Season 23

Debating the 2022-2023 NCFCA Policy Resolution

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Resolved: The United States Federal Government should significantly reform its import and/or export policy within the bounds of international trade

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NCFCA 2022-2023 Policy Resolution

Resolved: The United States Federal Government should significantly reform its import and/or export policy within the bounds of international trade

This year's resolution calls our attention to policies regarding imports and exports in the U.S. economy – in other words, foreign trade. It's an incredibly broad resolution, and it will require a lot of reading and research for you to be able to intelligently debate it.

What are imports and exports?

Imports and exports are goods and services that are bought and sold by people across national borders. The country in which the product is produced is exporting and the country where the buyers are located is importing. Imports into and exports out of the United States define our foreign trade.

Note carefully the first sentence above, where I specified "goods and services." When we think of products crossing borders in trade, we often think of cars, steel, wheat, or other physical commodities. But don't forget that services can be exported and imported as well. For example, software services can be imported into the United States by firms that "outsource" some of their information technology work. The increasing globalization of work via the internet has created many new ways in which services can be imported that were unknown even a decade ago.

What is trade?

Trade is "the business of buying and selling or bartering commodities."[1] When it is performed in the normal course of events as a voluntary transaction[2], economists describe it as a mutually beneficial exchange in which both parties engage because they each believe they will be better off giving up what they have in order to receive what the other party is offering.

You have probably done this many times without thinking about it. If you want a cup of coffee at a high-end store, you give up $5 in exchange for the large cup of coffee because you believe your happiness or satisfaction would be better if you had the coffee rather than the $5. The store voluntarily gives up to you the cup of coffee because the store owner believes he would be better off having $5 than having the coffee beans and hot water.

The possibility of trade allows for great increases in human prosperity and well-being that would not otherwise occur if each person, family, or village had to produce itself all of the things it consumed. Part of what made the "Dark Ages" dark after the collapse of the Roman Empire in the West was the loss of trade opportunities that vanished when Roman transportation systems and routes were no longer maintained or became difficult to navigate due to political conflict. Individuals are limited in their lifetime capacity to learn technological or craft skills. Regions are limited by the specific resources that exist locally. Thus, without trade, a region can only produce the limited quantity and diversity of things that are within the skills of the local residents using the natural resources available only in that region. Without extensive trade, most of the things we rely on for our daily lives would not be available, and our lifestyles would of necessity revert to subsistence agriculture and basic handicrafts, like in the Middle Ages.

Who is trade?

News articles, pundits, and even economists when speaking in generalities, often talk of trade as if it were conducted between national governments or entire nations. For example: "Australia trades raw minerals to Japan for large amounts of earnings, while Japan trades technology such as televisions, computers and cars."[3]

But does the government of Australia collect up raw materials, send them to the government of Japan in Tokyo, and then the government of Japan in exchange sends a boat load of cars to Australia? Not at all. In this example, the raw materials would be produced by mining companies run by private individuals and probably owned by stockholders. A raw material company (let's say a producer of iron ore), negotiates by letter, on the phone, or on the internet,

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[1] Merriam-Webster. http://www.merriam-webster.com/dictionary/trade
[2] Examples of non-voluntary exchanges would be things like slavery, extortion, theft, or blackmail, which are not voluntary and, as a result, not mutually beneficial.
[3] https://en.wikipedia.org/wiki/Australia%E2%80%93Japan_relations

with a private company in Japan that wants to use iron in its manufacturing process. They agree on a price and the Australian iron producer then contracts with a shipping company to transport the iron to Japan, while the Japanese company sends the funds through a bank for currency conversion, and ultimately into the bank account of the Australian iron producer. Ultimately, in this example, the end purchasers of the imported iron are the Japanese consumers who buy the manufactured products containing the iron. It could also be used by Japanese businesses that use the iron in their manufacturing and then sell the finished product somewhere else. In that case the Australian iron would be imported (into Japan) and exported (out of Japan) after being modified. This question of "what happens to it after it is imported" is a very important one that is often overlooked in policy debates, and we will return to it later.

And in reverse, the Japanese cars are manufactured in response to demand from Australian consumers who go to the dealers' showrooms and ask to buy a Honda or a Toyota. In response to their demand, those private Japanese companies' manufacturers make the cars and ship them to Australia, where they go on sale, and individuals buy them. Trade is thus, ultimately, a set of transactions between individuals and corporations, not a decision made by any legislature or government[4]. The sum total of all of these private decisions can be aggregated into general statements or statistics about "Japan's trade" or "Australia's trade."

This leads to a possible analysis of trade, not as a government decision, but as a personal freedom and a human right. If my property is truly and legally mine, normal notions of ownership and human rights would indicate I have the right to trade my property to anyone else in exchange for any property they legally own. And the fact that they live on the other side of a border, rationally, should play no role at all in the moral calculus of my exercise of that right. If it's mine, I have the right to trade it with whomever I want to, and who has the moral right to stop me? Or the right to tell me I may trade with this person (on this side of the border), but not with that person (on the other side of the border)? This view of trade as a human right based on the right to own property calls into question all legal restrictions on international trade as a possible violation of human rights. Governments don't view it that way, but some philosophers do.[5]

Governments normally like to control their borders in order to maintain control of who and what go in or out, for all the usual reasons of national security and national sovereignty. Some of the controls are on items considered contraband, like narcotics, weapons, radioactive nuclear

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[4] With two exceptions: 1) when a government itself is purchasing a product, like military equipment, for government usage; 2) when the business entity is owned by the government but functioning in the market like a private business (like Amtrak or the Postal Service in the U.S. or State Owned Enterprises in China)

[5] James A. Dorn. "The fundamental right to be left alone to pursue one's happiness is inseparable from the rights to private property and free trade. If Congress is to uphold the Constitution, then the right to use one's property and to trade it for mutual gain needs to be given the same priority as the rights to free speech and association." http://www.cato.org/cato-handbook-policymakers/cato-handbook-congress-policy-recommendations-105th-congress-1997/trade-0

materials, etc., and it's not hard to imagine why governments would want to tightly control cross-border movements involving trade in such things.

But assuming we're not discussing exceptionally dangerous or illegal items, what sort of restrictions do governments place on cross-border trade? The most traditional one is a "tariff," or simply a tax on the product as it crosses the border and enters the country as an import. Article I Section 9 of the US Constitution prohibits taxation of exports of any kind.[6]

Why trade?

I mentioned above the drastic cut in our daily standards of living if we did not trade with outside cities, states, regions or countries. The finite quantities of resources and skills humans and nature possess are not equally distributed around the globe. For example, the geography and cultural history of Switzerland make that country a successful exporter of watches, while the geography and history of Kansas make it a huge exporter of wheat. Rather than expecting some of the farmers in Kansas to abandon their wheat fields and try to learn how to make watches, it makes more sense for them to do what Kansas does best (grow wheat) and trade with the Swiss for the product Switzerland does best (watches). And vice versa: The cold mountains of Switzerland aren't a likely place to plant wheat fields. It would be an inefficient waste of resources to have some watchmakers abandon their trade in favor of farming so that Switzerland could be "self sufficient" in both wheat and watches.

Economist David Ricardo (1817) explained this principle of mutually beneficial trade based on specialization of skills and resources using the term "Comparative Advantage." In the example above, it seems intuitively obvious that the Swiss should make watches and Kansas should grow wheat. To delve deeper into "why" that's so, we need to explore the economic principle of "opportunity cost."

Everything we do and everything we buy comes at the "cost" of not doing or not buying everything else we could have done or bought with those same resources of time and money. If you have $10 in your wallet and you spend it on a movie ticket, you gain the satisfaction of seeing the movie, but you forego the fast food meal or the boxes of donuts or anything else you could have bought with those 10 dollars. In the Kansas/Switzerland example above, we might map it like this:

Assume Kansas and Switzerland each have 100 workers available. Assume further that:
One Kansas worker can produce either 100 units of wheat or 5 watches.
One Swiss worker can produce either 100 watches or 10 units of wheat.

[6] This doesn't, however, prevent Congress from simply banning something from being exported, which it often has done.

Kansas has a comparative advantage in wheat. Switzerland has a comparative advantage in watches, even though the ratios (100 / 5 vs. 100 / 10) are not the same.

In Kansas, if all labor were directed to producing wheat, 10,000 units of wheat would be produced. If all Kansas labor went to watches, 500 watches would be produced. The opportunity cost for a Kansas worker to produce 1 watch is they forego 20 units of wheat. The opportunity cost for a Kansas worker to produce 1 unit of wheat is losing 1/20 of a watch.

In Switzerland, if all labor were directed to producing watches, they would produce 10,000 watches. If all labor were directed to producing wheat, they would produce 1000 units of wheat. The opportunity cost for a Swiss worker to produce 1 watch is they forego 1/10 of a unit of wheat. The opportunity cost for a Swiss worker to produce 1 unit of wheat is they lose 10 watches.

Comparative Advantage theory concludes that Kansas would benefit from (and therefore would accept, if offered) a trade of 1 watch from Switzerland for up to 20 units of wheat (because at 20, they are no better off – they could make the watch themselves at that price).

We also would conclude that Switzerland would benefit from (and therefore would accept, if offered) a trade of 1 unit of wheat for up to 10 watches (because at 10, they are no better off – they could produce wheat themselves at that price).

Revenue Tariffs

After the American Revolution, the new United States government used import tariffs as a source of revenue to fund the annual budget of the federal government. In 1795 tariffs provided 95% of all federal revenues and continued to be a substantial percentage of the federal budget until the income tax as we know it today was enacted in 1913. In FY[7](Fiscal Year) 2018, the federal government collected about $40 billion in tariff revenue, which amounted to about 1.2% of total federal revenues that year.[8] Nobody today considers tariffs a viable way to raise significant revenue for the US government.

Protectionist Tariffs

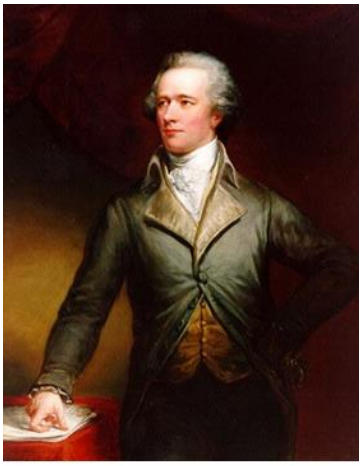
In addition to raising revenues, some of the Founders (e.g. Alexander Hamilton) and many others since (e.g. Donald Trump, Bernie Sanders) have advocated for high import tariffs for the purpose

[7] The federal government's "Fiscal Year" is the calendar period used for budget purposes, and does not coincide with the January/December calendar year. Whenever you see "FY" or "fiscal year," followed by some number, it means the year that ended on 30 September of that number year. In this example, "Fiscal Year 2018" is the year from 1 October 2017 to 30 September 2018.

[8] https://www.csis.org/analysis/can-we-really-pay-down-national-debt-tariffs#:~:text=Just%20%2440.437%20billion%20of%20that,major%20source%20of%20government%20revenue.

of protecting American industries from overseas competition. Hamilton's argument was that because America was a new, underdeveloped country whose "infant industries" had not had time to reach maturity and competitiveness, they needed to be "protected" for a while by high tariffs.

"Protectionism," or the use of high tariffs as a barrier to foreign competition with domestic industries, is quite simple: Tariffs raise the price of imported goods, making them more expensive compared to domestically-produced items. Consumers thus are more likely to purchase the (artificially) cheaper domestic item, thus growing and "protecting" the industrial base and employment in domestic industry.



"Hence the undertakers of a new manufacture have to contend not only with the natural disadvantages of a new undertaking, but with the gratuities and remunerations which other governments bestow. To be enabled to contend with success, it is evident, that the interference and aid of their own government are indispensable."
- Alexander Hamilton 1791

And other industries who are not "infants" might also want such protection. Industries that have fallen on hard times (think US automakers in the 1970s and '80s) sometimes lobby their governments for higher tariffs on foreign competitors, in the belief that blocking the competition will give them time to regroup and become more competitive. Or, at the very least, preserve what jobs and market share remain and not lose any more.

Another justification for a protectionist trade policy (sometimes involving other tools besides tariffs), at least in certain industries, is national security. The U.S. military is the most advanced technologically capable military in the world, but its capabilities depend on the availability of certain raw material inputs and manufacturing facilities. If companies that produce, for example, advanced jet aircraft are vulnerable to foreign competition and in danger of ending their production in this country, it might be in the federal government's best interest to intervene in the markets to assure their continued domestic existence. American political and military leaders might consider it an unacceptable risk to national security to have key defense technologies depend on imports from abroad.

The downsides to protectionism are several. First, the "infant industries," never having to compete squarely against others in the market, may never "grow up." They will always have some reason why the protection must continue indefinitely. And mature industries that ask for protection often do so because it is easier than fixing the issues that made them uncompetitive in the first place. Why spend millions of dollars on more efficient equipment when you can just ask Congress to block the competition?

And let's not forget who is paying for this protection: The consumers. Remember them? They are the millions of folks whose pockets are being picked by the artificially higher prices they are forced to pay due to the imposition of the tariff. Protectionist tariffs are in some ways a transfer of wealth from millions of consumers to a few domestic producers.

As noted above, Alexander Hamilton was a key advocate for a protectionist import tariff policy, and he persuaded Pres. George Washington to sign legislation imposing such tariffs. A generation later, Pres. John Quincy Adams would also sign similar legislation. It was not a coincidence that Hamilton (from New York) and Adams (from Massachusetts) were from states which, along with other northern states, had manufacturing interests that benefited from being "protected" from competition with European manufacturers. Southern states and their leaders, like Thomas Jefferson among the Founders and Andrew Jackson a generation later, opposed high tariffs. Such tariffs made consumer goods more expensive for consumers in states like theirs that were importing them, where they had little or no manufacturing industries of their own to be "protected." For them, the tariffs were all cost and no benefit.

Tariffs were reduced during the presidencies of Jackson and his political protégé Pres. James Polk, in accordance with their priority of concern for the consumers over the manufacturers. But the Civil War (1861-1865) created a need for massive new federal revenues. President Abraham Lincoln and the new Republican Party (whose base of support was in the industrialized North) had Congress raise high tariffs to pay the debts created by the war. And, as long as tariffs were going to be high anyway, they used them as public policy to protect US industries from foreign competition after the war. The country remained sharply divided between the merits of free(er) trade and protection of industry in the late 1800's. Republicans generally favored tariffs, while Democrats opposed them. The rapid industrial growth in the US economy during the "Gilded Age" between the Civil War and the turn of the 20th century occurred with many American industries largely protected behind high tariffs.

Rep. Willis Hawley and Sen. Reed Smoot, 1929

The passage of the 16th Amendment, which enabled the federal government to impose an income tax starting in 1913, came during the presidency of Democrat Woodrow Wilson. The increased revenue from the income tax reduced some of the political support for tariffs, and lower tariffs prevailed, for a while.

The pendulum swung back again sharply with the arrival of the most well-known "protective" tariff in US history - the infamous "Smoot-Hawley" tariff of 1930. Enacted as the Great Depression was wiping out jobs and businesses all across America, its goal was to raise tariffs high enough to discourage imports, thus redirecting consumer demand to American goods and preserving jobs. Many historians, however, believe it worsened the Depression because of its easily predictable side-effect: foreign retaliation. Other nations quickly reacted to Smoot-Hawley by enacting high tariffs of their own, so American jobs in export industries evaporated quickly.

After World War 2 ended in 1945, the tide shifted again, back to freer trade.

"With Democrats now enjoying a commanding position in American politics, tariff rates began a steady decline that would last for decades. The free-trade consensus became clear. The General Agreement on Tariffs and Trade (GATT) was established in 1947 to reduce trade barriers and promote unfettered trade among capitalist nations."[9]

Then along came the economic downturns characterized by high inflation and high unemployment in the 1970s and early 1980s. Numerous US industries were struggling, and blocking foreign competition once again seemed a viable way to stop the bleeding.

When the economy recovered in the mid-1980s, and the free market philosophy of Pres. Ronald Reagan became the spirit of the age, support for freer trade and lower tariffs began crossing party lines. The Republican Party of Reagan and his successor, Pres. George H.W. Bush, and the Democratic Party of Pres. Bill Clinton both began advocating and carrying out free trade policies whenever they were in power.

"Meanwhile, the impetus for free-trade agreements grew, leading to Reagan's Canada-U.S. Free Trade Agreement of 1987 and to President Bill Clinton's far more momentous North American Free Trade Agreement of 1994, called NAFTA."[10]

GATT was replaced in 1995 by the World Trade Organization. WTO membership entitles countries to favorable, low-tariff trade with other WTO members under the condition that they extend the same trade privileges to all other WTO members. It was a further step in the direction of a global consensus that trade policies should move away from protectionism and towards freer trade.

Most recently, the Donald Trump administration swung the pendulum back again, taking the Republican Party back to its 19th century roots as the party of high tariffs and protection of US industries, especially directing his wrath against what he viewed as "unfair" competition from China. It remains to be seen where the administration of Pres. Joe Biden and a sharply divided Congress will go on these issues.

Level Playing Field

Another reason for tariffs in some industries might be to offset subsidies given by foreign governments to their own exporting industries. For example, if a foreign government provides its car exporters with a 10% subsidy, they can sell the car 10% cheaper in the United States than an equally competitive American company could sell it for. One could argue in that case that a 10% tariff is only "leveling the playing field," and isn't violating any genuine principle of competition. (See the Hamilton quote above, where, in addition to "new manufacture," a.k.a.

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[9] Robert W. Merry 2016. "America's History of Protectionism" https://nationalinterest.org/feature/americas-history-protectionism-18093?page=0%2C2
[10] Merry 2016.

infant industries, he was also concerned about the "gratuities and remunerations which other governments bestow.")

When a government subsidizes its domestic industry to the point that it can export goods abroad for less than the fair market value, and in some cases less than it costs to produce them, this practice is known as "dumping." Why would a government incur such a cost and encourage a business to sell its product for less than it cost to make it? Normally it would be done as a short-term tactic to gain market share and drive foreign competitors out of business in their own domestic market. Later, when the higher priced competitors are out of business, the dumping government will end the subsidy and its industry will be able to dramatically raise prices and collect monopoly profits, having cornered the market.

Factory in Yutian, China. How much would Chinese goods cost if their factories had to follow the same environmental rules as U.S. factories? http://www.boredpanda.com/pollution-china/

Some would argue that this is nothing to worry about. After all, if, say, China wants to subsidize some product and send it to America at below its market price, that's a gift of free money from Chinese taxpayers to American consumers. Wouldn't we be crazy to turn down free money?

Another "level playing field" concern is the possibility of unfair competition of US manufacturers against products produced in countries that have little or no labor safety standards, no environmental rules, etc. If an American industry must spend extra money to treat its pollution and avoid discharging it into the environment, while a similar factory in China can pollute the air and water without restriction, it seems obvious that the Chinese and the American manufacturers are not competing on a level playing field.

Could a tariff be justified in order to raise the price of imported goods up to the point where its price is judged to be equal to the same good produced under the same conditions domestically? Or a tariff exactly equal to the foreign government subsidy? Who is qualified or knowledgeable enough to know all the variables that would go into such a calculation? Would the harm to consumers from higher prices be enough to offset the benefits, if any, of the tariff? What to do about potential "playing field" discrepancies is a topic that you will likely debate this year.

Retaliation

As the Smoot-Hawley example above illustrated, sometimes countries that have low tariffs will on an exceptional basis raise a high tariff on some specific good or on all goods from some specific country in retaliation for the target country's bad behavior. The World Trade Organization (WTO, about which more later) has a dispute mechanism that allows a country to retaliate with high tariffs against a trade partner who is using tariffs or other mechanisms to tilt the playing field in their favor.

Some argue that the concept of trade "retaliation" is logically absurd. The analogy goes like this: If a foreign country dumps rocks in its harbor (doesn't allow ships to come in), in what way would it benefit us to dump rocks in our own harbor as retaliation?

Non-Tariff Barriers: Quotas

Other means exist besides tariffs to influence the quantity of foreign goods entering the domestic market and competing with domestically-produced items. These "non-tariff barriers" can be done officially and openly through transparent legislation (e.g. quotas), or through more subtle means as we will discuss below.

One form of quotas (an "absolute quota") is simply a numerical limit on the number of items allowed to be imported in a given year. There is no special tariff applied, but once the limit is reached, then no more imports of that item will be accepted. Since they don't raise any revenue for the government, they are typically applied only for protectionist purposes of limiting competition from foreign manufacturers.

US Customs & Border Protection inspecting imported flowers

Another type of quota establishes a normal tariff for everything imported under the quota, then a higher tariff for all the goods beyond the quota. By restricting the quantity of foreign goods entering the domestic market, they have a similar effect as tariffs: raising the price of the imported good and thus making domestic competitors more attractive in the marketplace.

Non-Tariff Barriers: Regulations

Tariffs are the easy and obvious trade barrier most commonly applied and are the easiest to detect and bargain over in trade negotiations. Countries often bargain away their high tariffs in exchange for their trade partner doing the same, and then wish they still had some way to block those pesky imports that keep trying to compete with their own domestic industries. Countries may resort to unexpected heights of creativity to find excuses for why some imported product cannot be allowed into the country, despite their trade agreement's clear text allowing it. Other times, the regulation may be something understandable within the context of national culture, but having the effect of blocking other nations from being able to send products in that would meet their standards.

A good example: Japanese sanitary regulations on imports of fresh cut flowers. The Japanese government set up a rigorous safety and sanitary inspection that took 11 days for them to get through customs inspection (by contrast, the same flowers would take only 5 days to get through US customs). Of course, by that time the flowers would have deteriorated and been of such low

quality that they could not be sold.[11] While not advertised as an explicit barrier to imports, it certainly had the effect of artificially boosting domestic Japanese flower producers by imposing a non-tariff barrier to competing imports.

Trade Sanctions

Raising a tariff might be the mildest form of sanction for some mildly undesirable behavior on the part of a trading partner. For more egregious misbehavior, trade sanctions can take harsher forms.

For example, Congress imposed a ban on export of certain items to the People's Republic of China after its brutal crackdown on pro-democracy protestors at Tiananmen Square in 1989. The U.S. has extensive trade sanctions against import and export trade with Iran, attempting to punish that country for its nuclear program many believe is intended to produce an atomic bomb. Similar sanctions exist against trade with North Korea, also because of its nuclear weapons program. The U.S. still maintains trade sanctions against Cuba that were imposed by Pres. Kennedy in the early 1960's after the island nation's communist revolution and confiscation of private property owned by Americans. And most recently, the U.S., along with many other nations, has imposed drastic trade sanctions on Russia due to the invasion of Ukraine.

North Korea has been under heavy trade sanctions for decades, without any change in its policies.

There has been much debate over the years as to whether trade sanctions are an effective means of influencing a foreign country to comply with our desired policy. Some say sanctions can be successful in some cases, and point to the lifting of the racist apartheid policy in South Africa in the early 1990's after many years of sanctions damaged the economy and international reputation of the white minority government. Others argue that sanctions only harm the common people who lose their jobs or can't get consumer goods needed for daily survival, while the rulers live comfortably and are not personally affected. They may even harden the resolve of the target state by giving the rulers a foreign entity to blame for any economic troubles they experience, thus uniting the suffering people against the common enemy. Many believe this is what has happened in Cuba and Iran.

[11] Lan Liu and Chengyan Yue. http://ageconsearch.umn.edu/bitstream/50087/2/LiuYue.pdf

Export Controls

In addition to obvious military equipment like guns and rockets, the US imposes export restrictions on things that could theoretically be used in a military context even if that is not their intended or immediate use. A good example is the recent federal action to block export to China of a U.S. supercomputer.[12] So-called "dual use" items, goods that have a legitimate industrial or consumer use but could also help a foreign enemy increase its military capability, are restricted by Export Controls. Companies who produce certain high-tech items have to get exports of those items reviewed by the federal government before they can be exported to certain countries (e.g. China).

Some believe export controls are an effective way to prevent enemies or potential enemies (and you can debate whether China is either of those) from developing advanced weapons that could ultimately be pointed back at American troops someday. Others say that export controls are mostly useless because anyone could obtain pretty much equivalent technology off the shelf at Best Buy, or from some European or Japanese competitor. Meanwhile, American businesses lose jobs and money as foreign suppliers replace them on world markets.

Arms Exports

The US is the number one world dealer in military equipment, accounting for 39% of all arms exports worldwide.[13] Some arms exports are merely "approved" by the federal government (known as "Direct Commercial Sales" or DCS), where a foreign country spends its own money on American made military equipment and the manufacturer gets a license to export it. Others are not only approved but financed and paid for by the US government ("Foreign Military Sales" or FMS) as a form of military aid.

[12] Wall Street Journal http://www.wsj.com/articles/u-s-agencies-block-technology-exports-for-supercomputer-in-china-1428561987

[13] William Hartung, March 2022, FORBES. https://www.forbes.com/sites/williamhartung/2022/03/18/were-1-the-us-government-is-the-worlds-largest-arms-dealer/?sh=48d6bea35bb9

During the Cold War era (1946-1989) the US and the Soviet Union both competed on the world stage for influence and allies in a great ideological struggle. Both liberally salted and peppered the globe with weapons exports that were designed to strengthen allies, buy the friendship of potential allies, or aid a combatant fighting one side in a local war against forces supported by the other. After the collapse of the Soviet Union and communism in Europe, the US and Russia continued to export arms, although not to maintain an ideological struggle. The same motivations of buying influence and friends continued, as well as the fact that weapons manufacturing is an industry providing a lot of good paying jobs.

Concerns about the need to uphold human rights as a consideration or a screening criterion in our arms exports ebb and flow from time to time. Pres. John F. Kennedy in his inaugural address in 1961 promised a foreign policy that would "support any friend, oppose any foe." Pres. Jimmy Carter (in office 1977-1981) found some of those friends we were supporting were a bit (or a lot) unsavory and not at all upholding the values of liberty we were supposed to be defending. He announced a policy of raising human rights as a major consideration in our arms exports and our foreign policy and alliances in general. He soon found that geopolitical realities often conflicted with good intentions. Pres. Ronald Reagan moved the pendulum back to supporting any friend with arms exports that would shove back against the insidious influence of the "Evil Empire" of communism abroad.

Let every nation know, whether it wishes us well or ill, that we shall pay any price, bear any burden, meet any hardship, support any friend, oppose any foe to assure the survival and the success of liberty.
- John F. Kennedy
Inaugural Address Jan 20, 1961

That tension is still unresolved in our foreign policy today. There are laws on the books that require certain standards of human rights as a prerequisite to approving arms sales. But they often contain loopholes that allow the President to make exceptions if he says it's in the national security interest of the U.S. And he almost always does, regardless of political party and regardless of the track record of the target country. On paper, human rights are a clear policy consideration in our choice of countries to which we export arms. In practice, not so much.

Some arms exports are uncontroversial, such as sales to countries like Australia or Great Britain. But others (e.g. Saudi Arabia, Egypt, Israel, Philippines) bring controversy and will likely appear in some of your debates this year. Arms exports can buy influence, build alliances with countries the U.S. “needs” (to what extent and for what?), or promote stability for a country under threat by outside forces. But they may also be used in harmful ways, such as oppression of their own population or invading neighboring countries. They might signal US support for a governmental regime we probably shouldn't be endorsing, if it has a terrible track record on human rights. Or, they may simply be a poor country's waste of money on hardware designed to bring prestige to generals without actually adding any security benefits – while the money squandered on them could have been used to feed the poor or treat the sick.

The World Trade Organization

The World Trade Organization, or WTO, was established in 1995 and currently consists of 164 nations.[14] Countries must agree to follow its rules in order to join, and its rules are generally designed to reduce barriers to trade, although WTO adjusts its rules in many cases to take into account special circumstances of lesser developed countries.[15]

WTO also has dispute resolution mechanisms, where a country that believes it has been the victim of a trade practice in violation of WTO rules can call out the offending nation and demand it stop its bad practice. If the WTO panel agrees, the offender must change its trade policy, "or else." The "or else" can include authorization by WTO for the victimized trade partner to impose retaliatory tariffs on goods exported by the offender.[16] For example, in January 2022, a WTO panel awarded China the right to impose additional tariffs on $645 million in US products coming into their country as a penalty against what were determined to be unjustified US tariffs that had been imposed on certain Chinese products such as paper, tires and solar panels.[17]

Affirmative teams can fiat that Congress does some trade policy even if it violates WTO rules. Negative teams cannot argue that the changes won't happen – the WTO doesn't override the sovereignty of Congress and the President over American trade law. However, if an Affirmative does enact a plan that the Negative team can prove would run afoul of the WTO, Negative can argue that the disadvantages of breaking WTO rules, and therefore inviting foreign trade retaliation, would outweigh the benefits of whatever the Affirmative is doing. In the example above, the U.S. federal government could change its trade policy to remove the tariffs that WTO says are unjustified, and settle the matter; or, it could ignore the ruling and allow the Chinese retaliatory tariffs to continue as well as our own "unfair" ones.

Keep in mind that the overall policies of the WTO are governed through negotiations among all the member nations. The U.S. federal government (and thus, Affirmative debaters) cannot simply fiat that WTO does things differently.

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[14] https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm. You can find the WTO member list at this website.
[15] https://www.wto.org/english/thewto_e/whatis_e/what_stand_for_e.htm
[16] https://www.wto.org/english/thewto_e/whatis_e/tif_e/disp1_e.htm
[17] https://www.voanews.com/a/wto-china-can-place-duties-on-645-million-in-us-imports/6413917.html

Generalized Systems of Preferences (GSP)

"Trade preferences for developing countries have been granted by most industrialized countries (ICs) since the early 1970s. … These unilateral[18] trade preferences have become known as the Generalized System of Preferences (GSP). GSP allows developed countries (ICs) to apply different tariffs between different categories of trading partners (e.g. developing (DCs) and least developed countries (LDCs)) without violating Article I of the GATT which requires non-discriminatory and equal (most favoured nations (MFN)) treatment of trading partners.
…Whereas general GSP preferences are open to most developing countries, these schemes typically have more generous subschemes exclusively for LDCs. These LDC schemes have been introduced since the early 2000s as a response to the call on developed countries to provide duty and quota free access to LDCs. In addition to general GSP preferences and LDC preferences, many developed countries also provide preferences to other groups of developing countries, either within the GSP or as separate schemes.
…The United States (USA) system also works through different schemes in addition to the general GSP scheme and its LDC sub-scheme: The African Growth and Opportunity Act (AGOA), the Caribbean Basin Trade Partnership Act (CBTPA) and the Andean Trade Preferences Act, which includes Bolivia, Colombia, Ecuador and Peru. Duty-free access is excluded for oil, certain textiles and apparel and some leather products under the overall USA-GSP including the LDC sub-scheme. Under AGOA, footwear, luggage, handbags, watches and flatware can be exported duty-free to the US since December 2000 subject to specific certification on rules of origins. Textiles can be exported duty-free but not quota free to the United States."[19]

"Balance of Trade" and "Trade Deficits"

These are some terms you will hear frequently and you need to understand them well in order to debate effectively this year. "Balance of trade" refers to the sum of a nation's exports compared to its imports. If a nation exports more than it imports, its balance of trade is described as a "trade surplus." If it imports more than it exports, it is said to have a "trade deficit."

Don't confuse a "trade deficit" with the "federal deficit." The "trade deficit" is the difference between all the individual decisions of consumers and producers in the market place who are buying and selling, importing and exporting, when the import total exceeds the export total. It's the result of millions of private economic choices made by individuals and corporations. No one decides or votes on what the trade deficit will be. By contrast, the "federal deficit" is the difference between how much money the federal government takes in, compared to how much more than that it spends. The excess government spending above revenue collection is the federal deficit. It's the result of a political decision made by Congress voting how high taxes will be and voting how much they will spend in the federal budget. The sum total of all the federal deficits accumulated since George Washington is the national debt.

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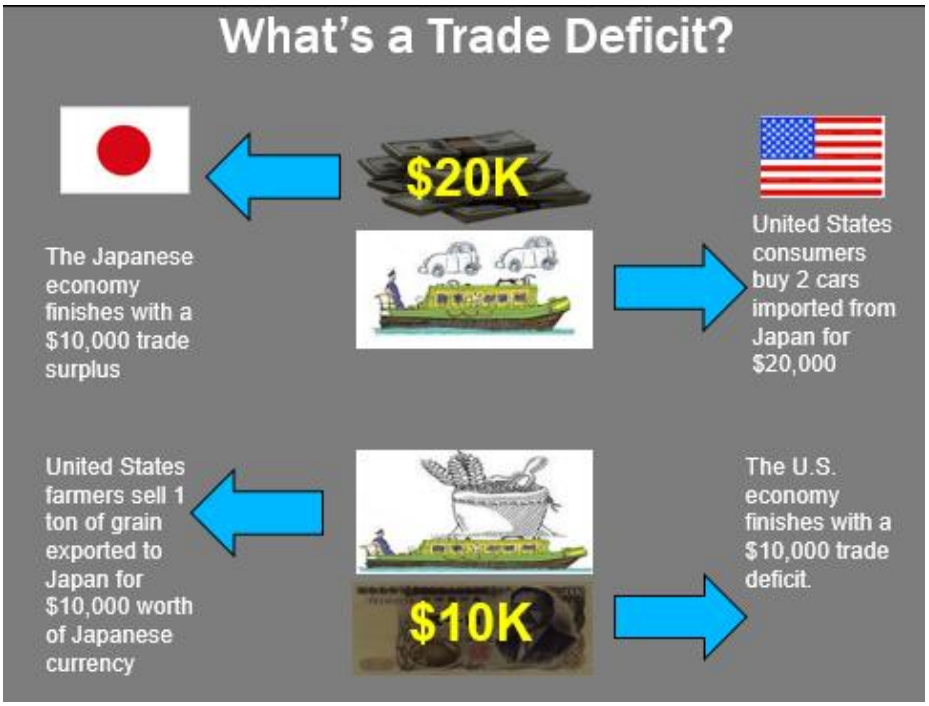
[18] Unilateral = Only one country takes action. In this case, the US grants better (freer, lower tariff) trade to the poor country when exporting to us, but the poor country does not have to lower barriers on our exports to them.
[19] Stephan Klasen, Inmaculada Martínez-Zarzoso, Felicitas Nowak-Lehmann & Matthias Bruckner 2016. "Trade Preferences for Least Developed Countries. Are they Effective? Preliminary Econometric Evidence" (ellipses added) https://www.un.org/en/development/desa/policy/cdp/cdp_news_archive/2016_Member_Trade_Preferences_Klasen.pdf

To further understand the trade deficit, consider the simplified model below, in which there are only two products being traded between the US and Japan, cars and grain.



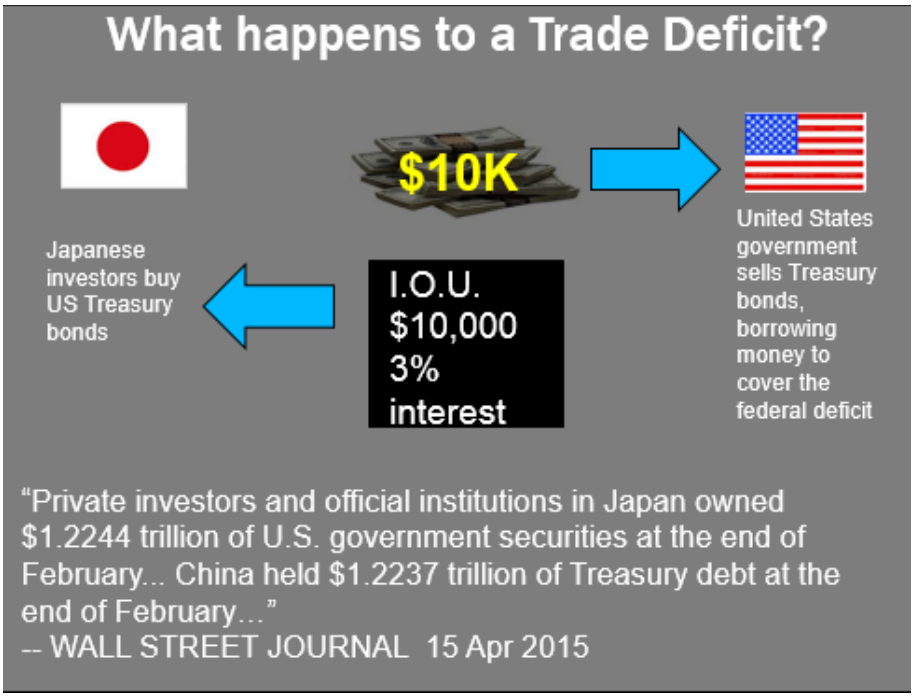
At this point, we would say the US has a $10,000 trade deficit with Japan, while Japan has a $10,000 trade surplus. Is that good or bad for either Japan or the US? If consumers in both countries equally got exactly what they bargained for, is there a problem here to be solved?

Many economists would say, Yes! The problem is that the Japanese economy has benefited at the expense of the US economy because of the relatively more jobs created in Japan by the $20,000 spent on their cars, compared to only $10,000 that was spent in the US economy. To simplify the model, assume that every $10,000 spent in the economy requires 1 employee to produce the goods. In the picture above, 2 jobs were created in Japan (at the car factory) by this trade, and 1 job was created in America (at the farm).

Imagine what would have happened instead if American consumers had spent just half their money on American cars instead of Japanese cars (in this example, they could have bought 1 Japanese car and 1 American car). There would have been no trade deficit, and the result would have been that half the jobs created in the Japanese automotive industry would have been created in the US automotive industry instead. In this illustration, it appears that our $10,000 trade deficit has cost the US 1 job. In the alternative, imagine if the Japanese consumers had bought $10,000 worth of grain plus some other product made in the U.S., let's say a $10,000 airplane. That other purchase would have used up the surplus, created a job in the US, and balanced things out. Why didn't the Japanese consumers do that? Was it because they couldn't find anything in the US

worth buying? Or was it because the Japanese government and industry put up barriers to the importation of American products into Japan?

Not so fast, reply another batch of economists. Maybe we've stopped the scenario too soon, because we haven't yet considered what happens next. Since US dollars are not legal currency in Japan, what do they do with the $10,000 in trade surplus cash? They can't spend it in Japan, so instead they must spend it somewhere that takes US dollars. While there are some international places to spend it that would do so[20], the most logical place where most of that money will end up is in the United States. And, indeed, it does, at the chart below shows.



In this case, another word for a "trade deficit" is a "capital surplus." The US is receiving more capital from other countries than it is exporting away. "Capital" means money invested rather than spent on goods to be consumed. That foreign capital may be buying bonds, stocks, real estate, or other assets in this country.

Interesting, reply the first economists, but that doesn't mean the problem is solved. First, not all the money comes back, since some of it is held in foreign banks as reserve currency (used as a medium of trade between other nations trading among themselves and pricing their exchange in

[20] Oil, for example, is priced on international markets in dollars, so a Japanese customer could buy oil from Saudi Arabia with those dollars. In addition, a few countries like Panama and El Salvador use the US dollar as their currency. The Japanese could also take it to the bank and trade it for yen. But in that case (or in the case of the Saudi oil trade), the bank (or the Saudis) will spend or invest it in the US, under this theory.

dollars). Second, dollars coming back in Treasury bonds are not the same as dollars coming back to buy airplanes or grain. These dollars aren't creating jobs by employing anyone to manufacture anything.

Certainly they are, reply the second economists. The federal government immediately spends those deficit dollars in the US economy by paying the salaries of government employees and military servicemen, sending out Social Security checks to retirees, buying fighter jets and naval ships from defense contractors, and sending food stamps to the poor. All of that money goes directly into the US economy, and it must be creating jobs somewhere. And imagine if those Japanese investors stopped buying US bonds. The government would have to offer higher interest rates to attract other investors, and if interest rates go up, it will slow down job creation in the US economy by making business growth harder to finance.

Well, this will go on and on, but you see the point. There is a lot of debate about whether trade deficits are harmful, irrelevant, or even beneficial. Learn all sides of this issue, because I'm sure you will get to debate it many times this year.

Currency Valuations

Because of their complexity, we left currency conversion issues out of the charts above. Let's deal with them now. As you surely know, foreign trade often involves trade between countries who ordinarily don't use the same currency. One of the reasons many countries in Europe decided to form their single common currency, the euro, was to speed up foreign trade among European trade partners. And the costs avoided, and predictability improved, by eliminating currency conversions among European traders have, indeed, proven beneficial.[21]

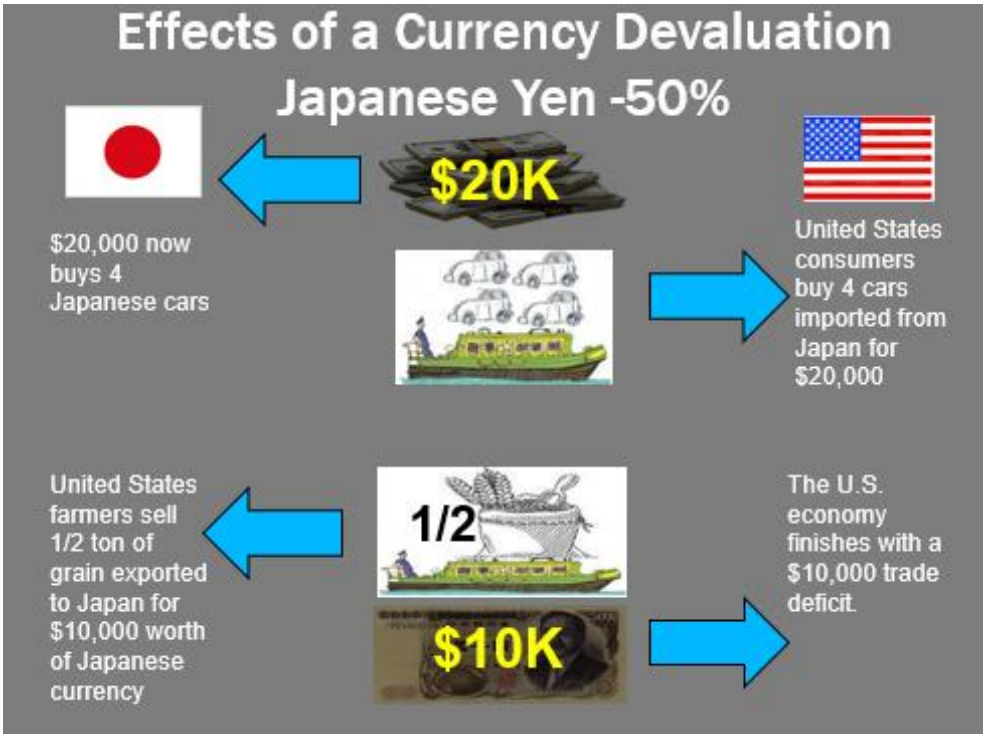
Currencies trade on world markets as their values fluctuate day by day. Exchanging currency between countries is, itself, a form of foreign trade.
http://forexreviewjournal.com/tag/make-money-via-forex-trade

Nations often have policies designed to influence the value of their currency, in order to affect the balance of trade.

[21] Although that is not to say that there are not also disadvantages that occurred as well. However, avoiding currency conversion costs and business risks from currency rate fluctuations have, indeed, been beneficial despite the other issues.

Currencies behave just like any other goods available in the marketplace when subjected to the laws of supply and demand. When the supply of something is high or excessive, or demand for it is low, its price will be reduced. When supply is low, or demand is high, its price will go up. It's easy to understand supply and demand of currencies by doing a thought experiment: What if the US government legalized counterfeiting? The supply of dollars would shoot up dramatically – everyone would print them all the time. But what would happen to their "price" (their value, the amount of goods that they would be traded for)? It would rapidly hit zero. The dollar would become worthless overnight. Their supply would be so big that no one would think they had any value at all.

What does that have to do with currencies and foreign trade? Governments may try to manipulate the value of their currency in order to gain an advantage in foreign trade. Specifically, they may try to rig the market by attempting to devalue their own currency. It seems counter-intuitive that devaluing one's own currency could somehow benefit a country (and there are many economists who believe it doesn't, in the long run). However, you will understand the logic if you look again at the illustration we used earlier about trade between the US and Japan. Let's introduce a currency devaluation now, before the trade starts, whereby the Japanese currency is 50% lower in value. This will change the numbers of what is exported and imported (assuming all else remains the same – perhaps too big an assumption).



Japanese currency now being worth 50% less dollars than it was before, the price of a Japanese car is cut in half when the buyer is spending US dollars. American consumers, spending the same $20,000 as they did before, can now buy 4 cars instead of 2. What happens, in that case, to

jobs in the US automotive industry and in Japanese factories? The US loses 2 more jobs and Japanese industry gains 2 more. And look what happens to US exports: since grain is more expensive for customers buying it with Japanese yen, they buy less of it. Perhaps they eat more indigenous Japanese rice instead, since now it will be cheaper than grain. In any case, the US loses ½ of a job here (the full time grain farmer goes to part time, since he only has to do half as much work).

Perhaps the devaluation of the currency was engineered by manipulation of currency markets – in other words, the Japanese government engaged in widespread selling of yen and buying of dollars, making yen more common (less valuable) and dollars scarcer (more valuable) – supply and demand! In that case, Japan could be pursuing a policy of deliberate currency manipulation in order to gain an unfair advantage in its foreign trade. Many economists believe this is exactly what Japan and China are doing or have done extensively in the past.

Many other economists, however, would respond that currency manipulation is not a problem at all, because of a simple economic fact of life: Exports are the price of imports. Imagine the scenario above taken to the extreme. Suppose the Japanese saw the benefit to devaluation of the currency and just kept on doing it repeatedly, to the point where the sum total of US trade with Japan was that we imported 1,000 cars per year and we exported to Japan only a 1-pound sack of grain. Would that be a good thing or a bad thing for the United States? Since trade is the sum of individual transactions, what if you as an individual were offered that deal: You give up 1 pound of grain and someone will give you 1,000 cars. Would you take it?

No doubt you would, and that's the point. If someone is willing to give us a lot of stuff for only a very little in return, we get richer and they get poorer. The money Americans would save in that case, by getting all those cheap cars, would get invested or spent elsewhere in the economy. The grain farmer might not be happy, but then again, maybe many Americans flush with left-over cash that they're not having to spend on cars would buy more donuts or bagels, and his grain sales would ultimately increase as the raw material for the other things people can now afford to buy. The auto factories might go out of business, but again, with all that excess cash not being spent on cars, perhaps Americans buy something else instead that creates jobs elsewhere in the economy. The net benefit to the American economy might be positive, even if some individuals are worse off in the short run.

The problem here is the diffusion of costs and benefits. The auto factory workers know in advance that the policies described above will directly put their jobs in jeopardy. All the other people in the economy who would benefit from cheaper cars, and all the people who might have gotten jobs from the increased economic gains that cheaper cars would have created, do not know who they are. The auto workers, in this case, have a direct incentive to lobby Congress to enact trade policies to protect them. When benefits are concentrated among a few, and costs are diffused among many, the few will always have that political incentive. The result may be policies that are net non-beneficial to the country as a whole, but beneficial to a small segment who can create enough political pressure.

The other problem to be considered is that not all jobs are created equal. Sure, an economist may console Americans with the knowledge that the loss of a manufacturing plant and its 500 jobs was more than compensated by gaining 1000 jobs elsewhere in the economy. But what if those 500 jobs were paying a good wage that allowed a worker to support a family at a middle class lifestyle working 40 hours a week? And those 1000 jobs were all working in retail stores or fast food? And someone would need to work two of those jobs (80 hours a week) to make what they were making at the now-closed factory? This is sometimes called "de-industrialization," where jobs shift from industrial, manufacturing, unskilled-but-good-paying lines of work over to service industry jobs like retail or fast food, where pay is much lower. It might be that the net benefits of trading 500 jobs for 1000 jobs is a bad thing, not a good thing, if it wrecks the middle class and creates despair among a large segment of society trying to support a family without a high level of education. In the example above about the car manufacturers and the wheat farmers losing jobs, would the car factory workers really be better off if they all went to work in donut shops, which now have more customers after the Japanese currency devaluation?

Free Trade Agreements

"Free Trade" in its ideal form would be a market where there are no tariffs, quotas, or trade barriers between two trading countries at all. Such a market exists in places like the 50 states of the U.S.[22] and in trade within the members of the European Union, but not between most independent nations of the world. The WTO goes a long way towards reducing trade barriers, but sometimes countries want to go further and reduce barriers directly between themselves. To do this, they sign "Free Trade Agreements," sometimes abbreviated FTA.

The US signed an FTA with Israel in the mid '80s, but hardly anyone noticed. Everyone noticed, however, when the US, Canada and Mexico entered negotiations over the North American Free Trade Agreement, or NAFTA. It became a hot issue in the 1992 presidential campaign. Pres. George H.W. Bush went on to sign the agreement in December, 1992, a few weeks after losing re-election. Bill Clinton, who also favored NAFTA, won the election and persuaded Congress to

[22] Because the US constitution prohibits the States from regulating or taxing interstate commerce.

vote for it in 1993. It took effect on Jan 1, 1994.

http://freedomoutpost.com/2013/10/far-will-hillary-clinton-2016-go-win-ever-heard-ross-perot/

"We have got to stop sending jobs overseas. It's pretty simple: If you're paying $12, $13, $14 an hour for factory workers and you can move your factory South of the border, pay a dollar an hour for labor,...have no health care—that's the most expensive single element in making a car— have no environmental controls, no pollution controls and no retirement, and you don't care about anything but making money, there will be a giant sucking sound going south."

-- H. Ross Perot, presidential candidate, in 1992 explaining his opposition to the North American Free Trade Agreement (NAFTA)

https://en.wikipedia.org/wiki/Giant_sucking_sound

Its results were hotly debated, in the two decades that followed, with much controversy over whether it benefited or harmed the US economy (and also debate over whether it has helped or hurt Canada and Mexico as well). In 2018, at Pres. Trump's urging, the US, Canada and Mexico agreed to a renegotiated agreement known as the "United States – Mexico – Canada Agreement" (USMCA). Its 1,812 pages of text made some minor changes to NAFTA, increasing a few trade barriers and reducing a few others. But it was not a substantial reform of the general direction of US/Canada/Mexico trade practices.

A real FTA could be written on one sheet of paper, and it would merely say that "we agree there will be no tariffs, quotas or any other trade barriers." Nations with an FTA in place certainly have "freer" trade, but it's hardly "free." For example, the US/S.Korea Free Trade Agreement contains a preamble followed by 24 chapters of text and annex documents with special rules for textiles, medical devices, express delivery services, gambling, insurance, and so on.[23] If 24 chapters of regulation is "free" trade, one can only imagine what regulated trade looks like.

Negotiations over FTAs are always controversial because of many of the issues we have discussed above. When we sign an FTA, we bargain away our right to impose many import restrictions, in exchange for the other nation doing the same. There are experts on both sides of the FTA debate. Some say losing these trade restrictions hurts the US economy and costs jobs, as well as bargaining away our right to negotiate working conditions and labor standards for workers in foreign countries who don't have the same protections as we have.

[23] https://ustr.gov/trade-agreements/free-trade-agreements/korus-fta/final-text

Summary & Conclusions

As an economics major in college, I recall well two old maxims from college days. First, how do you train an economist? Answer: Teach a parrot to say 'supply and demand.' Second, realize that if you laid out all the economists in the world end to end, they still wouldn't reach a conclusion.

Trade is complex and there are many factors to be considered. Never assume you have reached the end when you have read one analysis, or even two. Always look for alternative views and keep researching.