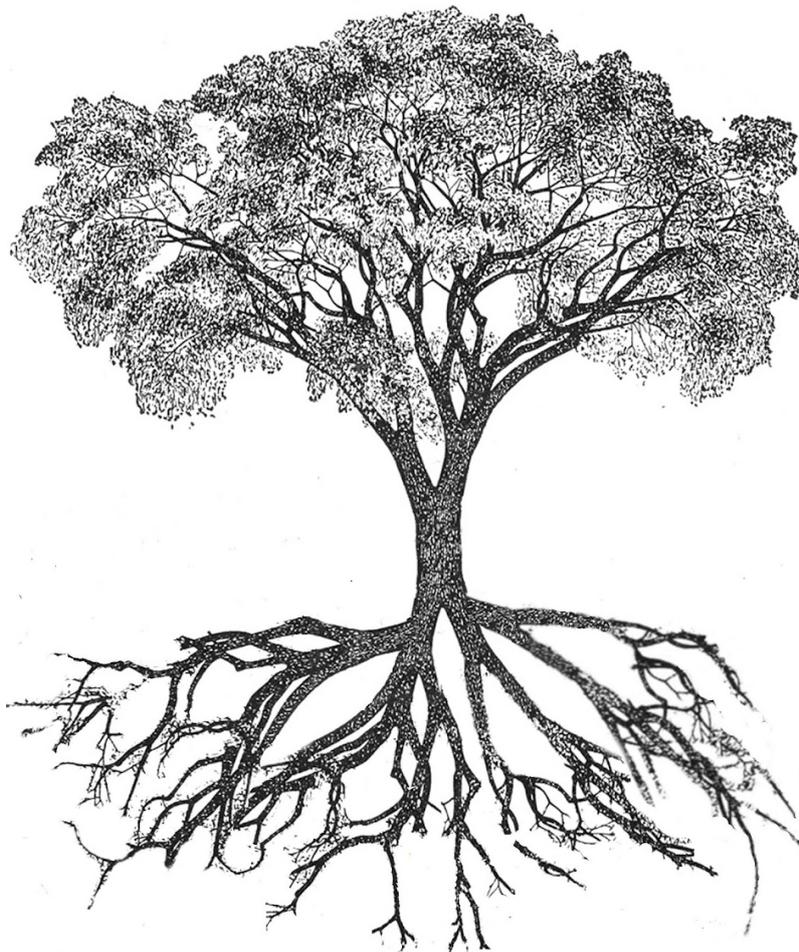


Institutional structures of American trade policy

An analysis of the underlying structures shaping trade-political agendas in the periods of 2002-2012 and 2016-present.



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Introduction

The current times in American trade politics are truly puzzling. Through 5 very different presidencies, that of Reagan, H. W. Bush, Clinton, W. Bush and Obama, a coherent consensual approach to trade politics has ruled: free, liberalised and deregulated trade is beneficial for the American economy. But as of 2016-today, radically different protectionist trade agendas promoting trade barriers and regulation are winning ground while pushing the once glorified neoliberal free trade religion into the shadows. Why? The famous British molecular biologist Francis Crick who co-discovered the structure of DNA once said: “If you want to understand function, study structure.” (Dybdal 2014, p. 106). In understanding the puzzle of the current trade-political climate in the USA, one might turn to this lecture. Structure is in many ways what we don't see controlling everything we do see. To on a deeper level understand the changing nature of American trade politics, I examine the underlying structures shaping and promoting periodic growth and capital accumulation, the so-called Social Structure of Accumulation (henceforth abbreviated: SSA). With the goal of understanding the magnitude and size of recent alterations in American trade policy, the paper will contemplate whether these are part of a larger structural change - i.e. a change in the SSA. This invites the following research question:

Is American trade policy from 2002 - 2012 and from 2016 - today associated with different SSAs? And if so, how can SSA theory explain the reasons for the structural change?

The reason for choosing the specific period from 2002-2012 for comparison is that the period exemplifies the features of modern American neoliberal trade politics. The period furthermore overlaps the Global Financial Crisis of 2007/2008, which can be considered a more than valid test of sturdiness of the then ruling trade-political agenda (The Economist Leader 2016).

Method & approach

In answering the research question, I will firstly state which understanding of SSA theory that I will apply to this paper. Secondly, I will analyze the institutional structure behind the trade policy of the two periods in question, in order to determine an association with different or similar SSAs. Thirdly, I will discuss which theoretical reflections that might explain the alterations from 2002-2012 to 2016-present.

Theoretical approach: modified SSA theory

I will now touch upon which understanding of SSA theory I will apply. With a classical interpretation of the criteria for an SSA, e.g. high GDP growth, it would be very hard to argue for the existence of an SSA after the 1970s - due to the fact that output growth never returned to the high levels of the post-war period. Average annual GDP growth has shown almost no change since the crisis of the post-war SSA (2.95% a year from 1973 -1979) and up until 2007 (2.96% a year from 1979 - 2007) (McDonough, Reich and Kotz 2010, p. 73). For this reason, I dismiss the relevance to this paper of early SSA theorists such as Gordon, Edwards and Reich focusing on social structures promoting GDP growth. In the book 'Contemporary Capitalism and its Crises' David M. Kotz and Martin H. Wolfson (2015) argues for a reconceptualization of the term that focuses less on GDP growth and more on profitmaking as well as capital accumulation: "... we understand an SSA to be a coherent institutional structure that supports capitalist profit-making and also provides a framework for the accumulation of capital..." (McDonough, Reich and Kotz 2010, p. 79). In discussing the existence of a contemporary SSA as well as one from 2002-2012, where GDP growth fails to function as a valid indicator, the view on an SSA as being an institutional structure that promotes especially profitmaking seems very qualified for the scope of this paper, especially since American profit rates have shown to be more volatile and sensitive than the GDP growth rate (Federal Reserve Bank 2018). The paper will also apply the terms liberal SSA and regulated SSAs coined by Wolfson and Kotz (2010), in order to better identify similarities and differences in between the two periods in question (McDonough, Reich and Kotz 2010, p. 81). In making these identifications, I will consider three out of the five dimensions that Wolfson and Kotz apply when

classifying an SSA, namely: the capital-labour relationship, the state role in the economy and the character of the dominant ideology.

2002-2012: The neoliberal era

It will now be discussed whether American trade policy can be associated with a certain SSA during the period from 2002-2012. The years from 2002 and up until the financial crisis of 2008 were defined by a stable continuation of the expansion of free trade agreements as well as the financial and economic openness that had begun emerging since the 1980s. President Bush pursued free trade agreements and welcomed the steadily increasing levels of foreign trade. Free trade agreements with, to name a few, Australia, Singapore and Chile were put in place together with the DR-CAFTA (Dominican Republic–Central America Free Trade Agreement) that took ground in 2005 (Kotz 2015, p. 88-89). An indicator of this policy is the dramatic increase in trade for the period: trade as a percentage of GDP rose steadily from 22.25% in 2002 to 29.94% in 2008 (World Bank 2018). This trade-political approach seemed to continue in existence throughout the Obama administration despite the severe consequences of the financial crisis. The negative effects of the financial crisis were surely greatly increased by the steadily growing interconnectedness of world economies in the period from 2002-2008 (Blanchard 2017, p. 147) - yet the American Government never made the conclusion that free trade was harmful for domestic welfare and profit rates. In the Obama Administration's official 2010 trade policy agenda it is written: "Whether businesses are large or small, studies show that firms engaged in trade usually grow faster..." and adds that: "... trade policy has a key role in this rebalancing (of the economy)" (USTR 2018).

I will in the following consider whether the aforementioned trade political framework can be associated with a specific SSA in the period from 2002-2012. In analysing this association, I will consider some key structural dimensions that were influential on the period's trade policy. One such is the neoliberal ideological institution. The executive branch of the American Government has remained constant in its trade political approach across both the Bush and the Obama presidency. There seems to be,

as mentioned earlier, a neoliberal ideological consensus, that free trade and the removal of international trade barriers promotes American profitmaking and capital accumulation. In this sense, the neoliberal ideology constitutes a quite powerful and influential institution in itself, as its ideas seem highly present in the trade policy of 2002-2012 and in two very different presidents, Obama and Bush (Kotz 2015, p. 8-9). The second structural dimension that we shall consider is that of the role of the state. In the years following the outbreak of the financial crisis, speculation about financial regulation initiatives started emerging in 2009 and 2010 - yet very little changes in the rules of lending and debt management actually happened. One could argue that a key structure in avoiding financial regulation was the power relation between the government and the corporate sector. A trade political goal for both Bush and Obama was to minimize the rapidly increasing trade deficit of the 2000s. This trade-political goal however would be impossible to achieve with a wave of financial regulation (Dybdal 2014, p. 174-175). Along with rising globalization and international trade, an increasing number of American corporations vertically integrated their business abroad in this period. Increased regulation and thereby a complication of the terms for corporate lending could cause an export crisis, as American corporations were in position to threaten with an even larger outsourcing of their business abroad (The Economist Leader 2016). In the light of this example, as well as the fact that a wave of financial regulation was eventually avoided, the state seems rather subordinate to the corporate sector. It moreover makes one consider the remarkable extent to which the miniscule role of the state in finance contributes to shaping the government's strong bias towards business-friendly policy and deregulation. It resembles that of a small state and a powerful liberalised market.

A third institutional structure that will be put under the scope is that of capital-labour relations. A very important criterion for American corporations and capital owners to earn a profit from the promotion of free trade is that their increase in earnings exceeds the increase in wage expenses. In the neoliberal era from 1973 up until 2012, the Gini-coefficient has grown from 23.82% to 38.85% (Chartbook of Economic Inequality 2017) and the mean real household income for the top 5% wealthiest has grown thrice as fast as the real median household income in the same period (Jill

2017). The numbers invite the conclusion that the wealthiest, i.e. the capital-owners, in the neoliberal era indeed have managed to slow the growth in the wage of their workers relative to the growth of their own income and profits. An exaggerator of this tendency is the fact that workers, with the great increases in trade from 2002-2012, now to an even greater extent had to stay competitive not only to domestic but also to foreign workers with dramatically lower hourly wages (Ravenhill 2017, p. 181). Thus, a key condition ensuring that capital owners and American corporations can actually profit from increases in free trade is the specific capital-labour relationship of that period. Had capital not been able to slow workers' wages as it has done from 2002-2012, the profits would naturally have looked very differently. Thus, due to that specific capital-labour relation, businesses do indeed profit from increases in free trade and therefore has a natural incentive to promote it.

Considering the three institutional features just discussed, the period from 2002-2012 shows great resemblance to that of a liberal SSA. In a liberal SSA, capital holds a considerable control over labour and dominates wage setting. Another feature is that the state pursues deregulation and elimination of capital restraints and is very importantly, as Wolfson and Kotz (2010) write, coherent under: "... a dominant ideology that glorifies individualism, unfettered competition, the free market and the danger that state intervention poses for economic progress and individual liberty." (McDonough, Reich and Kotz 2010, p. 84) This institutional structure, according to modified SSA theory, enhances profitmaking and capital accumulation, which has also been the case for the period from 2002-2012, where profit rates (as % of GDP) have been growing from 4.7% in early 2002 to a staggering 10.2% in late 2012 - and with Q1 of 2012 marking a 70 year high of 10.8% (Federal Reserve Bank 2018). On the background of this analysis as a whole, the trade policy period from 2002-2012 is interpreted as being associated with a liberal SSA.

2016-today: a new SSA?

Having talked of trade policy in the period from 2002-2012, in which an institutional structure that convincingly can be classified a liberal SSA existed, I will now turn to

the period in comparison, marked by the years from 2016-today. Though a relatively short period, these specific years have shown the largest diversions from neoliberal trade policy since its birth by the early 1980s. Whereas the period from 2002-2012 was characterized by a bias towards free and deregulated trade, 2016 marked a year for heavy ideological discussions questioning the notion that this trade-political approach truly does benefit American welfare (Donnan 2018). In 2017 and 2018, as Trump embarked upon his tenure as president, what many political experts deemed hot air and mere ideological out lashes, suddenly became a reality: Trump backed out of the TPP (Trans-Pacific Partnership) as well as the Paris Climate Agreement and furthermore imposed tariffs on aluminium and steel claiming that trade wars "... are good and easy to win." (Franck 2018). Though most of the protectionist rhetoric of the administration has remained "just" words and the president moreover seems to consider re-joining the TPP, the overall lines of the trade-political agenda combined with the ideological structure behind it, are so remarkably different from the rest of the neoliberal era (Donnan 2018). The question relevant asking is whether the changes from the first to the second period are radical enough for one to convincingly pose the argument that a new social structure promoting profitmaking and capital accumulation in the years from 2016-today can be said to exist? I will examine this in the following, by comparing the early period's structural dimensions with that of the late period.

While the trade policy under Obama and Bush rested on the neoliberal notion that deregulation and liberalization of trade, as well as markets, is beneficial for profit rates, a very contrary idea seems to be present under Trump: The USA has to regulate trade policy towards protecting American businesses, to shield them from foreign competition by imposing trade barriers and stepping out of international policy deals. It seems an epitome protectionist ideology that if the state does not protect the economy from free trade and globalization, profits will decline (Ravenhill 2017, p. 114-116). The clear distinction between neoliberalism and protectionism invites the contemplation that two very different ideological institutional structures shape trade policy in the two periods. However, as one considers the institutions of the capital-labour relationship as well as the state state-business relationship, fewer diversions in

between the two periods are visible. The dynamics between capital and labour from 2016-today does not express any bias towards protectionist trade policy, for instance exemplified by the fact that the recent corporate tax cut from 35% to 15% marks a jump in corporate after-tax profits, meaning that corporations now compared to the period from 2002-2012, can profit incrementally more from increases in foreign trade (BBC News 2017). One would therefore argue, assuming rationality in business, that American corporations on a general level are less inclined to share the opinion that free trade is harmful for profits. This institutional structure therefore seems to be on line with that from 2002-2012. The small, deregulating role of the state of 2002-2012 also seems somewhat present in 2016-today. The Trump administration has for instance - just like the Bush and Obama administration - evaded a regulation of the financial and corporate sector. However, the administration does indeed favour active state interventionism in certain trade-political areas, the aforementioned imposed trade barriers being a prime example (Franck 2018).

In the light of this analysis as a whole, the 2016-present institutional structure shaping trade policy seems somewhat, although not completely, transformed from that of 2002-2012. I therefore argue, on the basis of the content of the structural analysis, that the trade policy from 2016-present embodies features of a hybrid of a liberal and a regulated SSA. Capital, just as in the liberal SSA of 2002-2012, still remains in considerable control over labour and has a strong incentive to promote free, liberalised trade. But at the same time, the protectionist ideological institution of the Trump administration considers an escalation of trade regulation as well as protection from foreign competition an effective tool in promoting capital accumulation and profit rates. This translates into a larger role of the state resembling that of a regulated SSA (McDonough, Reich and Kotz 2010, p. 82). For this reason, the trade policy from 2002-2012 and from 2016-present can be said to be associated with somewhat, although not completely, different SSAs. For one to pose that a SSA, and thereby a climate supporting profitmaking and capital accumulation, exists, profit rates have to be convincingly high. Corporate profits (as % of GDP) went from 8.8% in early 2016 to 9.5% in late 2017, which is roughly the same level as the profits of late 2012 as well as the all-time high profit rate of Q1, 2012: 10.8% (Federal Reserve Bank 2018). The

profit rates therefore also suggest the existence of a SSA. It will now with theoretical reflections be discussed what has caused this change in SSAs.

Theoretical reflections on the structural changes

The scope of this paper is to consider changes in American trade politics simultaneous to changes in the SSA shaping it. The main institutional dimensions that are found to be different in 2016-present compared to in 2002-2012 are the dominant trade-political ideology and to some extent the role of the state in the economy. Whenever in the history of SSAs structural changes have occurred it has been as a response to a crisis of the previous SSA. Kotz (2015) argues that according to history, every structural crisis of the previous SSA has meant that only a restructuring of the institutional structure would yet again manage to stabilise long-term growth. Moreover, every collapse of a regulated SSA, for instance the crisis of the post-war SSA of 1973, has meant a subsequent liberal SSA, i.e. the neoliberal SSA that emerged in the 1980s. And vice versa, a regulated SSA has always historically succeeded a liberal SSA (Kotz 2015, p. 193-196). However, as one considers the Global Financial Crisis of 2007/2008 and the years following it, little substantial changes, as seen by the previous analysis of the Obama administration, occurred in the institutional structure. This can either be a historical exception or an indication that the crisis of 2007/2008 was in fact not a structural crisis and therefore the solution to it did not involve an institutional restructuring. If the latter is true, it is hard to claim that the change in SSAs from the period of 2002-2012 to the period of 2016-present is due to a societal and economic need for restructuring. Because of the historical uniqueness of the current trade-political situation, it may be difficult to explain the changes in the SSA with SSA theory - as paradoxical as it may sound - as the theory is so based on historic waves of crisis and restructuring, that an exception to this economic cycle is simply out of its scope (Kotz 2015, p. 200-201). Additionally, there is not talk of a full-blown step from one SSA to another, as would historically happen after a structural crisis, but rather somewhat different and somewhat similar SSAs.

Perhaps one might better explain the structural changes by glancing towards constructivist political economy. This scope would enable the argument that the ideational frameworks of the trade policy of the Trump administration is an example of first- and second order changes from the period of 2002-2012, in which the instruments of American trade policy and their respective settings have undergone various transformations, but the overarching goals of the policy remain intact (Hall 1993, p. 278-279). The goal of the trade policy of 2016-present is essentially no different from that of 2002-2012: to increase welfare and profit rates in the USA. It is rather the method of getting there that seems to have changed. Had the paper been 15 instead of 10 pages, I would have gone deeper into these theoretical aspects. However due to reasonable limitation it suffices to say that, while SSA theory has some difficulty explaining the reason behind the structural changes, Peter A. Hall and constructivist political economy does provide convincing theoretical insight: the changes can be considered a result of a social learning that seems to have taken place between the two periods (Hall 1993, p. 281-282).

Conclusion

This paper set out to examine whether trade policy in the periods of 2002-2012 and 2016-present is associated with different underlying SSAs. I find that while trade policy in the period of 2002-2012 can be associated with a liberal SSA, trade policy in the period of 2016-present can be associated with a somewhat different and somewhat similar SSA, namely a hybrid of a regulated and a liberal SSA. The two SSAs have in common the power that capital has over labour as well as the rather miniscule role of the state in regulating business and finance in trade-sectors. This creates considerable room for corporate profits in both periods. A clear difference between the two SSAs, however, is the ideological dimension as well as the role of the state in trade-political matters. Where the liberal SSA of 2002-2012 considers the promotion of free trade beneficial, the SSA-hybrid of 2016-present considers it harmful, for corporate profit rates and capital accumulation. Therefore while the SSA of 2002-2012 favours a liberalisation of trade, the SSA of 2016-present shapes a protectionist stance on trade policy: it is necessary to protect and shield American corporations from foreign

competition. It is therefore argued that the trade-political changes between the two periods have been accompanied by a moderate change in the institutional structure. It is found that in explaining this structural change, SSA theory comes to a short, as the altering structures cannot be considered a response to a structural crisis. However, it is contemplated that constructivist IPE and Hall's theory of social learning may successfully explain the structural changes as a series of first- and second order changes from one period to another.

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