

# Policy

## What do people want?

### PPI?

1. winners and losers in roughly similar circumstances, changes in well-being "not of great magnitude."
2. "debateable" if a PPI-satisfying change should be allowed or implemented if benefits to some groups incur "significant" costs on others.

### Fairness

1. Equal treatment of equals
2. status quo property rights
3. society as insurer
4. Ec. inefficiencies and "special interests."

## What do we get?

1. Schattschneider prize:
  - a. "Though the framers of the U.S. Constitution placed responsibility for formulating trade policy on the shoulders of the Congress, during the past 50 years it has become increasingly clear— perhaps especially to Congress itself— that they are not up to the task of formulating rational trade policy. 22 Members of Congress seeking election or reelection are often forced into protectionist postures, but can obtain protection for their interests only by offering the same to their congressional colleagues. “ The political logic of protection leads to protection all around,” wrote an observer in 1935, because Congress’s natural tendency is a spiraling protectionism extending trade barriers into the districts of each congressperson. 23 A vote for free trade, according to another early observer, is an “ unnatural act” for a congressperson. 24 Only a very few die-hard constitutional literalists believe that the U.S. Congress should be in charge of trade policy." (Rivoli, Pietra. *The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade*. New Preface and Epilogue with Updates on Economic Issues and Main Characters (p. 165). Wiley. Kindle Edition.)
  - b. "Erik Autor, Vice-President for International Trade at the National Retail Federation, is continually frustrated by the “ snarl together” phenomenon. Though retailers ranging from a beachfront tourist

shop to Saks Fifth Avenue to Wal-Mart all benefit from access to cheaper T-shirts from abroad, such diverse groups of businesses find it difficult to speak with a single voice. Southern textile leaders, however, share a cultural and historical bond that allows them to speak together. (“ They all know each other,” Erik told me. “ Their daddies all knew each other. Their granddaddies all built the mills, and they all knew each other, too.”) Related to the historical and cultural bond that strengthens their collective voice is the geographic concentration of the U.S. textile industry. More than 60 percent of apparel and textile manufacturing is located in Georgia, South Carolina, and North Carolina, and there remain many Congressional districts where the textile industry— or even a single firm— is the major employer. A geographic swath of congresspeople remains beholden to the industry, even as its fortunes wane. The U.S. retail industry, in contrast, while employing significantly more people than the textile and apparel industries, is not only unable to snarl in unison, it is spread across the country in a manner that leaves it nobody’s Congressional priority.” (Rivoli again)

c. **"How did the Farm Bill achieve overwhelming support from Congress in the face of such widespread calls for reform? The trick, according to Senator Charles Grassley, was to “ smear lipstick on a pig.” 28 In exchange for leaving support for the large commodity crop farmers in place, House and Senate negotiators packaged support for nearly everyone else into the bill. There were new programs to help producers of peanuts, mohair, fruits, vegetables, honey, and sugar. There was help for racehorse owners in Kentucky and salmon fishermen in Oregon and for the red-cockaded woodpecker in Georgia. And there were billions for nutrition programs, foodstamps, and environmental programs. In the end, most of the 2007 Farm Bill had little to do with farming. The lipstick went on the pig district by district, and state by state, until lawmakers who opposed the bill were in a distinct minority. “ It’s not very pretty,” an agricultural lobbyist told me. “ But that’s how we do it.”**

d. Mohair, Corn Laws, Sugar (Sex!), the list goes on.

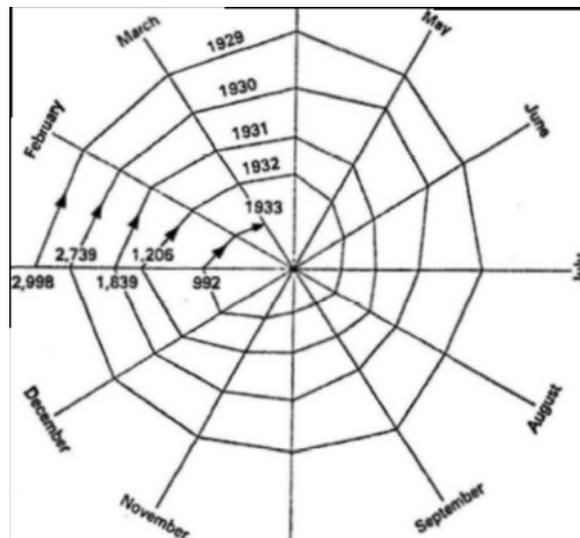
## 2. Classification scheme

Concentrated benefits and diffused costs or the reverse, and asymmetric incidence of gov’t action

Costs

	Concentrated	Diffused
Concentra	Uncertain govt action; Interest group politics	Govt Action; Client politics (Tariffs, etc.)
Diffused	Govt Action; Entrepreneurial politics	Uncertain govt action: majoritarian politics

Stakeholders: individuals or groups whose interests are vitally affected.  
 Have an incentive to organize, get their way (unless so blatant or if non-stakeholders organized by entrepreneurs)  
 NW cell: health care plans?  
 NE: stakeholders become clients of politicians; trade, ag.  
 SW: If a proposed policy heaps costs on stakeholders, they will mobilize to defeat; but entrepreneurs can intervene (Ralph Nader)  
 SE: maybe abortion? Flag-burning?  
 The contraction of world trade, January 1929- March 1933: Total import of 75 countries  
 (monthly • value in terms of dollars)



## RTAA to GATT to WTO

### RTAA

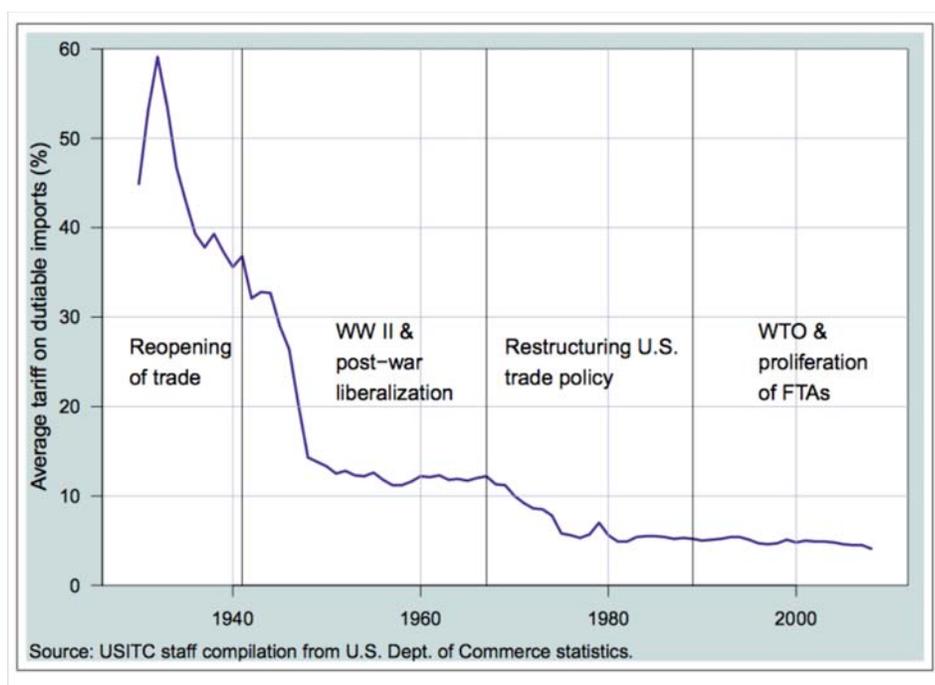
1. "After observing two world wars, former Secretary of State Cordell Hull wrote in his memoirs that he had come to believe that trade was an instrument of peace: I saw that you could not separate the idea of commerce from the idea of war and peace. You could not have serious war anywhere in the world and expect commerce to go on as before.... And [I saw that] wars were often caused by economic rivalry.... I thereupon came to believe that... if we could increase commercial exchanges among nations over lowered trade and tariff barriers and remove international obstacles to trade, we

would go a long way toward eliminating war itself." (Rivoli, Pietra. The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade. New Preface and Epilogue with Updates on Economic Issues and Main Characters (p. 256). Wiley. Kindle Edition. )

2. Back to Pax Americana from Krugy.

## Key principles of GATT/WTO

1. Reciprocity
2. Tariffs, not quotas, export subsidies
3. Multilateralism
4. Nondiscrimination
5. Dispute resolution mechanism
6. Escape clauses, e.g., relief if injury.
7. Results:(HT PK)



## Dumping

1. Domestic predatory pricing
  - a. What is required for proof of domestic predatory pricing?
    - i. Price lower than average cost

