- **Spread property tax revenue more equitably**
 - Currently, parents essentially buy spaces in desirable public schools for their children. This method of school finance may perpetuate economic privilege across generations.
- **Loosen zoning**
 - Minneapolis has recently made it legal to build triplexes almost citywide. In contrast, it is illegal to build a duplex or triplex in most space in most American cities.
 - Mixed use zoning: it is also currently illegal in many places to have a first floor grocery store (or any kind of commercial use) with apartments or condominiums on top. Why?



Proposed Reforms – Economists' Take



- Economists will, in general, support government intervention when free markets don't work well, and support government restraint when free markets work well, or too much government is causing a problem.
- Most people can buy or rent housing in a market transaction with another person or corporation, with minimal government involvement (enforcement of contracts via courts, protection against overt fraud, health and safety protections for renters, etc.)
 - However, equity matters too. Some economists may support policies that alleviate the effects of racial discrimination which still persist.





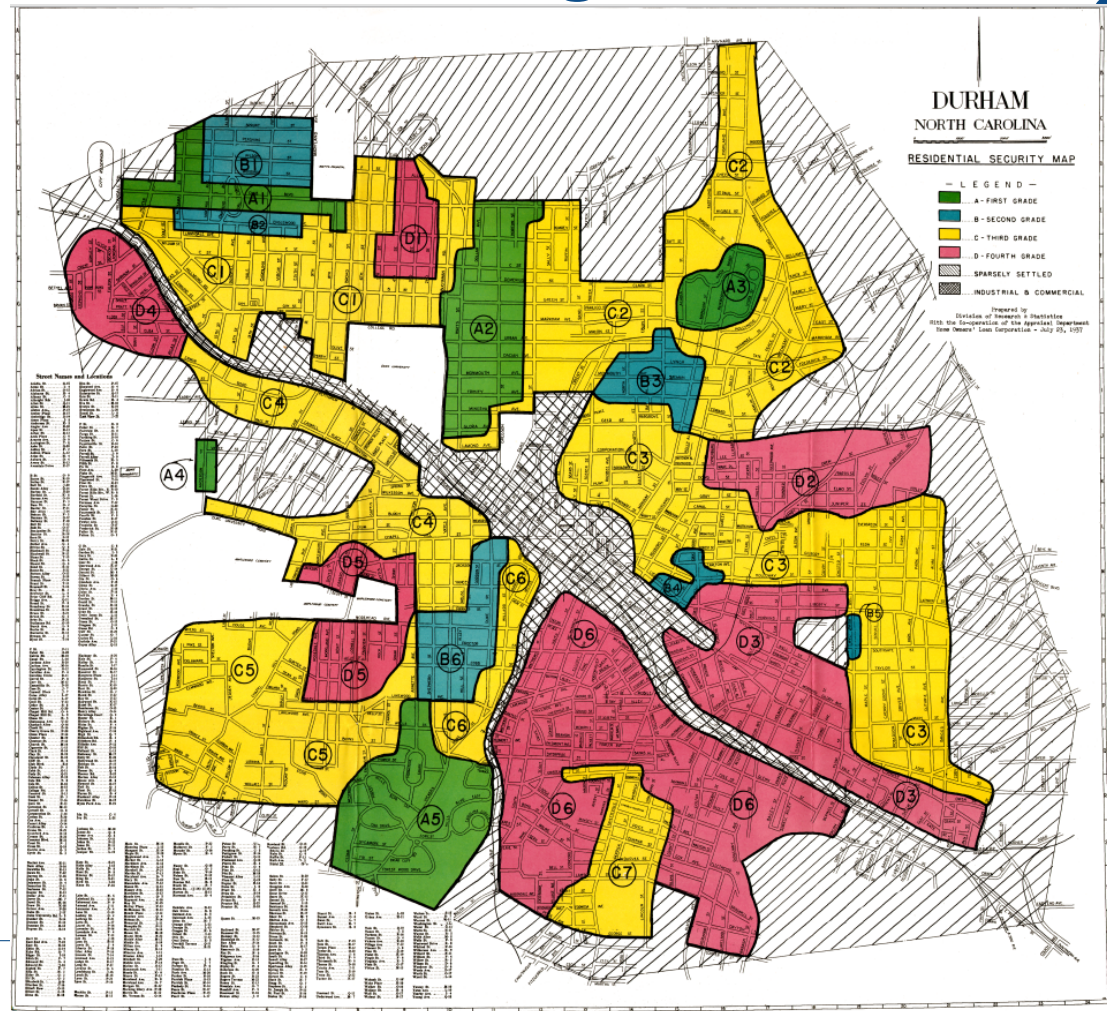
Misguided Past Policies: Redlining

- **For example, the government “redlined” heavily minority neighborhoods.**
 - Redlining occurred when maps were drawn to show how risky investment in certain areas would be. The “riskiest” areas usually had the highest concentrations of black people.
 - Some argue that the government merely drew these maps, and did not discriminate in their own lending practices, but others say private and public lenders relied on these maps to deny investment or loans in those areas.
 - Some relationships between redlined areas and outcomes still hold today.
 - Note: this is a market failure introduced by government!
 - Set the stage for a persistent wealth gap across races.



Misguided Past Policies: Redlining

Red areas were largely African-American communities, and considered to be too risky for new home loans.



Conclusions



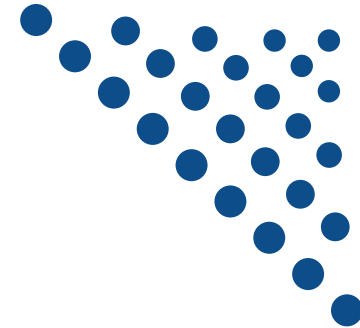
- **A modest-size house is a good investment that pays a great dividend.**
- **Housing market is not a free market.**
 - Government stimulates homeownership through tax policy and mortgage insurance.
 - Zoning and other building regulations contribute to economic inequality and may cause substantial economic damage.

Conclusions: More on Government Intervention

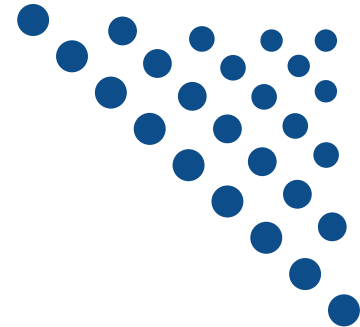


- **Policies need to be considered carefully – unintended consequences**
 - Rent control can have an enormous impact on:
 - Supply – both quantity and quality
 - Nearby uncontrolled properties
 - Zoning and permitting
 - Can feed inequality of access to resources: housing/education
- **Government intervention is a likely contributor to home price appreciation.**
 - May well achieve goals, but at lowest possible cost? Unclear.

Course Summary

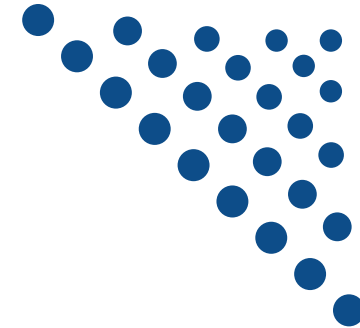


- US Economy
- Government Budgets
- Federal Debt
- Climate Change
- Safety Net
- Economic Inequality
- Trade and Globalization
- Housing Policy

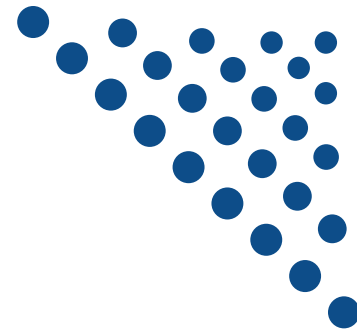


US Economy

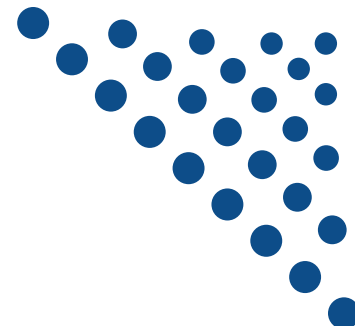
Things to Be Worried About



- **Stock Markets**
- **Yield Curve**
- **Government Debt**
- **Declining Labor Force**
- **Income and Wealth Inequality**
- **Policy Uncertainty**
 - Trade and immigration policy, especially

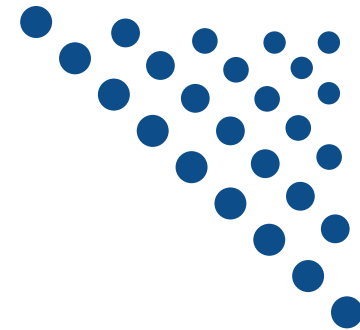


Government Budgets



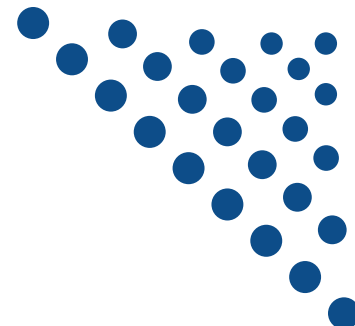
Budget Summary: Slide 1

- **Total Spending: \$4.1 Trillion in 2018**
- **There is remarkably little discretion in the budget:**
 - Mandatory: 69%
 - Discretionary 31%
- **Fastest growing parts of the budget: Health Care and Interest**
- **By 2048:**
 - Debt is forecast to grow to 150% of GDP, from 80% today
 - Interest payments are forecast to grow from 8% to 22% of budget

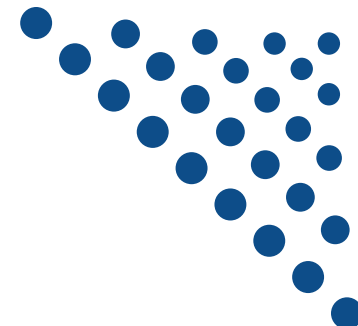


Budget Summary: Slide 2

- **Categories that get a lot of attention are relatively small...**
 - Foreign Aid: 1% of the budget
 - Income support/welfare: 8.7%
- **Tax expenditures are enormous: 25% of spending
...and get relatively little attention.**

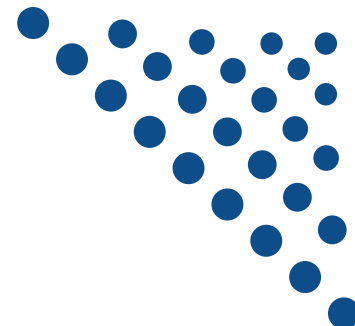


Federal Debt



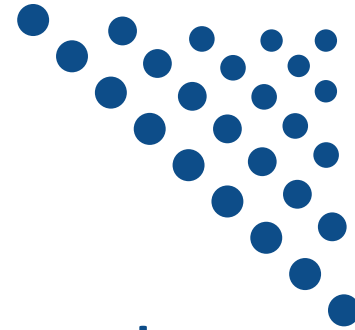
Summary: The Debt

- **The jury is (sort of) out on the debt.**
- **Conventional wisdom is being challenged:**
 - Previously: inflationary and crowd out private investment
 - New assertion: these things don't matter for a country that can borrow in its own currency.
- **Upshot?**
 - This is a policy choice.
 - The cautious approach is to rein in the debt.
 - The cautious approach may lead to slower economic growth.



Climate Change

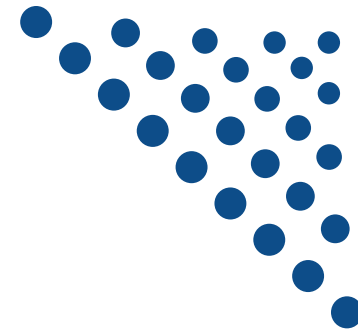
Summary



- **Climate change is real, is caused by human actions, and has impacts we're already feeling.**
- **We need to reduce emissions to balance the costs of action against the costs of inaction.**
- **Scientists and the IPCC recommend that we work to keep warming below 2 degrees celsius.**
 - *Economists believe that this goal is well worth the costs!*
 - *It passes a Cost-Benefit Analysis*



Summary – *continued*

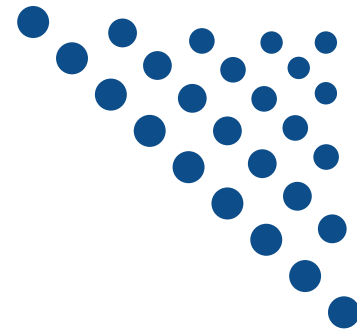


- There are many ways to reduce emissions.
- Economics-inspired policies can help us do this at the lowest cost.
- Taxes and cap and trade are proven effective tools to fight climate change!
- Other tools may also be necessary.



Bill Nye Explains A Carbon Tax





Safety Net

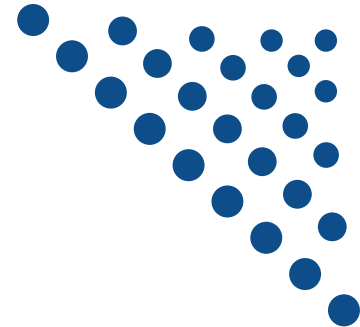




Summary: U.S. Safety Net

- **The U.S. safety net is a complex set of programs to aid the poor.**
 - Medical, nutrition, education, housing, cash
 - Different benefit amounts, eligibility rules, duration of assistance, administration
- **There are unintended consequences on the labor supply, and possibly on marriage and childbearing as well.**
- **There are substantial direct effects on measured poverty under measures that fully account for benefits.**
- **The U.S. safety net is small when compared to peer countries.**

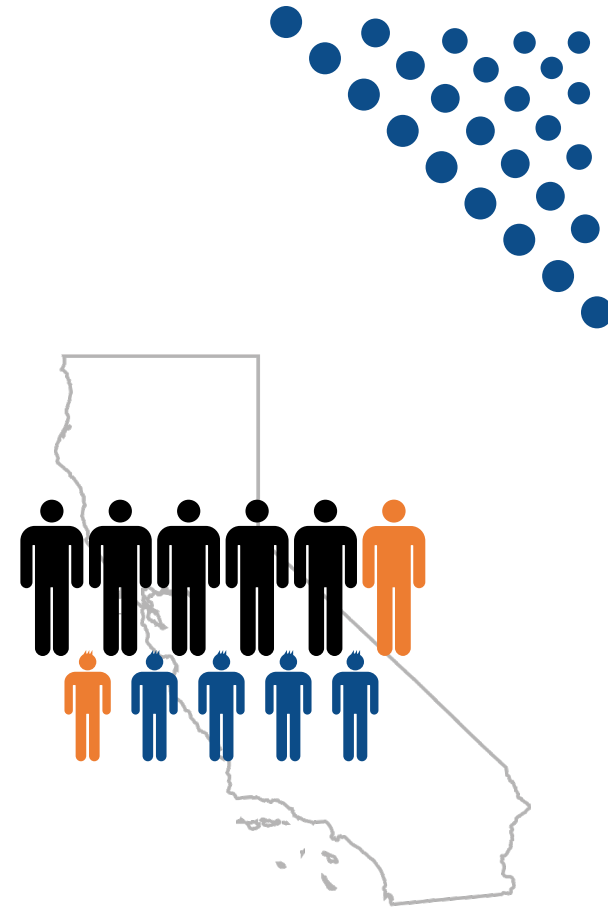




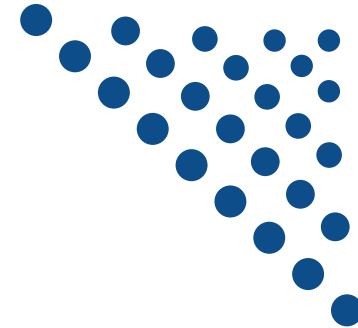
Economic Inequality

Summary

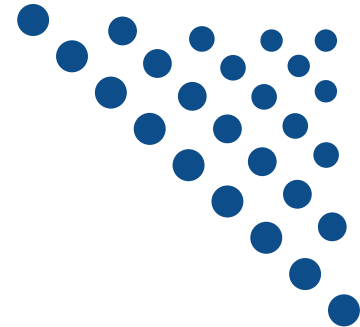
- **Income inequality is clearly increasing.**
 - The economy is clearly favoring owners of productive resources over labor.
- **The causes appear to be largely driven by:**
 - The market – technology, competition, and trade
 - Changing institutions.
- **Open questions are:**
 - To act or not to act?
 - If so, how?



Tension in Policy Solutions

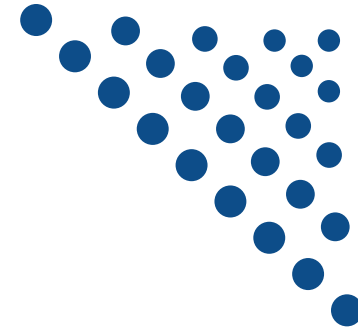


- **Is it possible to increase growth at the same time that you reduce income inequality?**
 - Common refrain among some that government intervention in the economy is always and everywhere bad for growth.
- **Possibly: expanding equality of access promotes the full utilization of resources.**
 - Expanding equality of access requires resources likely from the well-to-do.



Trade and Globalization

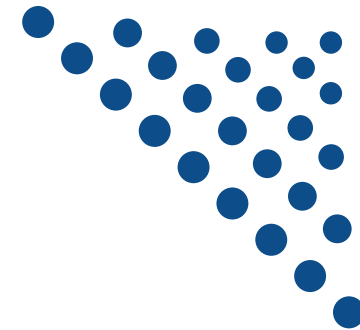
Conclusions



- Trade and growth are positively related.
- Gains from trade can be widespread (lower prices for consumers).
- Losses from trade can be highly concentrated.
- Tariffs reduce trade overall.
 - Imposing widespread losses to producers (who use imported inputs).
 - And consumers (who buy lower-priced imported goods).
- More direct policies can be more efficient and save gains from trade.
- The trade deficit, per se, is not a source of worry.
 - But activities that cause it, may well be.



ThinkTank Tuesdays:



- **May 14: Federal Budget and Debt**
- **June 25: Trade Wars**
- **To get announcements of Future TTTs and NEED events:**

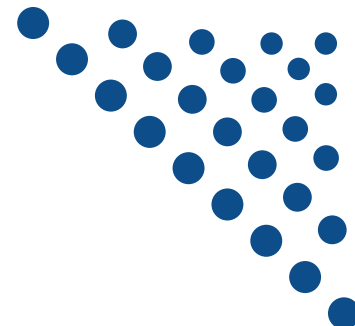
Become a Friend of NEED:

www.NEEDelegation.org/friend.php



Trade Wars, Huh!

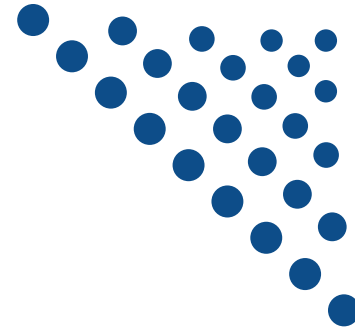
What Are They Good For? Absolutely Nothin'!



Trump's 2018 Trade Actions

I Like Big Tariffs And I Can Not Lie!

Trump's 2018 Trade Actions



- **Most were tariffs on imports**

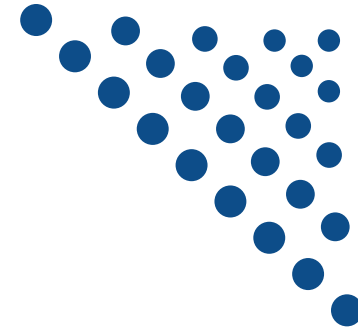
- Taxes levied by US on imports from others
- Taxes levied by others (in retaliation) on US exports

- **Normal effects of tariffs**

- Raise prices for importers
- Lower prices for exporters
- Cause substitution
 - To other products
 - To other countries (if not on all)

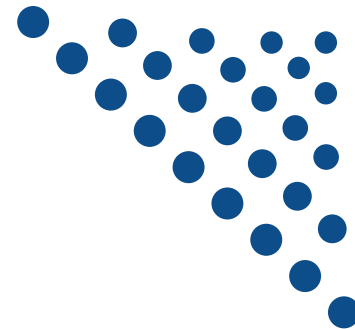
Net economic effect
is almost always
negative

Safeguard Tariffs – January 22, 2018



- **WTO permits tariffs on imports that cause serious injury**
- **Trump used the following:**
 - 30% on solar panels
 - 50% on washing machines
(both declining over 3 or 4 years)
- **Both were on exports of all countries**
 - Reason: previous China-only tariffs had been evaded by moving production elsewhere

Tariffs on Solar Panels



- **Why?**

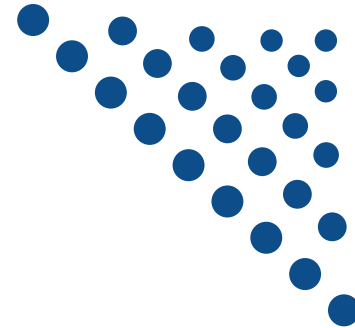
- Increased imports from China had driven US companies out
- Anti-dumping duties had failed to help, as companies moved production to other non-China and non-US locations

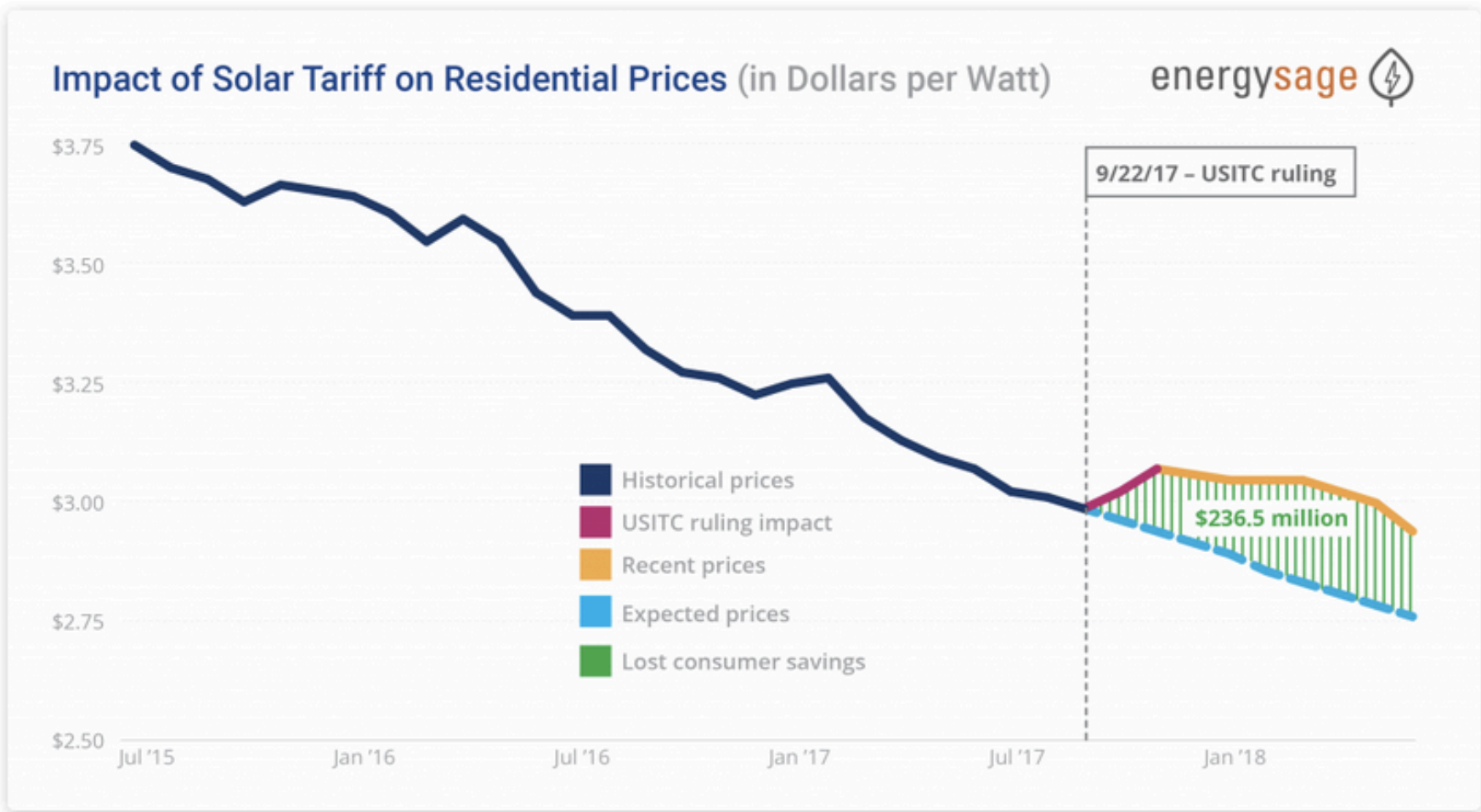
Tariffs on Solar Panels

• Who benefits?

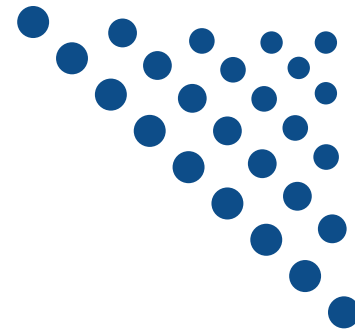
- Who requested?

- Suniva, Chinese owned, manufactures in Georgia and in Saginaw, MI
- SolarWorld, was German owned but now French,
- 14 US manufacturers





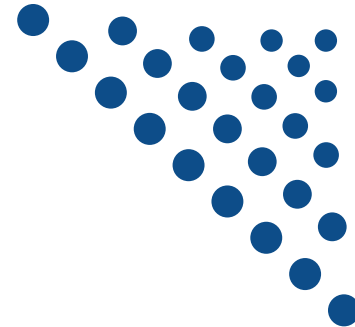
Tariffs on Solar Panels



• Who is hurt?

- Consumers
- Solar panel installers, led by Solar Energy Industry Association
 - They estimate that the 30% tariff “would cause the loss of 23,000 jobs in 2018, as well as the delay or cancellation of billions of dollars of investments in solar energy.”

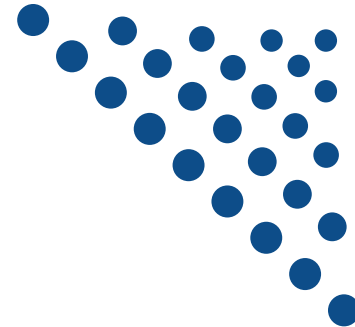
Tariffs on Washing Machines



• Why?

- From 2012 to 2016, imports increased dramatically from two Korean firms LG and Sumsung
- Anti-dumping duties failed to stop this, as production moved to Thailand and Vietnam

Tariffs on Washing Machines



- **Who benefits?**

- **Whirlpool** - requested the tariffs
 - Whirlpool brands include Amana, Maytag, & more
- **Other US manufacturers**, such as GE, Electrolux and Frigidaire (Swedish), Equator, Speed Queen
- In 2017, **Samsung and LG** announced plans to build factories in South Carolina and Tennessee

Tariffs on Washing Machines

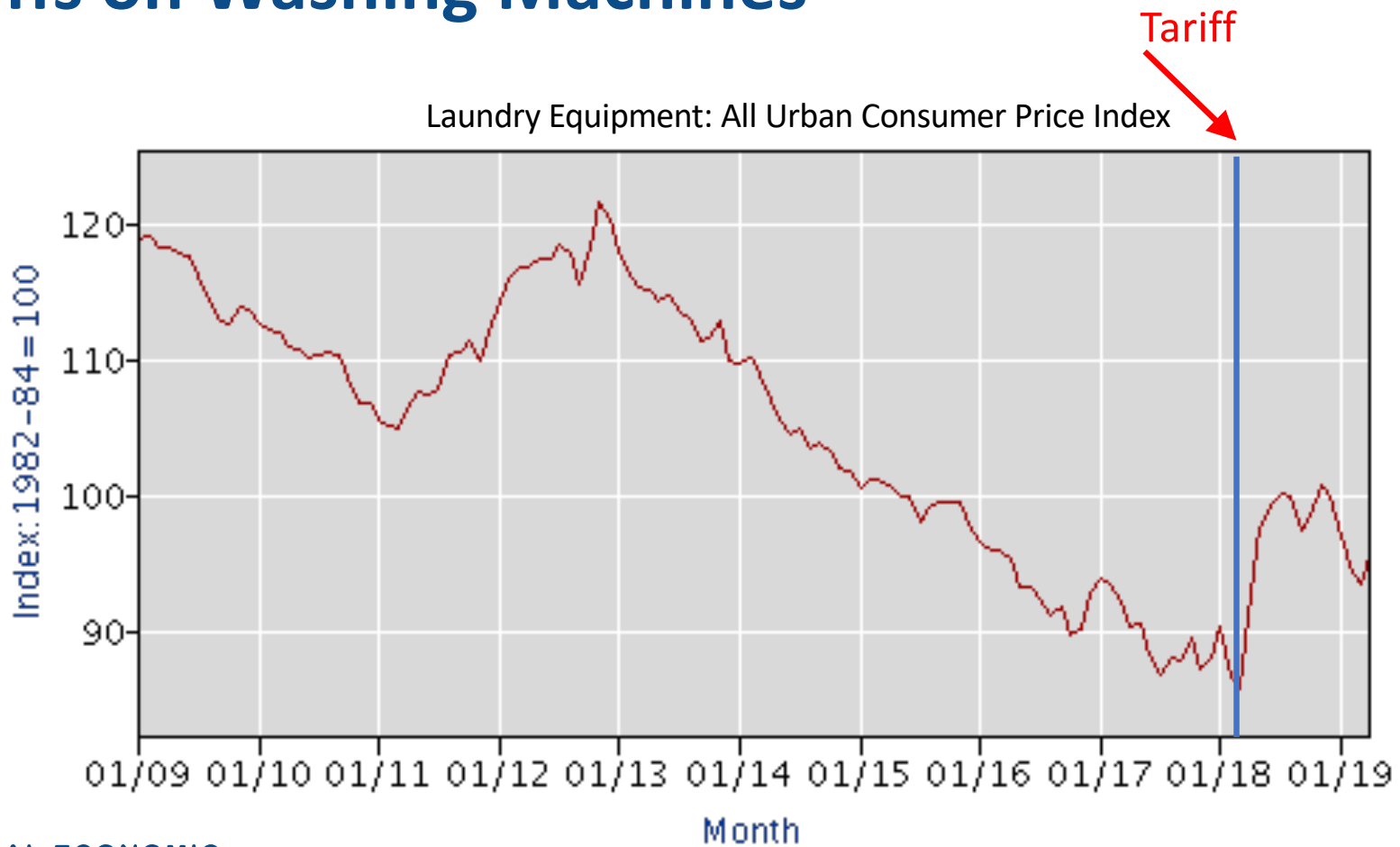
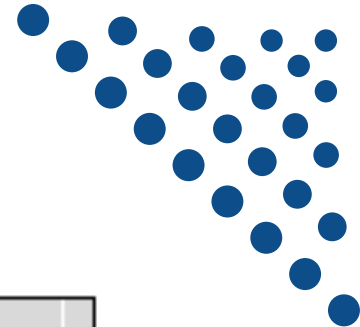


• Who is hurt?

- Consumers

- Washers (and dryers!) both increased in price by about 12% (per Flaaen et al. 2019)
 - Note that the tariff was levied on washers only, not dryers
 - "consumers bore between 125 percent and 225 percent of the costs" (NYT 4/21/19)

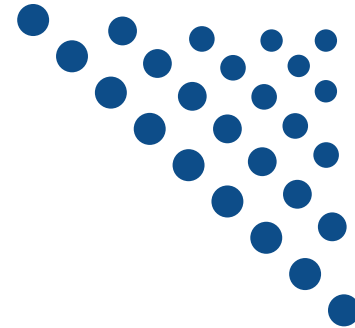
Tariffs on Washing Machines



Trump's 2018 Trade Actions

- Jan 22, 2018: Safeguard tariffs
- **Mar 1, 2018: Announces “national-security” tariffs on steel and aluminum**
 - 25% on steel, 10% on aluminum
 - Announced for all countries
 - Some delayed (EU, Canada Mexico)
 - Others later exempted (S. Korea)

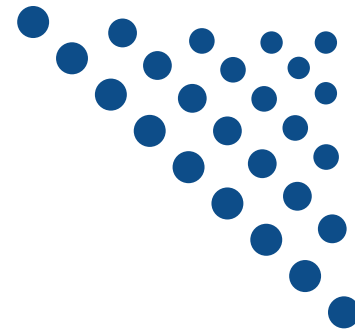
Tariffs on Steel and Aluminum



• Who benefits?

- US producers of steel and aluminum
 - Steel: AISI lists 12 producers in Michigan
 - Aluminum: Thomas lists 76 suppliers in Michigan

Tariffs on Steel and Aluminum



- **Who is hurt?**

- US users of steel and aluminum pay higher prices

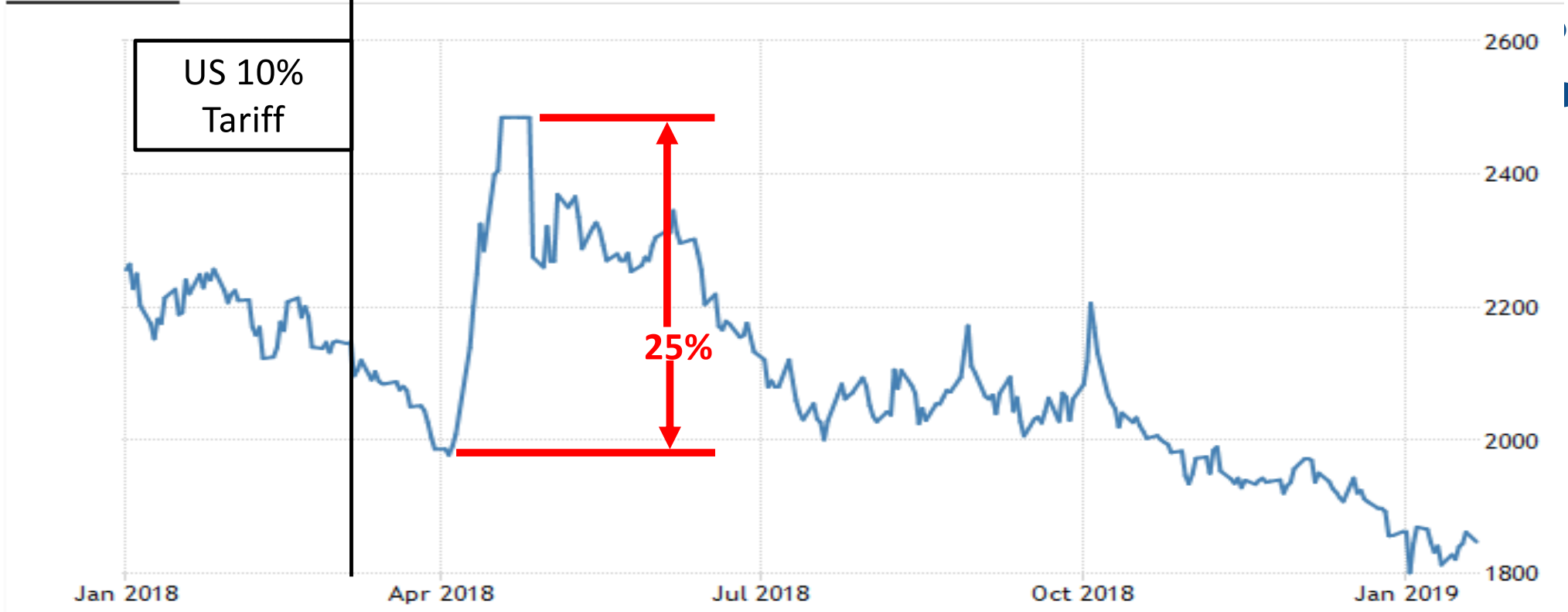
- Most obviously the **car companies** but many others



Aluminum Price

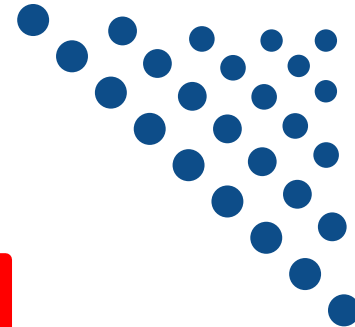
Historical Data API

US 10%
Tariff

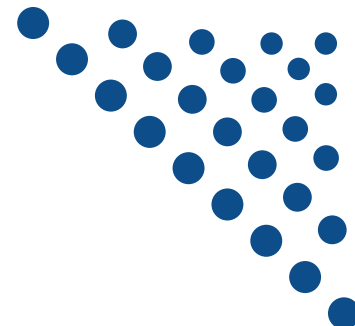


SOURCE: TRADINGECONOMICS.COM | OTC

Trump's Trade Actions



- Jan 22, 2018: Safeguard tariffs
- Mar 1, 2018: Announces tariffs on steel and aluminum
- **May 23, 2018: Initiates Commerce Dept investigation of car and car part imports**



National Security

• Cars

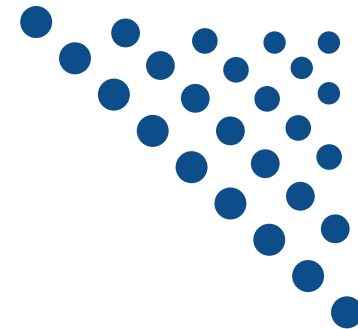
- Trump initiated another national security investigation: on imported cars
- Trump said he's considering a 25% tariff on cars and car parts
- This would be bigger than on metals:
 - Tariffs on \$48 billion of steel and aluminum imports
 - Tariffs on **\$351 billion** of car and car part imports (per NYT)

Tariff on Cars and Car Parts

• Who would benefit?

- US car companies?
 - Most (e.g., GM) are opposed
 - I can't find objection from Ford, but others list Ford among those who object
- US auto workers?
 - UAW has spoken in favor of “target measures” with with understanding that broad tariffs or quotas “could cause harm” including “mass lay-offs for American workers.”

Tariff on Cars and Car Parts



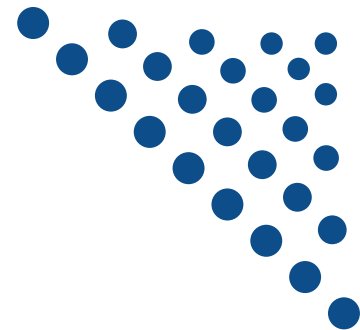
- **Who would be hurt?**

- Most car companies, including GM
- US car buyers

Tariff on Cars and Car Parts

- **Where we stand:**

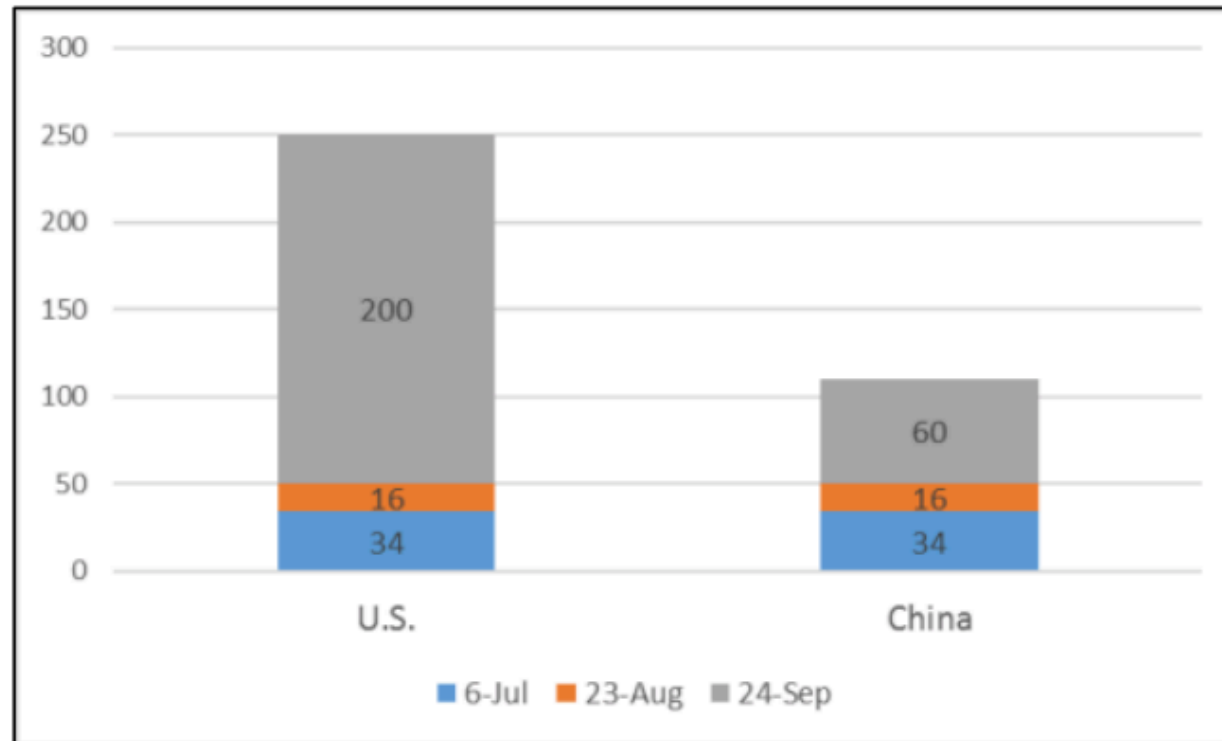
- Commerce Dept. sent report to Trump Feb 17
 - Not public, but said to include several options for tariffs
 - ***Trump has 90 days to decide***
- FT Jan 22: “president was leaning towards slapping tariffs on automotive imports, in the hope of forcing Brussels to further open the EU market to American farm products.”



China

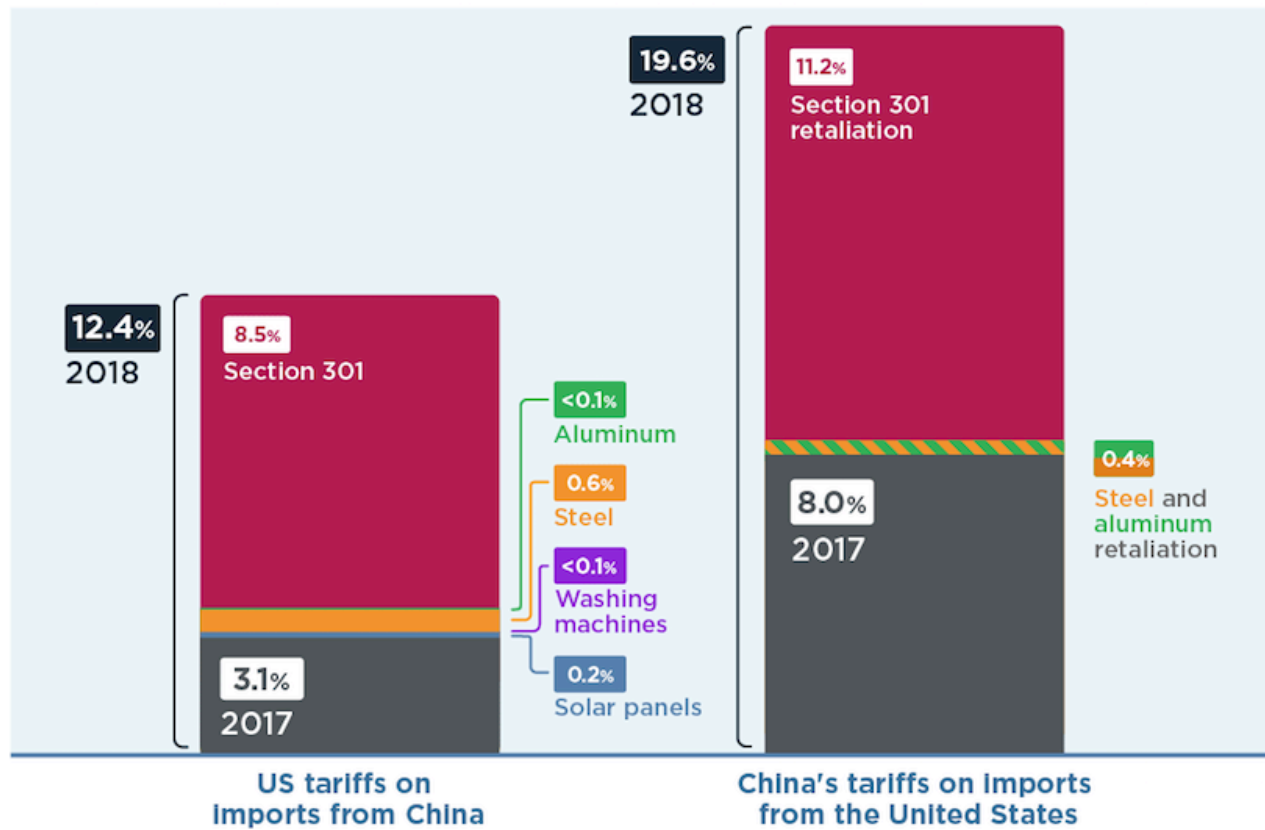
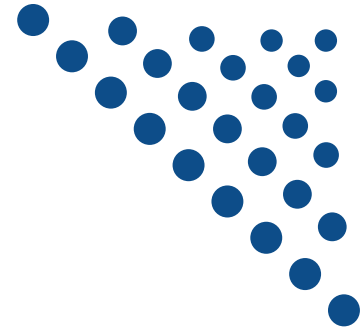
Three Rounds of Tariff Hikes in 2018

Total Products Affected (\$ in billions) and Effective Dates

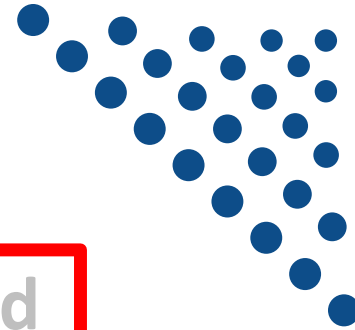


Source: USTR and Chinese Ministry of Commerce.

Average U.S. and China Tariffs: Before and After

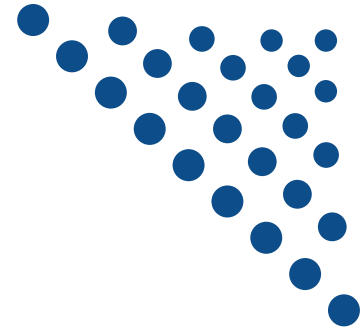


Trump's Trade Actions



- Mar 1, 2018: Announces tariffs on steel and aluminum
- May 23, 2018: Initiates Commerce Dept investigation of car and car part imports
- **Jul 6, 2018: First tariffs on China, \$34 billion**
 - On \$34 billion of China exports to US
 - Based on unfair trade practices in intellectual property (IP)

China

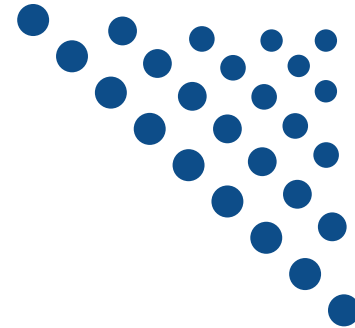


- **Concerns about China's IP practices pre-existed Trump**
 - Theft of technology secrets
 - Forcing investors in China into joint ventures and sharing technology
- **Prior to Trump, complaints had been voiced by US and EU, but nothing had been done**
- **US initiated investigation under Section 301 of US trade law (unfair trade practices)**
 - Aug 18, 2017: Investigation initiated
 - Mar 22, 2018: Report finds unfair trade and recommends tariffs
- **Since then, Trump has announced and then implemented multiple rounds of tariffs**

Trump's Trade Actions

- Mar 1, 2018: Announces tariffs on steel and aluminum
- May 23, 2018: Initiates Commerce Dept investigation of car and car part imports
- Jul 6, 2018: First tariffs on China, \$34 billion
- **Aug 23, 2018: Second tariffs on China, \$16 billion**
- **Sep 24, 2018: Third tariffs on China, \$200 billion**

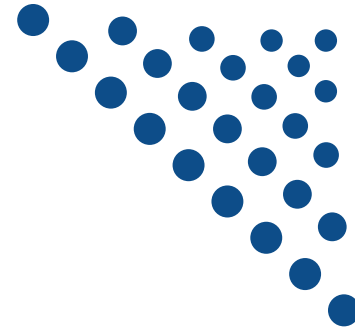
China



- **This is a “Trade War”: Tariffs and retaliation**

- US tariffs on \$34 billion Jul 6
 - matched that day by China tariffs on \$34 billion of US exports
- US tariffs on \$16 billion Aug 23
 - matched that day by China tariffs on \$16 billion of US exports
- US tariffs on \$200 billion Sep 24
 - less-than-matched by China on \$60 billion of US exports
- Trump said he’d use tariffs on still more (\$267 billion), approaching all of China’s exports to US
 - Did not do that; delayed for China-US trade talks

China

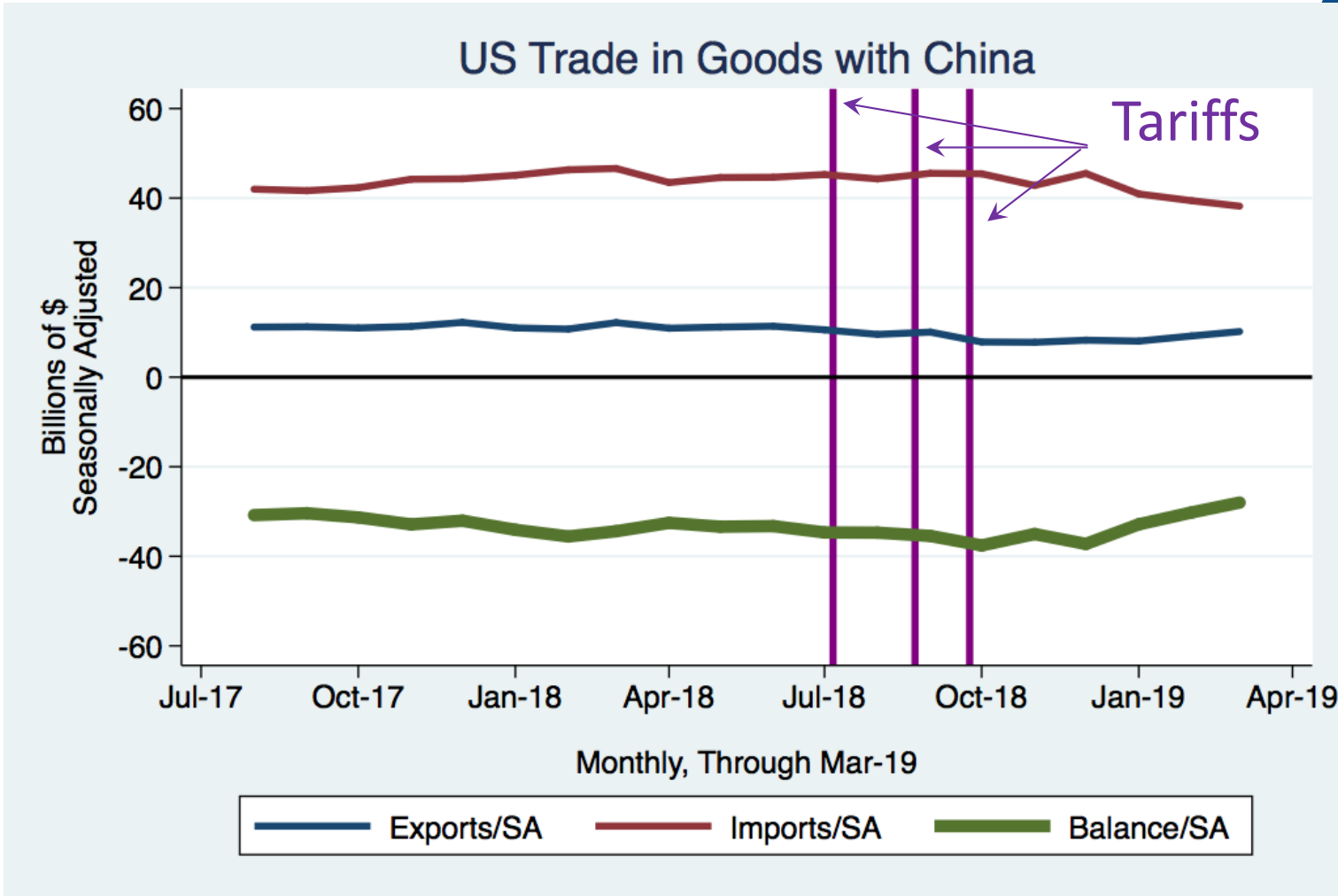


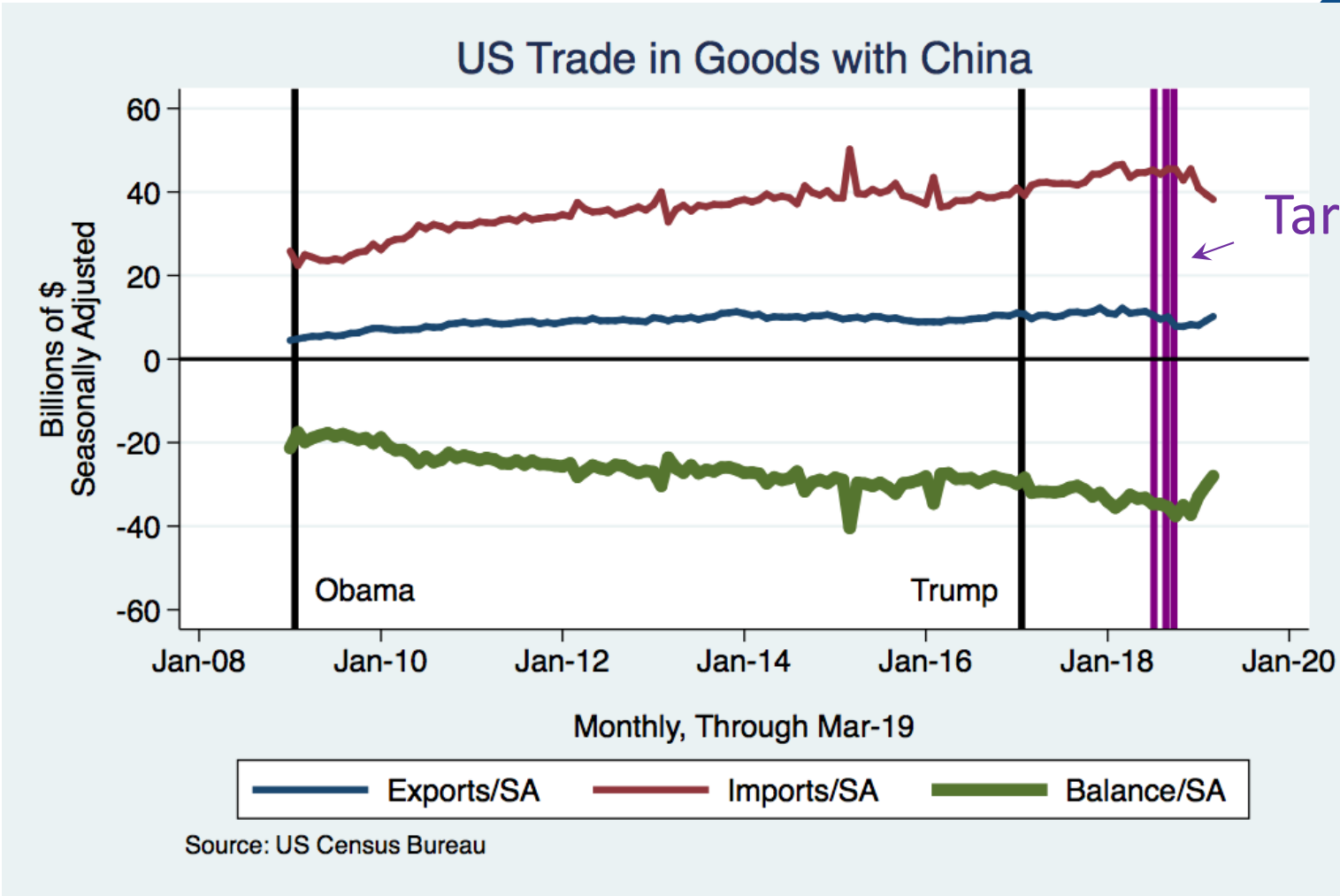
- **What's the point?**

- To get China to stop its IP practices?
- To reduce the US bilateral trade deficit with China?
- To stop China's rise as an economy and as a world power?

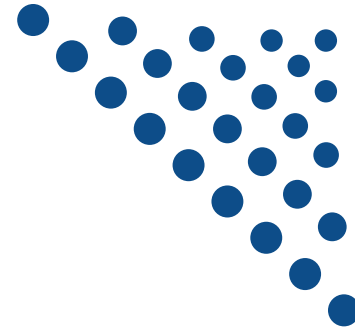
- **Who will "win"?**

- **Nobody!** Everybody loses from tariffs
- Trump says it's "easy to win" because he measures success from trade deficit





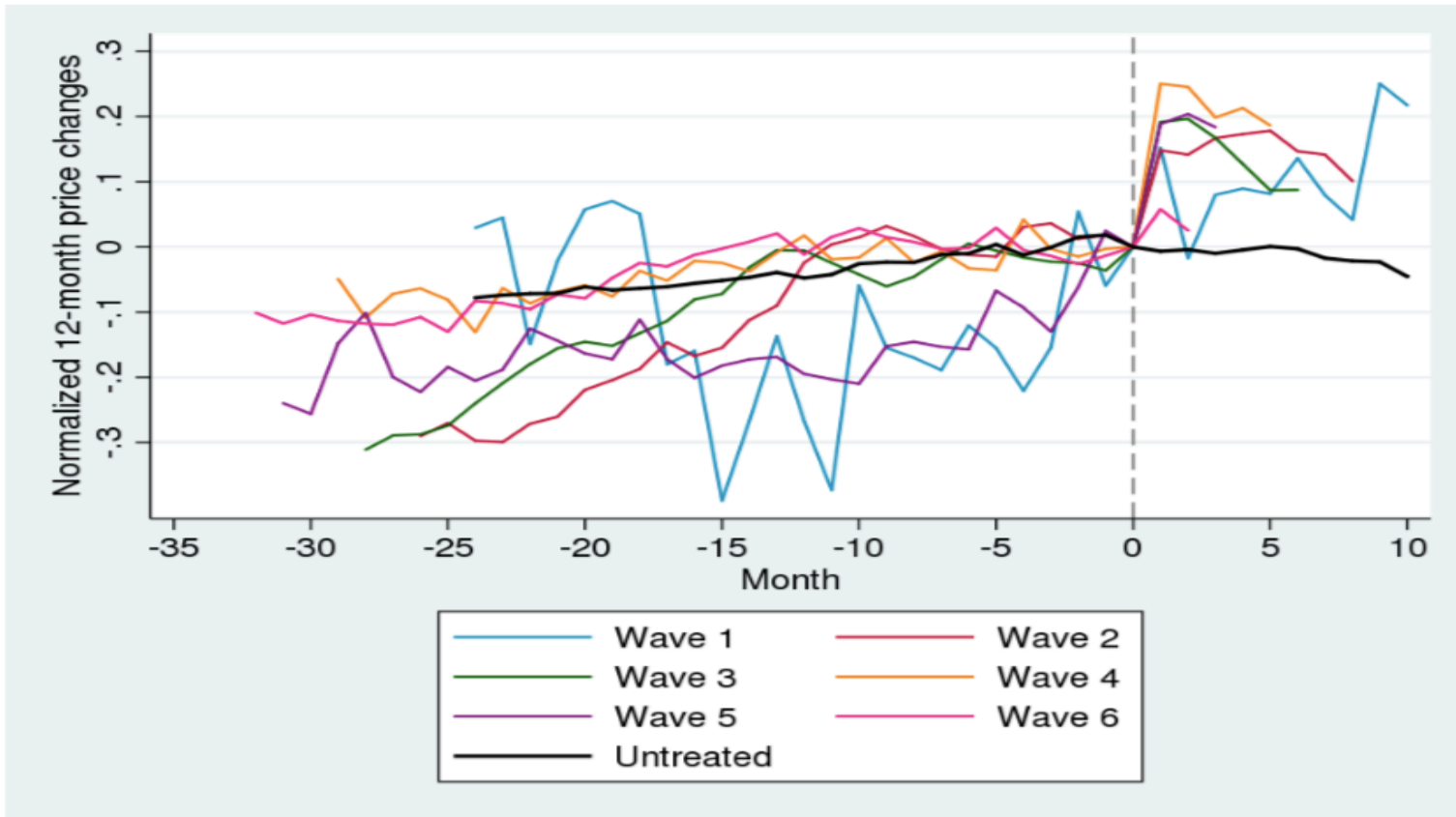
Trade War



- **Effects of the 2018 Trade War**
 - US average tariffs rose, in 6 waves
 - Prices of imports in US rose
 - Quantity of imports fell
 - Number of imported varieties fell

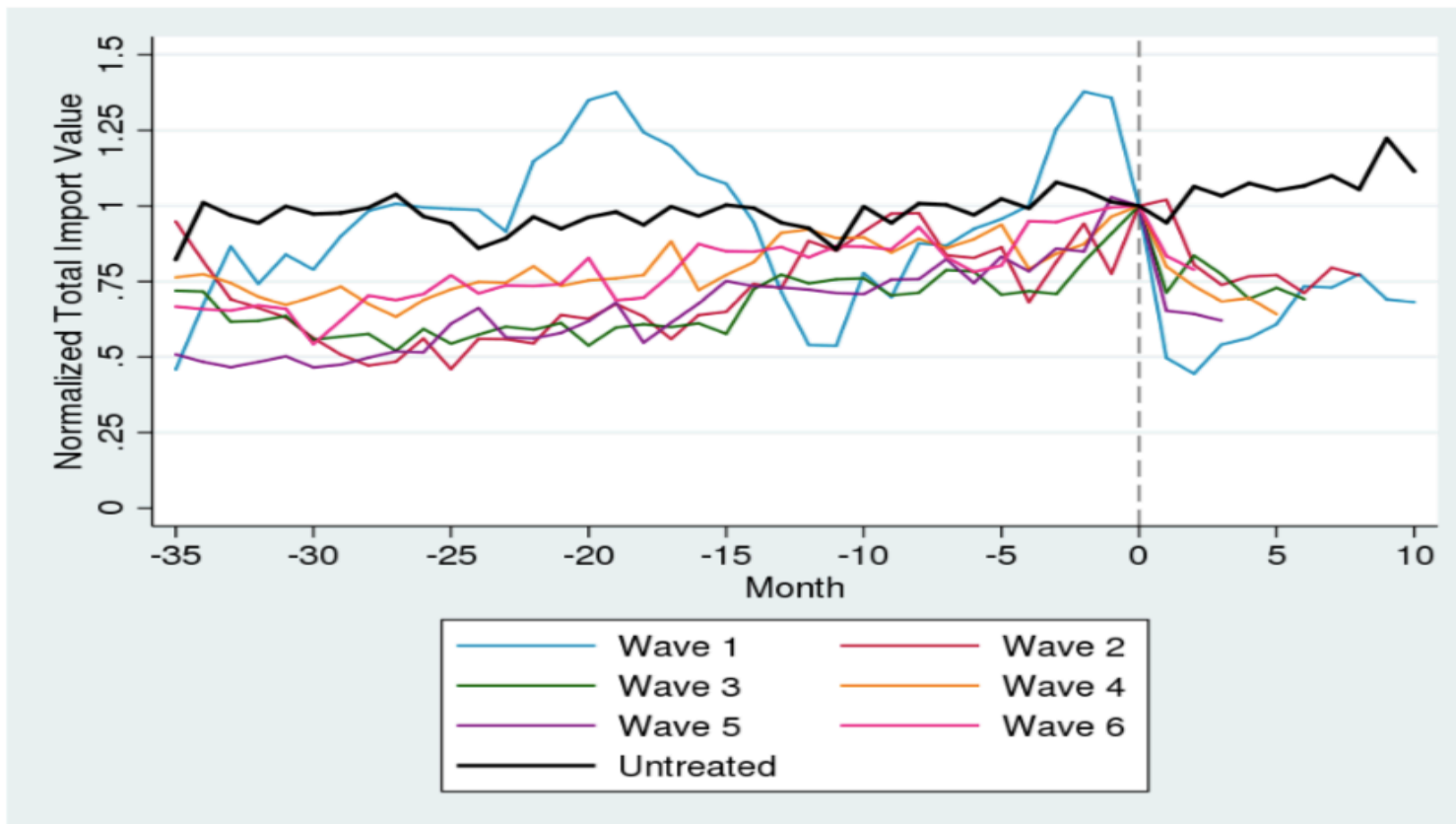
Trade War: Prices Rose

Figure 3: 12-month Proportional Change in Import Prices by Tariff Wave



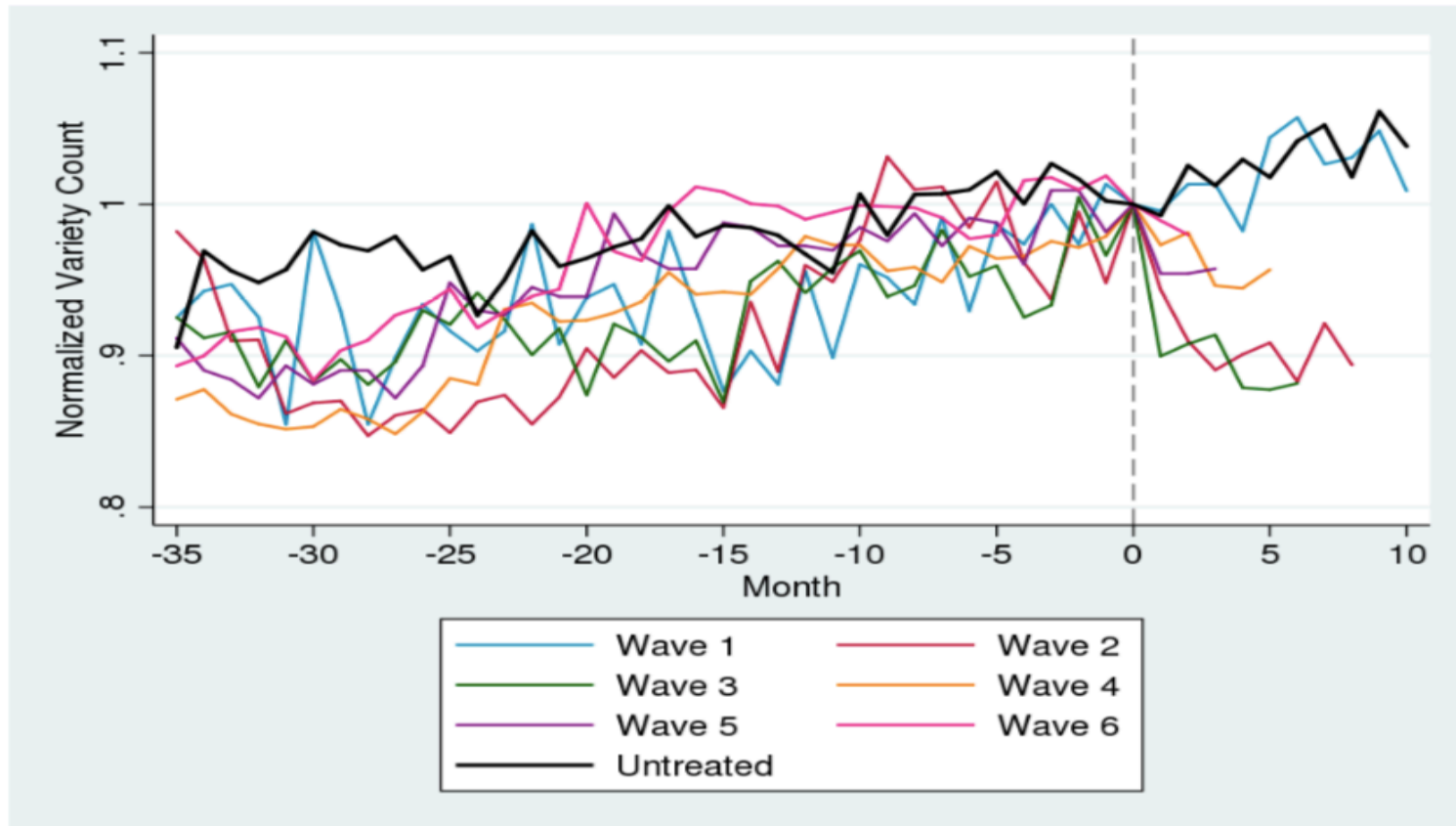
Trade War: Imports Fell

Figure 4: Total Import Values by Tariff Wave



Trade War: Imported Varieties Fell

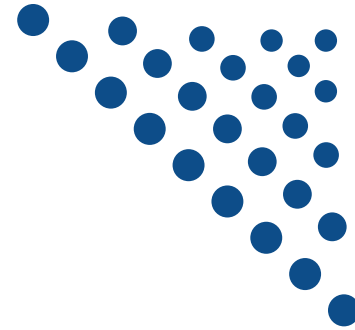
Figure 7: Number of Varieties by Tariff Wave



Trade Talks

• China-US Trade Talks, I

- Talks began in May 2018, in response to Trump's threat of tariffs
 - China promised to import more from US and allow more foreign investment
 - Said to have “averted trade war”
 - But then talks broke off in early June
- Trade war with China Jul, Aug, Sep 2018



Trade Talks

• China-US Trade Talks II

- Oct 2018: US and China postured about renewing trade talks
- Nov 1, 2018: New round of talks began with phone call from Trump to Xi
- Dec 2, 2018: G20 Summit dinner agrees truce: No more tariffs while talks continue
- Talks are still underway, but said to be approaching a deal

Trade Talks

• China-US Trade Talks II: Calendar

- Nov 9: He & Mnuchin talk by phone
- Jan 7-9: Talks in Beijing
- Jan 30-31: Talks in DC
- Feb 11-15: Talks in Beijing
- Feb 21-24: Talks in DC
- Mar 28-29: Talks in Beijing
- Apr 3-5: Talks in DC
- Apr 23-?: Talks in Beijing
- May 8-?: Talks in DC

Source:

Trade Talks

• China-US Trade Talks II: Headlines

- Nov 29, WSJ: U.S., China Exploring Deal to Ease Trade Tensions
- Dec 4, WSJ: Trump Names Lighthizer to Run U.S.-China Negotiations
- Dec 30, FT: China and US hail 'positive progress' on trade talks
- Jan 7, WP: Trade talks open in Beijing amid optimism about an end to U.S.-China dispute
- Jan 9, FT: China and US strike upbeat tone after talks but offer few details
- Jan 22, FT: US turns down China offer of preparatory trade talks
- Jan 24, FT: US commerce secretary Ross says US 'miles' from a trade deal with China
- Jan 29, WSJ: Big Divides Remain as U.S.-China Trade Talks Resume
- Jan 31, FT: Donald Trump says US-China trade talks 'going well'
- Feb 6, WSJ: Agriculture Execs Say U.S.-China Trade Deal Nearing
- Feb 13, WSJ: China, U.S. Seek Broad Outline of a Trade Pact This Week
- Feb 15, FT: US-China trade talks end with little sign of progress
- Feb 16, WSJ: Chinese, U.S. Trade Negotiators Inch Toward a Broad Agreement
- Feb 21, FT: A potential new snag in the US-China trade talks
- Feb 23, WSJ: China Trade Talks Extended as Trump Pushes to Close the Deal
- Feb 28, WSJ: U.S. Drops Threat of 25% Tariffs on Chinese Goods in Sign That Accord Is Near
- Mar 4, WSJ: U.S., China Close In on Trade Deal
- Mar 8, FT: Trump prepared to walk away from 'bad' China trade deal
- Mar 8, NYT: Chinese Officials Becoming Wary of a Quick Trade Deal
- Mar 18, NYT: Trade Fight With China Enters Overtime, With Tariffs a Costly Sticking Point
- Mar 28, FT: US-China trade talks could stretch for 'months' — Kudlow
- Apr 3, FT: US and China draw closer to final trade agreement
- Apr 4, FT: US and China push back timing of possible trade deal
- Apr 14, NYT: Mnuchin Says China Trade Talks Are Nearing Final Round
- Apr 26, NYT: Trump Says Xi Jinping of China Will Visit Soon, Stirring Anticipation of a Completed Trade Deal



Trade Talks

• China-US Trade Talks II: Headlines

- Nov 29, WSJ: U.S., China **Exploring Deal** to Ease Trade Tensions
- Dec 4, WSJ: Trump Names Lighthizer to Run U.S.-China Negotiations
- Dec 30, FT: China and US hail 'positive progress' on trade talks
- Jan 7, WP: **Trade talks open** in Beijing amid optimism about an end to U.S.-China dispute
- Jan 9, FT: China and US strike upbeat tone after talks but offer few details
- Jan 22, FT: US turns down China offer of preparatory trade talks
- Jan 24, FT: US commerce secretary Ross says **US 'miles' from a trade deal with China**
- Jan 29, WSJ: Big Divides Remain as U.S.-China Trade Talks Resume
- Jan 31, FT: Donald Trump says US-China trade talks 'going well'
- Feb 6, WSJ: Agriculture Execs Say U.S.-China **Trade Deal Nearing**
- Feb 13, WSJ: China, U.S. Seek Broad Outline of a Trade Pact This Week
- Feb 15, FT: US-China trade talks end with **little sign of progress**
- Feb 16, WSJ: Chinese, U.S. Trade Negotiators Inch Toward a Broad Agreement
- Feb 21, FT: A potential new snag in the US-China trade talks
- Feb 23, WSJ: China Trade Talks Extended as Trump Pushes to Close the Deal
- Feb 28, WSJ: U.S. Drops Threat of 25% Tariffs on Chinese Goods in Sign That **Accord Is Near**
- Mar 4, WSJ: U.S., China Close In on Trade Deal
- Mar 8, FT: Trump prepared to walk away from 'bad' China trade deal
- Mar 8, NYT: Chinese Officials Becoming Wary of a Quick Trade Deal
- Mar 18, NYT: Trade Fight With China Enters Overtime, With Tariffs a Costly Sticking Point
- Mar 28, FT: US-China **trade talks could stretch for 'months'** — Kudlow
- Apr 3, FT: US and China draw **closer to final trade agreement**
- Apr 4, FT: US and China push back timing of possible trade deal
- Apr 14, NYT: Mnuchin Says China Trade Talks Are Nearing Final Round
- Apr 26, NYT: Trump Says Xi Jinping of China Will Visit Soon, Stirring **Anticipation of a Completed Trade Deal**



Trade talks
open

Exploring deal

Accord is near

Closer to
final trade
agreement

'Miles' from
a trade deal

Talks could stretch
for 'months'

Trade deal
nearing

Little sign
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Anticipation of a completed trade deal

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- Jan 7, WP: Trade talks open in Beijing as US-China dispute deepens
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- Jan 24, FT: US says talks with China 'shows US 'miles' from a trade deal with China'
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Trade Talks

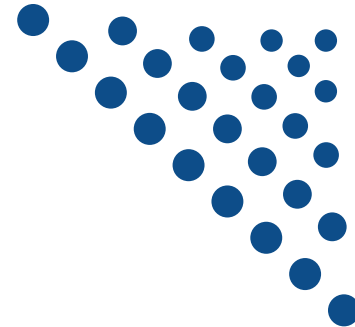
• Latest News

- On Sunday May 4, Trump tweeted that he would
 - Raise tariffs on Friday from 10% to 25% on the \$200 billion from last year
 - Impose 25% tariffs on the rest of China exports if China does not accept his demands
 - Reason: China backtracking on promise to reduce subsidies
- China is raising tariffs on \$60 billion of US exports from 10% to 20 or 25%

Trade Talks

- **China-US Trade: Issues of Negotiation**

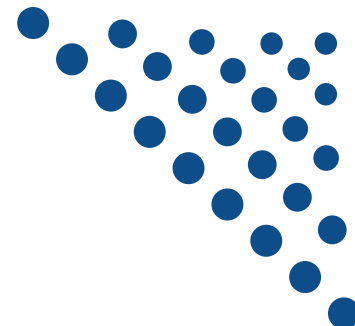
- Government subsidies to state-owned companies
- Chinese purchases of U.S. farm and energy products and services
- China's market-opening efforts in sectors such as financial services and manufacturing
- Improving its protection of U.S. intellectual-property rights
- Pressure on U.S. companies to share technology
- Industrial policies that favor state-controlled companies
- Currency stability
- Regulatory relief for foreign companies in China
- How to enforce any agreements on the above
 - Reimpose tariffs, or
 - Leave them in place



Trade Talks

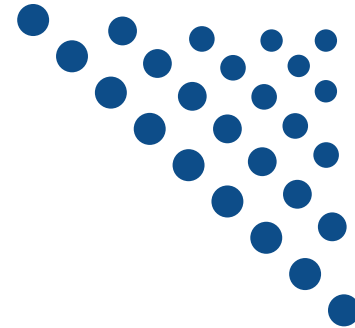
• What Might a China-US Trade Deal Include?

- US wants (per FT, 3/25/19):
 - Huge Chinese purchases of US exports, to reduce US trade deficit
 - Liberalization of market access for US goods and services
 - Reform of Chinese industrial policy, especially “forced transfers” of IP
 - US permitted to use punitive tariffs if these are violated, without China retaliating or complaining to WTO
- China wants:
 - Removal of US tariffs



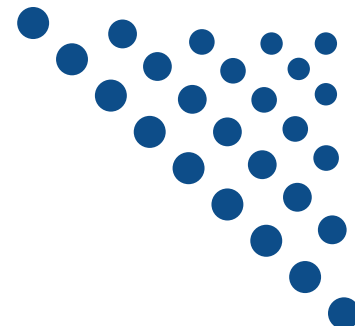
Conclusion

Conclusion



• **Trump's trade actions in 2018**

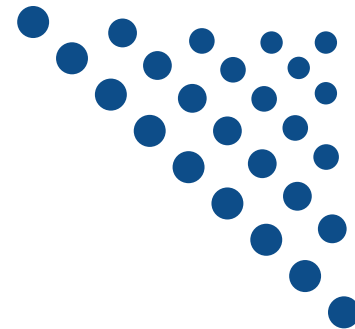
- Raise prices to consumers
- Raise costs to producers
- Alienate other countries



Conclusion

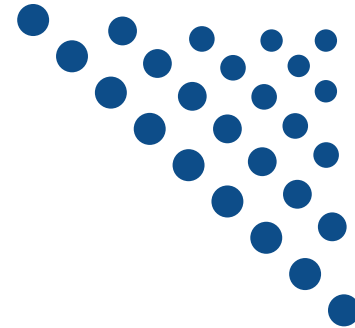
- **May they serve any purpose?**
 - Not to reduce trade deficit(s)
 - Tariffs may reduce both exports and imports
 - They do not change overall trade balance
 - Mar 6, 2019, NYT:
 - “The United States trade deficit in goods ballooned to its largest level in history, reaching \$891.3 billion in 2018, despite President Trump’s repeated promise to reduce that figure.”

Conclusion



- **May they serve any purpose?**
 - Perhaps to motivate other countries to change policies for the better
 - US is negotiating with
 - China, to change their IP policies and increase imports from US
 - EU and Japan to open to more imports of agricultural goods from US

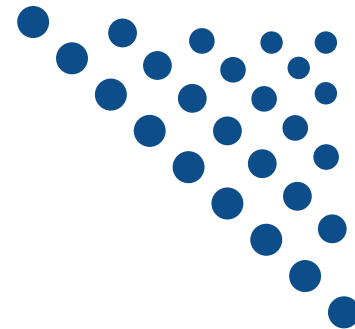
How to Think About the Trade War



- **Will it stimulate a solution to the underlying problems?**
 - Intellectual property theft
 - Trade deficit
- **Will it help low skilled workers? Those most affected by imports.**
 - Possibly, but at what cost?
- **Will it foster greater cooperation between the United States and China?**
 - Future trade agreements
 - Future trade disputes
 - Other international issues
- **What about other economic implications?**
 - uncertainty

Thank you!

Any Questions?



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