

Osher Great Decisions Chapter 2 – Trade – Notes

The author says:

Before globalization, if a label said “Made in the USA” or “Made in China,” it usually was. These days it almost never is.

Your shirt label may say China but its content was probably made in the US, a leading exporter of cotton.

Your iPhone may say China, but the software was made in America. China’s share of the production cost is less than 5% or about \$11.

2016 presidential election was dominated by talk of trade – as well as immigration, healthcare and other things. Trump said that trade deals have decimated the middle class. Fix trade and you bring back jobs from overseas. **Do you believe that?**

In Pennsylvania, he said “This wave of globalization has wiped out totally, totally our middle class.” **Do you believe that?**

Joseph Stiglitz (Nobel economist) said “2014 was the last year in which the United States could claim to be the world’s largest economic power. China enters 2015 in the top position, where it will likely remain for a very long time, if not forever.” **Do you believe that?**

China’s household wealth in 2015 was about \$21 trillion and the US between \$80 trillion. In his jobs speech, Trump said, “Today I’m going to talk about how to make America wealthy again.” Um, it already is and it’s getting wealthier every year.

Okun’s Law of 1962 for each 3% point increase in GDP, unemployment will decrease by 1%. Nonsense.

Outsourcing:

We are in a **gig economy**. What is that? It’s the economic sector in which companies contract with workers for short-term, temporary assignments often by using technology such as website and apps. **Examples are Uber, Lyft, Task-Rabbit, Home Adviser, Angie’s List.** Just because we lose jobs doesn’t mean that trade agreements are killing them. **4 to 6 million jobs are lost each month as part of normal turnover.** (Where did he get this statistic?) In 2008, the US lost almost 31 million jobs but created 25 million other jobs.

To imply that Trump is somehow not supporting US jobs by sourcing these finished products in other countries is not entirely factual. Alternative facts.

Bernie Sanders said, “Since 2001 when China joined the World Trade Organization, we have lost over 4.7 million decent paying manufacturing jobs. NAFTA has led to the loss of nearly 700,000 jobs.” Hmm.

For the TPP, Trump has “Instead of creating 70,000 jobs, our trade agreement has killed nearly 100,000 according to the Economic Policy Institute.” **To quote Mark Twain: “There are three kinds of lies: lies, damn lies and statistics.”**

Tariffs:

The theory is that trade imbalances kill jobs. What is a trade imbalance? The correct definition of trade imbalance or balance of trade is the difference between the monetary value of exports and imports of output in an economy over a certain period.

Trump SAID THAT China cheated on its currency and added another trillion dollars to the trade deficit. He went so far as to call for a 45% tariff on all Chinese imports. Romney said the same thing in 2012.

China’s exchange rate has no discernable impact on our job market and China is struggling to keep its value high, not low. Haft: “A sharp decline in Chinese imports would also eliminate jobs in all the industries that help bring those imported products to market once they arrive in America.”

The Obama administration levied tariffs on imported Chinese solar panels by up to 239%. It might have sounded good politically, but it ultimately caused a net job loss to the solar industry.

Employment in the steel industry has declined since 1970, it’s questionable what impact foreign steel has on that. It took only one-quarter of the number of workers to make nearly 10% more steel in 2011 than in 1980.

Definition: What is a free trade agreement?

A treaty between two or more countries to establish a free trade area where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances but capital or labor may not move freely. Member countries usually impose a uniform tariff (called common external tariff) on trade with non-member countries.

U.S. merchandise exports to the **20 FTA partners** with agreements in force totaled \$710 billion. The United States also enjoyed a trade surplus in manufactured goods with our FTA partners totaling \$12 billion in 2015.

With which countries does the United States have an FTA?

1. Australia
2. Bahrain
3. Chile
4. Colombia

5. DR-CAFTA: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, & Nicaragua
6. Israel
7. Jordan
8. Korea
9. Morocco
10. NAFTA: Canada & Mexico
11. Oman
12. Panama
13. Peru
14. Singapore

NAFTA:

Canada and Mexico have risen to become our first and second top export markets. In 2015, we traded over half a trillion dollars worth of goods with Mexico alone.

Voters believe the government hasn't done enough to protect American workers from globalization. The TAA (Trade Adjustment Assistance) program of 1962 reimburses some of the costs of worker retraining. It may be on the chopping block in Trump's proposed budget. **It should be noted that the US spends less on retraining than any other advanced economy.**

So, what's the answer? Fewer trade agreements? Better trade agreements? Nationalism (Buy only American goods?)?