Peterson Institute for International Economics

Douglas Irwin on tariffs in America and the Supreme Court case

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[00:00:16.07] - Anjali V. Bhatt

Hi, and welcome to PIIE Insider Live. I'm Anjali Bhatt, Communications Manager and Research Fellow here at the Peterson Institute for International Economics. I often say that one of the best parts of my job is that I can just walk into the offices of some of the world's top economics experts and ask them anything and they answer. So with PIIE Insider Live, you're coming with me to ask those questions and get those answers you won't get anywhere else. Today we're speaking with Douglas Irwin, John French Professor of Economics at Dartmouth College and a nonresident senior fellow here at PIIE. Before we start, if you're watching on Zoom, feel free to put your questions in the Q&A box. So, hi, Doug. Thanks for joining us. Hello.

[00:00:51.01] - Douglas A. Irwin

Great to be here.

[00:00:51.27] - Anjali V. Bhatt

Okay. So it was a big day Friday.

[00:00:55.15] - Douglas A. Irwin

Yes.

[00:00:56.07] - Anjali V. Bhatt

Friday, February 20th, the Supreme Court of the United States ruled that the president does not have the authority to impose tariffs under the International Emergency Economic Powers Act, which we call AIPA. So President Trump has used the AIPA authority over the last year or so to impose most of his quote unquote reciprocal tariffs on most countries in the world. And now the Supreme Court just ruled that under AIPA, he doesn't actually have that authority. So this is a big deal, but like, how big of a deal? Has this happened before, or is this yet another unprecedented time?

[00:01:39.12] - Douglas A. Irwin

Right. Well, it is very much a big deal, and it deserved all the news it was getting. I think it matters a little bit more for the law and the legal aspects of it than the economics. As we'll get into, I'm sure he has a lot of other statutory authority to impose tariffs. So tariffs aren't going away. But it just forecloses this avenue of imposing these tariffs. And so what that means is that, well, I think it's important to consider what would have happened had the court ruled the other way, because then that would have allowed the president to really have this unconstrained authority to issue tariff threats, change tariffs overnight, and do things in a very willy-nilly, chaotic way that we've sort of seen. And by forcing the president to use some of these other statutes that are a little bit more constraining, that are a little more, more structure to them, It sort of takes away the tariff threat that comes with the overnight tweet. So there might be a little less chaos with trade policy. We're still going to see tariffs, but at least this open-ended presidential authority has sort of been shut down.

[00:02:40.21]

Now, you ask whether we've seen anything like this in the past. There haven't been too many court cases on tariffs that make it to the Supreme Court. So I don't— I'm not sure. I defer to some of our lawyer experts at PIIE. Alan Wolfe and others about whether there have been previous court cases. But there was one case previously where a president's signature economic policy was struck down unanimously by the Supreme Court, and the president was very upset. And that was Franklin Roosevelt during the Great Depression. In 1935, his National Recovery Act was struck down as unconstitutional by the Supreme Court. And just as President Trump lit into the Supreme Court Recently, President Roosevelt at the time was very upset with the court and held a press conference about 2 or 3 days after the verdict and sort of denounced them for, you know, a wrong decision in his view.

[00:03:32.12] - Anjali V. Bhatt

But that wasn't about tariffs.

[00:03:33.21] - Douglas A. Irwin

It was not about tariffs.

[00:03:34.24] - Anjali V. Bhatt

Right.

[00:03:35.09] - Douglas A. Irwin

But given how important tariffs have been for President Trump, this certainly is a blow to his open-ended use of them.

[00:03:41.24] - Anjali V. Bhatt

Yeah. So, you know, immediately after the Supreme Court handed down their ruling and President Trump held a press conference, lighting into the Supreme Court. He also said that he was immediately going to impose a 10% and then on Saturday up to 15% global tariff under Section 122 of the Trade Act of 1974. So as many of us at Peterson have been reading and emailing about, Section 122 allows for tariffs for 150 days from today, actually, to deal with large and serious balance of payments deficits. They went into effect today at 10%. I should know this given how long I've been at Peterson, but what is a balance of payments deficit?

[00:04:34.08] - Douglas A. Irwin

Well, there's some great blog posts on the Peterson website to get into this. So here's sort of the way to think about it. First of all, what is the balance of payments? The balance of payments is simply an accounting of all transactions between everyone in the US and the rest of the world. And every country has their own balance of payments, of course. Another point is that the balance of payments always balances, particularly when we have fixed floating exchange rates. Every transaction has sort of an offsetting component in the balance of payments, but subcomponents of the balance of payments do not need to be in balance. So there's a lot of attention paid to the trade deficit. We have a capital inflow into the US, so a surplus, if you will. On the capital account. Question is whether you throw in services too and into their current account. So all the subcomponents of the balance of payments can be in surplus or deficit, don't have to be in balance, but the overall balance of payments ultimately balances. So here's where this language of a balance of payments deficit is a little bit archaic and sort of odd to our ears today.

[00:05:37.25]

So this law that was the Trade Act of 1974, the law was written in 1973. In March of 1973, the US and other countries moved towards floating exchange rates. So the—

[00:05:48.12] - Anjali V. Bhatt

Was that we were on the gold standard before that?

[00:05:51.11] - Douglas A. Irwin

The Bretton Woods system had a regime of fixed exchange rates sort of backed by gold, but it really wasn't a gold standard per se. But it was a fixed exchange rate regime in which there was a notion of a balanced payments deficit that could be important. So back then, so this is really sort of 1950s and '60s thinking. With respect to the balance of payments, there'd be something called the line. And the line would make sure that the balance of payments balances, and it was official reserve transactions. It was actually— and if that was a deficit, if a country was losing foreign exchange reserves or losing dollar reserves, they'd say they have a balance of payments deficit. It's being covered by the government in terms of its exchange reserves. This is getting into the weeds quite a bit. But, and what's sort of odd too is that The US being the central node of the system with the dollar being the reserve currency really didn't have balance of payments deficits per se. There was worry in the late 1960s about the loss of US gold reserves because we weren't really on a gold standard, but the dollar was sort of backed by gold in some sense for other foreign central banks.

[00:06:54.26]

Long story short is this term balance of payments deficit sort of has some resonance in the '50s and '60s, but after the mid-1970s, when we have floating exchange rates and the balance of payments sort of automatically balances, it's sort of odd to use that terminology. But that's the way the law is. It'll be very interesting. So as you noted, the president has imposed tariffs under this law, up to 15% for 150 days. I'm sure there's going to be legal challenges precisely because that ambiguity about what a balance of payments deficit means. And then the question is, what are the courts going to think about this? They might just say, well, we defer to the administration, you know, if they think there's some sort of deficit, or they might try to take into account the economic logic that I just sort of outlined. So we don't know. But it's once again, we're just replacing those tariffs under AIPA with these new tariffs.

[00:07:47.29] - Anjali V. Bhatt

So the balance of payments deficit made more sense when we had a fixed exchange rate and there could be a deficit because it couldn't adjust., the way that a floating exchange rate can.

[00:07:58.10] - Douglas A. Irwin

Exactly.

[00:07:58.29] - Anjali V. Bhatt

And now we have a floating exchange rate. And so our balance of payments can adjust more so that it balances. And so a balance of payment deficit isn't really a thing anymore.

[00:08:09.12] - Douglas A. Irwin

Isn't really a thing. And what's interesting is the president's own lawyers, uh, the government lawyers in the IEPA case explicitly said, well, actually we can't invoke, uh, Section 122 because yes, we have a trade deficit and that's their emergency that they're worried about. But a trade deficit is not a balance of payments deficit. So they may have undercut themselves accidentally if these new tariffs undergo litigation.

[00:08:32.05] - Anjali V. Bhatt

Is the trade deficit— is that part of— that's part of the whole balance of payments? Exactly.

[00:08:38.09] - Douglas A. Irwin

Okay.

[00:08:38.28] - Anjali V. Bhatt

So they said under AIPA, the emergency was the trade deficit and that was the emergency. But now if they're saying there's a balance of payments, what is it, large and serious deficit. Right. But that's the whole thing. It's not just the trade deficit.

[00:08:53.10] - Douglas A. Irwin

Exactly.

[00:08:54.08] - Anjali V. Bhatt

Yeah. Okay. So would tariffs fix this?

[00:09:01.04] - Douglas A. Irwin

Not really. And actually, there's been some great PIIE work on this as well, Joe Gagnon and others. Usually we think of the trade deficit or pardon me, the current account deficit, if you want to pick out that component of it, as being driven by savings and investment balances across countries. And so then you have to think about fiscal policy and other sorts of policies if you want to remedy that imbalance in the current account. Now, what's sort of interesting here, the economics gets a little bit tricky because you might think, well, if our imports are really high and our exports are pretty low, and if we impose a tariff, well, what is that going to do? It's going to reduce our imports and, you know, we'll get a— have a lower current account deficit. But when you impose those tariffs, it also affects exports too. So, and there's various channels by which that happens. So one is that tariffs are on intermediate goods and that raises the cost. Of exporters. So the exports are going to go down for that reason. There can be some retaliation, either formal or informal. So exports will go down.

[00:09:58.06]

But it's sort of this— when you use tariffs, you're sort of pushing both of them down. And it's sort of ambiguous whether you can actually close that gap between the two. So generally economists think tariffs are not a good weapon to try to reduce current account deficits.

[00:10:10.02] - Anjali V. Bhatt

So it's kind of shifting the gap around without actually closing the absolute value between the two.

[00:10:16.14] - Douglas A. Irwin

That's right.

[00:10:17.03] - Anjali V. Bhatt

Yeah. Okay. Yeah. Let's see. So is— oh, one of the questions that we have here is, would it be possible on the Section 122 tariffs to get a fast-track decision by the International Trade Court or the Supreme Court? Is that something that could happen?

[00:10:34.25] - Douglas A. Irwin

I defer to my lawyer colleagues on that. But I'd say, you know, given there's that 150-day limit, that's pretty tight. I think even the Court of International Trade, first of all, you have to get up briefs. And what have you, it's hard to see that happening within 150 days.

[00:10:48.19] - Anjali V. Bhatt

Okay. So the Section 122 tariffs, so they were told, we were told via tweet that they were going to be 15%. The tariffs that went into effect today are 10%, but they could go up to 15% in the next few days or so. We'll see. 15%. Yeah, and that would be a global tariff on all imports. But I think we've also seen that there are some exemptions from that. But 15% is still pretty high. Yeah. Tariffs have been that high in the past in US history. When was the last time they were that high up to 15%? When have they been higher? And I know they were lower before the Trump administration took place. What did that sort of evolution of the tariffs look like?

[00:11:43.27] - Douglas A. Irwin

Yeah, I should have brought my slides or something like that because I love the slide of the history of the tariff since 1790s, this first date that we sort of have some evidence on this. In fact, the first tariff was passed in 1789.

[00:11:56.05] - Anjali V. Bhatt

So brand new country.

[00:11:57.16] - Douglas A. Irwin

Yeah, exactly.

[00:11:58.12] - Anjali V. Bhatt

They were all about doing tariffs.

[00:11:59.18] - Douglas A. Irwin

That's right. Yes. Well, they needed the money and revenue is sort of an important thing. For the federal government. So, you know, there have been a lot of fluctuations over time. Traditionally, historically, in the 19th century, they were much higher. If you're talking about 15% or that ballpark, you have to go back to the late 1930s, actually, after the Smoot-Hawley Tariff, to see something in that range. There are two sort of tariff series. One has to do with the average revenue gained on total imports versus dutiable imports. On dutiable imports, That in the past has been up to 60% in the early 1930s. But the average tariff on total imports was much lower at that time, about 15 to 20%. So you have to go back. So that's a long time, not quite a century ago, but it's going back. And that's because after World War II, our tariffs were reduced in trade negotiating rounds and for various reasons. And so this is really a big change from what we've seen in the past 80 years or so in terms of the average tariff level.

[00:12:59.02] - Anjali V. Bhatt

As so we'll come to the very high tariffs at the beginning of the 1900s in a second. But after they— so they were very high and they've come down over the course of, I guess, like the second half of the 20th century. So that it wasn't Supreme Court decisions that lowered the tariffs, right? You said it was trade negotiations. And was there also legislation involved there?

[00:13:23.07] - Douglas A. Irwin

Not really. So actually, the last tariff act passed by Congress was 1930, the Smoot-Hawley tariff. That was the last one. That was the last one.

[00:13:27.29] - Anjali V. Bhatt

Yes.

[00:13:28.02] - Douglas A. Irwin

Where Congress actually they set the rates across, you know, they went through the entire tariff schedule line by line, said, what should this rate go up, down, or stay the same? And most of them went up, a few went down. But we also had a lot of goods that were not subject to the tariff even back then. Coffee, tea, bananas, a lot of things the Trump administration had imposed tariffs on but recently exempted because we don't produce bananas, we don't produce coffee. I don't know whether you have coffee in your mug there, but what's the point of that tax on coffee if we're not going to sort of jumpstart domestic production? So the other factor, I hate to bring this up because it's really in the weeds too, but a lot of the tariffs in the past were specific duties, which meant not like a percent of the value of the good, but a specific dollar amount.

[00:14:18.14] - Anjali V. Bhatt

Oh, so it's like these goods have a tariff of, you know, $10 or whatever.

[00:14:23.01] - Douglas A. Irwin

Yeah, exactly. $10 per ton or $10 per dozen or whatever the quantity is. And what happened after— during World War II and after World War II is we had a lot of inflation. And when the prices are going up, what that means is that dollar amount per unit really counts less as a cost of the ad valorem equivalent. So a lot of the tariff reduction that we see from, say, the 60% in the early 1930s on dutiable imports down to about 10% by the early 1950s, A lot of that was just the tariff was wiped out by inflation. So yeah, there was the start of the GATT, the General Agreement on Tariffs and Trade, but a lot of it just sort of happened because of inflation.

[00:15:05.15] - Anjali V. Bhatt

Okay. So let's talk about Smoot-Hawley.

[00:15:07.03] - Douglas A. Irwin

Okay.

[00:15:08.08] - Anjali V. Bhatt

And I do have to ask. So my first introduction to the Smoot-Hawley tariffs was in the movie Fair Stealers' Day Off.

[00:15:14.14] - Douglas A. Irwin

Of course, the classic.

[00:15:15.13] - Anjali V. Bhatt

Yes.

[00:15:15.19] - Douglas A. Irwin

Everyone should watch it.

[00:15:16.18] - Anjali V. Bhatt

There's that scene where the teacher is You know, the classic, you know, everyone is drooling, everyone's really bored. We're not bored, but you know, in that scene, and he's asking about the Smoot-Hawley Act, you know, anyone, anyone asking about the, and it was during the Great Depression. And so he said that they instituted, the Congress instituted the Smoot-Hawley Act to bring in revenue to combat the Great Depression. First of all, I have to ask, do you use that scene when you're teaching?

[00:15:45.29] - Douglas A. Irwin

Oh my gosh, every single, yes. When I get to tariffs and talk a little bit about the history, It's built into my slides and it comes up to class.

[00:15:53.25] - Anjali V. Bhatt

Yes. Perfect.

[00:15:54.19] - Douglas A. Irwin

And actually, what's remarkable is, you know, the students today, this is like the movie, like 20 years or 30 years before they were even born. But it still has a cultural resonance. And they— not all of them have seen it, but many have seen it.

[00:16:08.00] - Anjali V. Bhatt

That's excellent. Yeah. I mean, it's a great movie. Yeah. So it was— it was, as we learned from the movie, it was imposed to bring in revenue during the Great Depression. And as you said, this is the last act of Congress that legislated tariffs. It didn't work. Why?

[00:16:27.14] - Douglas A. Irwin

Okay, well, we have to back up and talk about that scene.

[00:16:30.08] - Anjali V. Bhatt

Okay.

[00:16:30.20] - Douglas A. Irwin

Because that scene is actually very important for a couple of reasons. First of all, the actor was Ben Stein, who is the son of a very famous economist here in Washington, Herb Stein, who had been chair of the Council of Economic Advisers in the Nixon administration. Now, he wasn't a trained economist or anything, but he'd heard enough about Smoot-Hawley So the remarkable thing about that scene is he reported in a New York Times article a few— a number of years ago that was ad-libbed. That was not in the script.

[00:16:56.09] - Anjali V. Bhatt

He wanted to talk about—

[00:16:57.25] - Douglas A. Irwin

Yes. They basically— they brought him in. They said, you're supposed to be a boring high school teacher. Just talk about something. And he said, well, I'll talk about economics because for most people, economics is pretty boring. And he said, I heard about this moolah. So he just riffed on it. And I don't know how many takes they did, but obviously it's a classic scene ever memorialized now on YouTube.

[00:17:16.04] - Anjali V. Bhatt

That's great lore. Yes. It is.

[00:17:18.20] - Douglas A. Irwin

It's a really, really cool story.

[00:17:20.08] - Anjali V. Bhatt

Yeah.

[00:17:20.20] - Douglas A. Irwin

But he did get a couple things wrong. As you'd expect, it's ad-libbed. The purpose of the act was not really to raise revenue.

[00:17:27.10] - Anjali V. Bhatt

Okay.

[00:17:27.28] - Douglas A. Irwin

So, and it didn't, you know, so we can get into the revenue aspects of it. It was really designed to protect domestic firms from foreign competition. It, first of all, it really wasn't needed at the time because the US manufacturers weren't being influenced by imports in any adverse way. So we didn't worry about why we got it anyway. And it didn't— certainly didn't work in the sense that we imposed that tariff in June of 1930. The stock market had crashed the previous fall. We were already sliding into a recession. We continued the economic slide into the Great Depression. So it certainly didn't stop us from doing that. So it certainly failed in that way. It also failed because there was a lot of foreign retaliation against U.S. exports. So yeah, we were clamping down on imports, but exports were falling too. And that was hurting farmers and manufacturers not having access to foreign markets. So it did nothing to stimulate the U.S. economy, in essence. Okay.

[00:18:23.11] - Anjali V. Bhatt

We have so many questions here. A lot of— so one of these questions says, all of the— there's discussion around the Smoot-Hawley tariffs that created business uncertainty that also contributed to the Great Depression as that recession and then eventually depression was sort of developing. Are there uncertainty effects like that today from the tariffs that we're seeing?

[00:18:47.25] - Douglas A. Irwin

Oh my gosh, yes. First of all, there's less uncertainty back then.

[00:18:51.20] - Anjali V. Bhatt

It was just a law.

[00:18:53.01] - Douglas A. Irwin

It was just a law. Congress passed it. It took them a year and a half to pass that law, so they couldn't revise it very quickly. So the certainty was the tariffs are here, we're sort of stuck with them. Now, of course, and this is where AIPA sort of comes in, the Supreme Court case, I mean, there's so much uncertainty because the president every week has been changing tariff rates and threatening this country, Switzerland, then Brazil, and then, you know, who knows who's going to get hit next. And I hope there's a little bit less uncertainty once we move to the regime where these other statutes get invoked to impose the tariffs, because then you sort of set them and you can't touch them as easily. Whereas AIPA, anything goes. And that's why we've all been so busy here at Peterson and elsewhere trying to keep up with all the different announcements.

[00:19:35.13] - Anjali V. Bhatt

We certainly have been busy.

[00:19:37.17] - Douglas A. Irwin

You raised one, for example, You know, the executive order was just for 10%. The president announced 15%. So is it going to change to 15% and when? And so, yeah, there's a lot of uncertainty.

[00:19:49.02] - Anjali V. Bhatt

Yeah. Okay. So and then you also said this. So the Smoot-Hawley tariffs were set quite high where the effective rate was above 50% and eventually started lowering due to inflation and changes in trade patterns. What does that have to do, especially as we got from the 1930s and then into the '60s and '70s? What do the tariffs and tariff rates, what is that their relationship with exchange rates? How do those sort of affect each other in addition to the, I guess, inflation?

[00:20:23.26] - Douglas A. Irwin

Yep. So first of all, there's a lot less uncertainty that we were just talking about in the '50s, '60s, and '70s. So there's tariffs were sort of low and stable. Also, there's less uncertainty with respect to exchange rates because we're on the Bretton Woods system. Exchange rates were fixed. Occasionally countries would have to devalue like France and Britain. And so there were these occasional crises. But in retrospect, the '50s and '60s was very sort of smooth period for these— for the world economy. And yes, exchange rates have— now we're in a floating exchange rate regime, so there's more volatility there. But I think I've also done some work. I think it's on the Peterson website on developing countries and the transition to floating exchange rates has actually helped them move towards freer trade.

[00:21:12.08] - Anjali V. Bhatt

Let's also— what is a floating exchange rate?

[00:21:14.28] - Douglas A. Irwin

Oh, okay. A floating exchange rate is a market-determined exchange rate. So you're just letting supply and demand and investors and traders set the exchange rate. It's not like the government says, here's what the price of foreign exchange is and we're going to manage that price. So I think the move to floating exchange rates has sort of helped out movement towards freer trade since the 1980s and into the 1990s.

[00:21:37.07] - Anjali V. Bhatt

Okay. And so the— I mean, we keep going back to Smoot-Hawley tariffs, but they were just so high by an act of Congress. Have there— and then they've come down. And now with Trump, we've seen them go very high back up again. Has there been any other times in U.S. history where they went up so high, like with Smoot-Hawley and like we're seeing today, or has it mostly been sort of gradually declining and then very rarely these spikes?

[00:22:03.29] - Douglas A. Irwin

Yeah, so Smoot-Hawley sometimes gets a little bit of a bad name because obviously it's associated with the Depression, but it was, it was taking a high tariff and making it a little bit higher.

[00:22:13.14] - Anjali V. Bhatt

So they were already high.

[00:22:14.17] - Douglas A. Irwin

They were already high. It bumped them up a little bit. Actually, they went even further because of deflation. So we talked about how inflation can reduce tariffs. Well, during the early phase of the Great Depression, we had big deflation. So that pushed those tariffs up even higher. That's sort of independent of the legislation. So, you know, a lot more tariff volatility in the past, 19th century into the 20th century, often because of these price movements. Sometimes there would be swing in partisan control of Congress. So Republicans sort of dominated American politics after the Civil War. Right up until Woodrow Wilson took over in 1912, 1912 election. And the Democrats want low tariffs back then. Another interesting factoid about tariff history is the parties have sort of switched places on where they position themselves. But the Democrats really brought tariffs back down. Then they get kicked out after a while. The Republicans come back and they bring them back up. So in the postwar period, we really haven't seen that partisan volatility with respect to trade policy. Policy. There's been more of a postwar consensus that tariffs are a part of our alliance system with other GATT members and what have you.

[00:23:26.27]

So we want to keep these low and stable. And yeah, we're going to have anti-dumping and countervailing duties. But Trump really has changed sort of the game historically by saying, I as president want much higher tariffs and I have the authority to do so.

[00:23:39.01] - Anjali V. Bhatt

So one of the other presidents that Trump often talks about when he, when he discusses the tariffs, is President McKinley. So the Smoot-Hawley tariffs were under President Hoover in the 1930s. But Trump also often mentions President McKinley. He was president from 1897 to 1901. What was his deal with tariffs? Okay.

[00:24:03.05] - Douglas A. Irwin

So there are two McKinleys we have to think about. Same person, but two different phases of his career. So he starts out his career as a representative in the House from Ohio. And he rose to become Speaker of the House. I'm sorry, take that back. Chairman of the House Ways and Means Committee. So the House Ways and Means Committee is typically the place where tariff legislation starts. And since he was from Ohio, which was an industrial state, had a lot of steel production, he thought in the late 1880s or so the tariff was too low on iron and steel products which were produced in his district. So the McKinley tariff, which he sort of ushered through Congress in 1890, generally raised rates quite a bit.

[00:24:45.21] - Anjali V. Bhatt

On iron and steel.

[00:24:47.02] - Douglas A. Irwin

Iron and steel and other goods too. And actually, there's a revenue thing here too, where they actually, they cut tariff. Actually, they put sugar on the duty-free list. We can get into that later. There's fun political stories about that too. Sugar, like steel, has always been sort of a politically sensitive. Yeah, sensitive. Exactly. The tariffs sort of matter a lot there. So the McKinley tariff did a lot of things, took sugar on the duty-free list, but raised tariffs on manufactured goods because it sort of Make America Great in the 1890s, and Ohio is sort of part of that. So that tariff happens. Actually, there's sort of a Smoot-Hawley analogy here too, because the US economy did not do well after that tariff. We also had an early depression in the 1890s.

[00:25:32.24] - Anjali V. Bhatt

So it did not actually protect the people that it was supposed to protect. Yes. Many such cases.

[00:25:38.05] - Douglas A. Irwin

Many such cases. Once again, it's not as though, you know, the Smoot-Hawley didn't cause the Great Depression. McKinley tariff didn't cause this, but it once again didn't sort of help out in that period. But then later on, as you note, he's elected in 1896, he becomes president. And political scientists always have these theories. Well, if you represent a certain district, you really just care about the people in the district. But if you care about— if you're president, you have a much broader view of of who your constituents are. You think more in terms of the national interest. And there he did a trade policy pivot. So he sort of didn't abandon the protectionism that he embraced earlier on, but he said we have to modify it. We're now a bigger part of the world. We need reciprocity.

[00:26:20.17] - Anjali V. Bhatt

Reciprocity.

[00:26:21.05] - Douglas A. Irwin

Reciprocity, yes. And by reciprocity didn't mean in the Trump sense of let's raise tariffs against others because they're taking advantage of us. It is our tariffs very high. Other countries' tariffs are pretty high too. Maybe we should cut deals where we reduce our tariffs if other countries reduce theirs. And this would have been a big shift in U.S. trade policy. But unfortunately, as you might know, he was assassinated in 1901, actually just 2 days or 3 days after giving an address in Buffalo where he sort of outlined this policy of reciprocity. Theodore Roosevelt takes over. He's what's known as a tariff stand pattern, which means don't rock the boat, just don't even talk about tariffs or bring them up. But it's sort of this missed historical opportunity where McKinley really could have put the US in a different position with respect to tariff policy. We'll just never know.

[00:27:08.29] - Anjali V. Bhatt

So when, when Trump is referring to McKinley's tariff policies, he's largely referring to his earlier days as a representative rather than when he was president.

[00:27:18.28] - Douglas A. Irwin

Exactly. Exactly. That's when he was sort of the avatar of protection and really staunchly in favor of high duties. As president, he took a little bit of a different stance.

[00:27:28.21] - Anjali V. Bhatt

What an interesting tiny part of history. Okay, so we're getting close to time here, but I guess sticking on the historical aspect of tariffs, there is a question discussing the history around Nixon's 10% import surcharge, the closing of the gold window, and what that means for trade policy today. And I'm going to have to ask you to explain what Nixon's 10% import surcharge and the closing of the gold window is.

[00:27:58.16] - Douglas A. Irwin

Sure. Okay. So we're still in the Bretton Woods system of fixed exchange rates. The U.S. is worried about loss of gold reserves. We moved from having a trade surplus to a trade deficit the first time. This is considered a big deal at the time. But if you look at the time series, it's really small. So President Nixon takes his advisors to Camp David for a secret meeting over a weekend in August of 1971. In fact, there's a good book by Jeffrey Garten just on that weekend meeting. And they sort of shut down the gold window of the Bretton Woods system. So foreign central banks can't redeem their dollars for gold. So that has a lot of implications for the international monetary system. But in terms of trade, he also announced this 10% across the board import tariff. Which was sort of unprecedented because tariffs had sort of been moving down and that's the way things had been. It wasn't a protectionist move in the sense of trying to protect domestic manufacturers from foreign competition. It was actually, to use President Trump's— one of his favorite words— leverage. We thought that the reason why the international monetary system wasn't working out so well is the dollar had become overvalued and other currencies were undervalued, sort of giving them a trade advantage..

[00:29:09.02]

And since the dollar was the center of the international monetary system, we couldn't change the value of the dollar, but other countries could revalue their currencies against the dollar. And other countries were reluctant to do so because their exporters would face a harder time selling in the US market. And so that 10% tariff was imposed temporarily to get other countries to change the value of their currencies. It worked. The yen appreciated, the Deutsche Mark at the time appreciated, and the tariffs went off like 3 or 4 months after they had been imposed. That's because once again, President Nixon didn't really want that to be a permanent thing. He just wanted to sort of get the attention of Japan and Germany in particular to get them to change their currency value. But that sort of set this precedent. And once again, the person to ask about this is Alan Wolf, our colleague, because he was actually in the Nixon administration, I believe in the Treasury Department sort of working on the memos and the legal justification for this at the time. He has some great stories about that. But it was just for a few months.

[00:30:13.18]

No other president sort of subsequently did such a thing. But it does sort of, you know, set this— that's where Section 122 of the Trade Act of 1974 came from, in some sense, to provide some justification for the president to do such a thing. And it's sort of an interesting episode in trade policy history.

[00:30:32.08] - Anjali V. Bhatt

I get those tariffs are temporary. And I guess, you know, Section 122, these tariffs also by law have to be temporary. Yeah. And so we'll see what happens after those 150 days. Right.

[00:30:43.22] - Douglas A. Irwin

Exactly. Never a dull moment.

[00:30:45.05] - Anjali V. Bhatt

Never a dull moment. We are very busy here.

[00:30:47.08] - Douglas A. Irwin

Yes.

[00:30:47.08] - Anjali V. Bhatt

Okay. Well, we are at time, so let's wrap up here. I know you're a historian, but looking forward, what will you be watching for in the next sort of 3 to 6 months in trade policy?

[00:31:00.29] - Douglas A. Irwin

I'll be looking for how quickly they can pivot from, say, the 122 tariffs to using some of the other statutes. So we didn't get into all the numbers of the trade laws, but Section 301, that can be invoked in cases of unfair trade with other countries. So I expect we're going to see more Section 301 cases. Section 332 has to do with national defense and protecting domestic and national defense. All these are very different from AIPA, where there's so much discretion in terms of the products and the countries that are covered. These tend to be more either they cover products or they cover particular countries. But what sort of amalgamation we get as President Trump tried to rebuild his tariff wall and get that leverage that he so ardently desires.

[00:31:47.23] - Anjali V. Bhatt

Okay. Well, that was excellent. That was a lot of history that we covered. Yes, but excellent. Thank you so much, Doug. And thank you all of us for joining us for this edition of PIIE Insider Live. What did you think? What do you want to see next? Let us know at meetings@piie.com. And if you're not already, subscribe to PIIE Insider, the newsletter, at piie.com/subscribe. Thanks again to Doug for joining us, and thank you all for joining us. The next episode will be on March 24th.