

THE BROOKINGS INSTITUTION
DOLLAR AND SENSE
Where do the Democratic candidates stand on trade?
Friday, August 2, 2019

PARTICIPANTS:

DAVID DOLLAR

Host, Dollar and Sense

Senior Fellow, Foreign Policy, Global Economy and Development

John L. Thornton China Center

The Brookings Institution

DAVID WESSEL

Director, The Hutchins Center on Fiscal and Monetary Policy

Senior Fellow, Economic Studies

The Brookings Institution

(MUSIC)

DOLLAR: Hi, I'm David Dollar, host of The Brookings trade podcast Dollar and Sense. Today, my guest is David Wessel, Director of the Hutchins Center on Fiscal and Monetary Policy here at Brookings and a long time economics editor at The Wall Street Journal before he joined Brookings. Welcome to the show.

WESSEL: Thanks. Good to be with you, David.

DOLLAR: Now, this has been an eventful week, with the Democratic debates and the Fed policy meeting on the same two days. So, I want to start by talking about one of the issues that came up in the debate last night and the night before. Some of the candidates were criticizing the president's trade policy, arguing it's bad for the U.S. economy, so let's start with that question.

WESSEL: Right, so I think it is bad for the U.S. economy in the short term. You have to admit that the U.S. economy seems to be doing pretty well. Unemployment is at around a 50-year low. And although tariffs are raising the prices of some goods, inflation is still low -- so low that the Fed worries that it can't get it higher. But obviously, manufacturing is hurting and some of that has to do with trade. Farm exports are hurting and some of that has to do with the tariffs.

But I think that as Jay Powell, the Fed chairman, put it the other day in his press conference that it seems to be -- he calls it trade policy uncertainty -- it seems to be depressing business investment. As you know, economists have long tried to figure out what drives business investment and ever since John Maynard Keynes, there's been this sense that has something to do with their mood, their optimism. And I think the president's trade policies, the uncertainty about what's going to happen with China in particular, but also with Europe and NAFTA, have depressed business sentiment. One thing that struck me was, I counted Jay Powell, the Fed chairman, used that word, trade, 26 times in his press conference as part of the explanation for why they're cutting interest rates

DOLLAR: Right, so we probably didn't hear trade 26 times in the Democratic debate.

WESSEL: I don't think we heard trade 26 times in the last 18 Fed press conferences either.

DOLLAR: So, if Trump's tariffs are hurting the U.S. economy, but obviously the Fed then lowered interest rates, lowered its benchmark interest rate to stimulate the economy. Is this just a wash? Does it matter then what the trade policy is?

WESSEL: Well, I think that it is ironic that the president has been calling on the Fed to cut interest rates and then the Fed cuts interest rates, in part to protect the economy from the damage that they think his policies are doing. So, it's a bit of an irony there. I don't think it's a wash. I think that, obviously the president has identified some key issues, ones that I know you share about how China deals with the U.S. and the rest of the world on trade. But I think that the damage he is doing -- both to the U.S. stature in the world, our relationship to our allies, the ability of big companies and small to navigate the world economy - - is going to do some lasting harm unless it clears up sometime soon. And I don't think it's going to clear up anytime soon.

DOLLAR: You know, you mentioned that we struggled to understand what really affects business investment and you know there is a school of thought that the cost of capital has been so low for so long that really doesn't seem to be an issue. So, 25 percent basis point cut in interest, probably not going to have much effect on business investment, whereas really resolving these trade conflicts and maintaining the free trade regime, that that arguably is going to have more effect.

WESSEL: Exactly, I agree with that.

DOLLAR: So, while some of the candidates in the last couple nights of debate attack President Trump's trade policy, I found it striking that Bernie Sanders sounded a lot like Trump. He railed against NAFTA and he said that trade had destroyed Detroit. Has trade destroyed Detroit and the auto industry in the U.S.?

WESSEL: Well, I don't think so. I think that it is interesting that the Democrats have a hard time coming up with a coherent view on trade. I think some of them are actually close to where the president is. They like to say they like his objectives, they don't like his tactics. I think it's interesting that one of the candidates, one of the minor candidates, Andrew Yang, constantly argues that it wasn't trade that destroyed Detroit, it was automation. And I think that the real answer is that, yes, globalization in general, trade agreements included, have hurt some workers in America. They've helped other workers and they've helped a lot of consumers. And we haven't done a very good job of helping them through the transition.

I think that, you know, we all know that where a lot of us as consumers benefited when Japanese automakers came in and forced the auto industry to get its act together and make better cars. That was bad if you happened to work for U.S. automaker, it was good if you were a consumer, and it was good if you were a Toyota or Nissan worker somewhere in the South. So yes, trade did hurt old line manufacturing industries that some of whom were inefficient and unproductive, and many of whom had very high wages thanks to their union contracts. So, we can't pretend that trade didn't hurt them. But that doesn't mean that trade was the sole cause or that we would have been better off without it.

DOLLAR: Right. And you mentioned automation, which has obviously been important in the auto sector. I would also mention that a lot of auto production is moved out of that industrial heartland to the South. So, the U.S. is still a very major producer of automotive manufacturing value added, but a lot of that now is in the nonunion South.

WESSEL: Right, so if you're in Detroit and you didn't move, you did get hurt, but the country as a whole might not have been as damaged as Detroit.

DOLLAR: Let me just mention that in our last episode, your colleague Jay Shambaugh discussed some of the specific things that can be done to help left behind areas other than pursuing a protectionist policy and that's a nice publication from Brookings.

WESSEL: Yeah, I agree. I mean, look, I think at root, I think a lot of us made a mistake and we argued that globalization was an end in itself and we acted as if globalization was good, the more of it the better, and let's just get on with it. Let's lower trade barriers, sign lots of agreements, and basically erase

national borders when it comes to trade and goods and services. And I think I think that framing was wrong. I think that's one of the things that has upset people, because after all the goal is not globalization. The goal is to raise living standards here and in countries like China, and Vietnam, and Nigeria, and South Africa, and the UK. And if globalization is sold as a means to that end, along with other things which might achieve that end, then I think we would be in a better place today than we are.

DOLLAR: Yeah, I think that's a good point. It was always predictably going to affect distribution of income. That's a basic tenet of trade theory.

WESSEL: Right, and you know, the standard line was, "well there's going to be winners and losers, we're going to compensate the losers," which I think in framing is a bit of a problem, because who wants to be told they're a loser? But in fact, we didn't do as much of that as we said. You know, they tack on a little bit of Trade Adjustment Assistance, which is very narrow and I don't think it's been a very effective program. And so, whole communities basically got hurt, especially from the China shock, and we weren't prepared to help those people or those communities and now we're paying the price.

DOLLAR: A few days before these debates, Elizabeth Warren came out with a plan on trade and it's got a lot of elements in there, a couple of things in it I like. But it was striking, I think, the key part of it is that she would not negotiate trade agreements or continue our existing trade agreements unless partners met certain standards of labor rights, environmental rights, human rights, etc., and certainly some critics have quickly pointed out that almost nobody meets these standards.

WESSEL: I think the joke was that even the United States wouldn't meet the criteria that Elizabeth Warren has set out as a precondition for trade talks.

DOLLAR: Right. So, we can't negotiate with ourselves.

WESSEL: Which is actually true. We can't. We don't seem to agree. Look, I think there are two different things here. As you point out, Elizabeth Warren and a number of others have made the point that trade agreements often are not really lowering barriers to trade or even in the interests of a large number of Americans, but have provisions that are designed to protect the particular interests of particular industries -- the pharmaceutical industry, for instance, is often singled out as one that uses these trade agreements.

And so, I think they've gotten a bad name because they're, in many cases, they're not really free trade agreements. So, there's some, as you say, there's some merit to what she says. And also it's pretty clear that if...while I don't agree with that we have to have every negotiating draft made public, if members of Congress and the public think that the only people involved in steering the U.S. Trade Representative are representatives of big companies, it's going to hurt the credibility of these trade deals and they're going to have trouble getting through Congress. So, that's a political reality.

But look, the United States going back to the 18th century, has traded with other countries with whom we have disagreements, who have different systems, sometimes odious policies. And the notion that somehow, we're only going to trade with countries that sign on to the International Labor Organization,

enforce religious freedom as defined by the State Department, are parties to the Paris Climate Agreement, eliminate all fossil fuel subsidies, and so on, will mean that we won't be able to have any trade agreements at all. And that just seems, to me, foolish. I can't even believe that she really means it. I'm sympathetic to the view that we need big, bold ideas to solve our problems, but not every big, bold idea is a good one and this is in that category.

DOLLAR: You know, I spent the first part of my World Bank career working on Vietnam from 1989 to 1995, a time when the country was in really desperate shape with hyperinflation and starvation. And there are a lot of things that went into Vietnam's reform, but free trade was really a key element of that. That's one of the main things I talked to them about in those early years of reform, is reducing their high import tariffs, becoming part of global value chains, welcoming direct foreign investment. And they literally have tens of millions of people now whose jobs are directly or indirectly tied to exports, and they've had this extraordinary poverty reduction, which is very heartening. None of that could have happened if Vietnam were not participating in the global trade system. And in the last 20 years or so, a lot of that has been U.S.-Vietnam trade.

WESSEL: I think there are two interesting points to that. One, it is remarkable for those of us your age and my age that a country, which was the scene of so much bloodshed and where there was so much animosity with the United States, is now such a good trading partner and we have to do so much business there for their benefit and ours. And the second thing is, as you well know, all this animosity towards manufacturing in China, some of it pushed by the Trump administration, has pushed a lot of it to places like Vietnam. The idea that somehow, we're going to go back to a world where we don't trade, if there ever was such a world, even back to Greek and Romans, is ridiculous. And I don't quite understand why Elizabeth Warren has taken such a strident position on this particular one.

DOLLAR: Yeah, it's really striking. On most of the other issues that are being discussed, like health care, immigration, etc., you can say that all of the Democratic candidates are to the side of President Trump. On trade, if you take these plans seriously, I would say Bernie Sanders and Elizabeth Warren are both on the more protectionist side. And then there were other candidates who spoke up and defended free trade.

WESSEL: Right. No, that's true. But you know, some of them have a hard time figuring out what to say, like one of the candidates, Congressman Ryan, was asked would he keep the steel tariffs, and he was kind of hesitant and said well, I have to re-evaluate them. I think the other thing is, as you well know, David, is that the Chinese don't have a lot of friends on the Democratic side of the aisle in Congress. And so, Chuck Schumer sounds as hostile towards China as Bob Lighthizer, and maybe not Peter Navarro, the Trump adviser. So, it is unusual to have this situation where the Democrats, who basically hate everything Trump does, do not hate everything he does on trade. They just don't like the way in which he's doing it right.

DOLLAR: So, I agree with that, there's a lot of hostility toward China. That's why I think for some of these generic issues, it's better to just put China aside and talk about Vietnam, Mexico, et cetera.

WESSEL: There was an interesting conversation in the debate about the Trans-Pacific Partnership, which was largely negotiated, as I understand it, by the Obama administration as a way to get everybody in Asia, and the Pacific countries, and Latin America to kind of be on our side and try and get some rules written so that the Chinese wouldn't be able to dominate the thing. President Trump pulled out of it. The Democrats on the left didn't like it, in part because they didn't like some provisions. But there was at least one person on the stage who said he was for the TPP and Vice President Biden said well, I'd like to change it. So, I think that that's one where you really wonder whether they have thought this through, because losing the TPP does not seem to have been an asset in dealing with China.

DOLLAR: You're right, a lot of the initial thinking was, take up some of the key issues the U.S. has with China and try to address them in that Trans-Pacific Partnership agreement. China is not a part of that negotiation, but the idea, as you said, was to create a like-minded group. And ironically, David, in the negotiations going on between the Trump administration and China, the U.S. side has pulled a lot of language from the TPP.

So, talk about state enterprises. There's a state enterprise chapter, Intellectual Property Rights Protection, investment trade and services. So, they're basically taking from the negotiated document, which we've now left, right. And trying to get China to sign up to that, and you know it's not working very well because the Chinese don't really have much incentive to sign up to that.

I noticed that on both nights, when we talked about immigration and I don't think we'll get into an immigration in a deep way, but I just want to mention that both nights there were some talk about a Marshall Plan for Honduras, El Salvador, Nicaragua, or a recognition that we have to help these countries develop, otherwise there's going to be an endless stream of desperate people trekking, making the dangerous trek to come to the United States. So, listening to that, it struck me that there is a contradiction between this move toward cutting off our trade with poor countries and then saying that we want to help them develop.

WESSEL: Yeah, I think that's a good point, David. So, of course, it makes sense if you want to encourage people to stay in Honduras or Guatemala. And you have to give them some reason to stay. And we, as a rich country, can help with that. I think the other thing is that -- this always worries me -- is that there are too many people in this trade debate that seem to lose sight of the fact that it's possible for us to prosper and other countries to prosper as well. Brad DeLong, who's an economist and economic historian at the University of California Berkeley, once wrote that I don't want Chinese, and Indian, and Mexican kids to grow up thinking it was the policy of the United States to keep them poor, so we could be rich. And I do worry that there's a little bit too much of that -- this notion that if they get jobs that were once here, that therefore we lost and they won, and then so therefore, we should punish them. I think that's really counterproductive, it's wrong, morally wrong. And it's also economically nonsensical.

DOLLAR: Yeah and I agree with that. When I hear this talk about a Marshall Plan, in the actual Marshall Plan for Europe, there was a lot of U.S. aid for infrastructure. But another key component of it was

trade liberalization. The U.S. opened up markets, and countries like Italy rebuilt, and they started exporting -- to their part nearby neighbors, of course -- but they started exporting to the United States as a group.

WESSEL: So, I think that the problem the bigger problem is that whole post World War II notion of international trade and global cooperation, economic cooperation has gotten a bit of a bad odor because it's blamed for a lot of what's gone wrong in the U.S. economy -- relatively slow growth of wages for a lot of people, the widening of inequality, the gap between winners and losers, and stuff like that. And while any number of economists can say, well, it wasn't all globalization, you know, technology played a role, or the death of unions, or regulation, or changes in social mores, and all that. People tend to always want to blame the other. And so, everything that's gone wrong in the U.S. economy for the last couple of decades, with the exception of the financial crisis, which we did completely to ourselves, is blamed on somebody else -- Mexican immigrants, Chinese, state-owned enterprises, whatever. And that's going to be hard to convince people otherwise, because that's become the public narrative.

DOLLAR: So, I think you're actually right, it's really kind of hard to walk this fine line. You know, if you try to argue that globalization has not had a big effect on the U.S., that it's automation, or it's anti-union activity...you know, personally, I think that's quite shallow, because these things are not independent. It's the pressure of globalization that's led to a lot of automation and also led to some of the production moving out of union states to non-union.

WESSEL: Absolutely. And you know, it's also, you know, my experience is that sets of economists who specialize in labor say, "it's all trade," and economists who specialize in trade say, "it's all the labor market." And I sometimes find it hard to know where you draw the line. If you're working in an industrial design firm, and because global communications are so cheap and so effective that they can move your job to an engineer in India and pay them less money, is that technology or is that globalization there? It's both.

And so, this is why I'm frustrated at the Democrats. I really think the Democrats need to say to themselves, President Trump identified some real problems and some very angry people. And if we don't like his protection -- his xenophobic, nationalistic, racist approach to this -- then Democrats had better come up with a better alternative. And I think they're struggling to do that. And I don't think they've got a coherent set of policies and they definitely don't have a narrative to explain that yes, the president has identified some big problems. China for one. And here's our alternative, which is, we think, more palatable and works better than his. I think they're struggling to come up with that message.

DOLLAR: As you said before, there were some candidates, some both nights, who defended free trade -- John Delaney pretty passionately, Joe Biden waffled a little bit, but talking about renegotiating Trans-Pacific Partnership. I think the implication is that we would get back into that. So, my last question for you, David, is I think you and I can agree -- you know, this is good policy and I like the way you just expressed it. Is it good politics? I mean are we likely to get a Democratic candidate who embraces trade to some extent, and perhaps in the nuanced way you talked about? Is this a winning strategy, or is it, in fact, a winning strategy to go with protection?

WESSEL: That's a tough question. It's pretty clear that the Democratic primary voters are to the left, and I think that they will want somebody who sounds like they're going to be tough on trade. You know, it used to be that candidates would say like, "I'm for free trade but I'm from fair trade." And I think that's become a hollow slogan.

I think it's going to be a hard sell, politically. I think that candidates that will do best are people who have some vision for making life better for working Americans and that it won't be all about trade. That's why questions about health care, or wages, or paid family leave are important because if you say...if you get up there and say, as I think a successful leader does, "you're right. We have some problems. I understand your pain. I don't deny your pain. I have a plan that will make life better for you and your kids." I think those people have a better time convincing voters that having what you and I would consider rational trade policies is one part of that portfolio, but I don't think we're there yet.

DOLLAR: I've noticed that in some of the opinion surveys, you know, registered Democrats still tend to be pretty free trade even if you ask, a question like, in Michigan they asked, do you think tariffs on imported autos would be good for the Michigan economy and a pretty large plurality of people said no.

WESSEL: Yeah, I never quite know what to make about these polls on this question. There's a couple of others like that. You know, I love the polls that say, "everybody says we ought to do something about the national debt, as long as it doesn't involve raising taxes or cutting spending." So, I think another way of saying it, is you know, if there was a little label on everything at Wal-Mart and Target that was imported and it said, "President Trump tariffs cost you 15 cents or a \$1.05 on this thing," people would respond differently. So, I don't think people are -- I don't think my judgment without...you know, I haven't done this kind of scientific survey -- is that most Americans are not hostile towards doing business with other countries, but they do think other countries have taken advantage of us.

And it's really easy to convince someone who lost their job and the production has moved overseas, that there was a causal relationship there. And if we hadn't had this trade treaty or these lowered barriers to moving money across borders, that they would still have a job. I think those people will always be susceptible to the argument that it was someone else's fault. And I think some Americans like the fact that the president has gotten tough with China. I think there are a lot of people who you and I know who think that probably the time had come for the U.S. to get tough. But what they worry about is he -- first of all, he didn't recruit our allies to join him. I think most Americans understand that the big threat to the American economy is not Canadian steel mills. And secondly, if there is some strategy and not just a series of impulsive moves, it's not obvious to me and I have a feeling it's not obvious to the Chinese. And that leads us to a bad place.

DOLLAR: So, I've been talking to David Wessel, my colleague from the Brookings Institution, about the debates within the Democratic Party about trade policy and how to differentiate from President Trump while being realistic that trade has definitely hurt some workers, some communities. And the issue of how

to deal with China is definitely not a simple issue, it's one we've taken up in quite a few podcasts. I'm sure we'll come back to it again. So, thank you very much David.

WESSEL: You're welcome.

DOLLAR: Thank you all for listening. We'll be releasing new episodes of Dollar and Sense every other week. So, if you haven't already, make sure to subscribe on Apple Podcasts or wherever else you get your podcasts, and stay tuned.

Dollar & Sense is a part of the Brookings Podcast Network. It wouldn't be possible without the support of Shawn Dhar, Anna Newby, Fred Dews, Chris McKenna, Gaston Reboredo, Brennan Hoban, Camilo Ramirez, Emily Horne, and many more.

If you like the show, please make sure to rate it and leave us a review. Send any questions or episode suggestions to bcp@brookings.edu. And until next time, I'm David Dollar and this has been Dollar and Sense.