You Might Be Right - US Trade Policy - Transcript
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James Lake: The free market doesn't say that everyone in the US is going to be a winner. The free market says that there's always winners and losers from price changes, and we need to understand that and better identify where are those losers going to be.

Heather Long: What do you do when you have someone like China who is completely so far away from free market economics? Do you punish them? Do you fight back? I think that's been a real awakening in Washington and in the sea change in the past decade.

Marianne Wanamaker: Welcome to "You Might Be Right," a place for civil conversations about tough topics, brought to you by the Baker School of Public Policy and Public Affairs at the University of Tennessee, with funding support from members of our Producers Circle. To learn more about how you can support our work, visit youmightberight.org.

Over the past 10 years, America's economic growth has dramatically outpaced the rest of the developed world. American voters, however, have shifted away from favoring the sort of free market policies that characterized American trade in the post-World War II era, and towards more restrictive policies that economists suggest with lower economic growth, domestically and abroad.

In this episode, our hosts, former Tennessee Governors Phil Bredesen and Bill Haslam and their guests, discuss trade policy and the impact of tariffs. Are economists wrong about the gains from lower barriers to trade or are Americans increasingly prioritizing other things in determining how we will trade with the rest of the world?

Phil Bredesen: Bill, welcome back, another season.

Bill Haslam: It is. So far they haven't canceled us. I'm kind of surprised

Phil Bredesen: It's probably waiting for us just over the horizon, but.

Bill Haslam: Hey, but, I'm actually really excited about this season. Think what you want about President Trump, but one way or another, he creates a lot of discussion-worthy topics, and I think we have some of those coming up in this season.

Phil Bredesen: I'm deeply grateful to him for that.

Bill Haslam: Providing content.

Phil Bredesen: As we're starting off with the subject of trade policy, which can be a little dull and bookish, I guess, but is I think really vitally important to people. It's hard to understand, going to have huge effects on people's buying power. I think it's a great place for us to start and try to help make some sense out of it.

Bill Haslam: Yeah. Even though we didn't deal with this a lot as governors, the impact of tariffs and trade policies, particularly automobile manufacturing industry which is so huge in Tennessee, does affect us greatly.

Phil Bredesen: Absolutely. Tennessee has always done a lot of international trade, a huge amount with Canada, as you well know. So even if we don't have ambassadors to go somewhere and trade representatives, it really is very important to what Tennesseans find in their day-to-day lives.

Bill Haslam: Well, let's see what we can learn and where we maybe didn't have it exactly right.

Phil Bredesen: Okay.

Well, Bill, we've got two great guests here today. The first is Heather Long. Heather Long is an opinion columnist for the Washington Post and was on the editorial board from 2021 to 2024. Before that, she was a senior economics reporter at CNN, has a long history including being a Rhodes Scholar at the University of Oxford.

James Lake is an associate professor in the Department of Economics at the University of Tennessee, and his research focuses on how international trade policies, like tariffs, impact the country and create winners and losers between the countries and among different groups within the countries.

To both of you, welcome. We appreciate you being here.

Heather Long: Thanks for having us.

James Lake: Yeah, thanks.

Bill Haslam: Well, let's start with the basics. A lot of conversation about tariffs, how do they work? We have the big debate about who actually pays them, et cetera. Either one of you can jump in first, but explain how do tariffs actually work?

James Lake: Sure, I can take that one. Like you said, well, like you were getting at it, tariff is nothing other than tax on imports. And so if the foreign exporter in the other country that's selling here to the U.S. doesn't change their price, then the tariff would pass fully through to us as U.S. consumers. There's a chance that the foreign exporter may take a discount and so then the tariff wouldn't fully pass through to us as consumers, but at the end of the day, it's a tax on imports and the price of the imported good will go up, and then in turn, what's that going to do? Well, it's going to increase the price that we pay here and that's going to hurt us as consumers, but it's also going to affect firms in the U.S. who are buying things on the world market.

And so actually only a third of U.S. imports go to us as final consumers. About two-thirds are actually bought by firms. Firms are consumers as well. On the flip side, the potential benefit is that the tariff is going to stimulate domestic production on the goods that are hit with tariffs. And so that's the benefit there. Domestic producers are going to increase their production and they can also raise the price. Right now the foreign exporter is facing the tariff, the prices has gone up on imported goods, domestic producers can use that as a bit of a shield to raise their own prices as well.

Bill Haslam: Or theoretically to sell more. Right?

James Lake: Well, I mean once you see that the avocados coming in from Mexico, U.S. consumers are paying a much higher price for those. It's unlikely that you're going to just sit here on your hands as a domestic producer of avocados and keep the same price you were before, noticing that all of a sudden Americans are buying avocados from Mexico at 25% higher price. Yes, it's possible that you may be willing to sell at a 25% lower price than the Mexicans are selling their avocados now, but we should not expect that would be the default case.

Bill Haslam: Heather, you want to jump in?

Heather Long: I think that was a pretty good answer. I'm going to plus one to what Professor Lake said.

Phil Bredesen: Just to clarify, you've talked about the impact of its generating revenue through tariffs and also about the possibility of moving manufacturing production on shore, but they're sort of mutually exclusive, aren't they? I mean, if you move it on shore, you lose the revenues that come from tariffs.

James Lake: Yeah, that's a great question. On the revenue side, these days tariff revenue only accounts for about 2% of federal revenue. We shouldn't really be thinking about tariffs really as a source of raising revenue in any meaningful way. Before the 16th amendment in the U.S., when we had all of a sudden income taxes and corporate taxes, then tariffs were about 90% or even more of U.S. federal revenue. But that's not the case these days.

The point that you pick up on the extent to which we pay the tariffs, the extent to which foreigners do not give us a discount, you're entirely right that that higher price is what is generating the switch of production to give the incentive for domestic production here to expand. If foreigners take a discount, and so very little of the tariff has passed through to us as consumers, there's not going to be that much incentive for domestic producers to take up the gap that's no longer being filled by the foreign producers.

Bill Haslam: Are tariffs an effective way of negotiating with other countries? How much of the current discussion around tariffs out of the White House is about actually trying to create U.S. jobs and how much is about negotiating tactic?

Heather Long: That's a question that's on everyone's mind, you get so many different answers to this question. If President Trump were on this podcast, he said it's a great negotiating tool and he'd already point to some of those concessions from Mexico and Canada along the border that he was so keen to get. I think what's really tricky here is, you can't just threaten tariffs every month and expect to get a concession again and again and again. At some point – we're already seeing it with Canada – people get tired, particularly if they felt like they were a friend of the United States and an ally of the United States, of being threatened with these tariffs, and they're going to find new trading partners or they're going to find new markets or they're going to find ways around these tariffs. And so I think there's sort of a short-term win versus what the long-term strategy is, and that's where there's a lot of frustration around what President Trump is doing, is okay, if there were a clear stated goal, then sure, maybe tariffs are effective.

A lot of people go back to the 1980s and the Ronald Reagan example with Japan. That's one of the clearest wins where Reagan came out really strong, sort of threatened tariffs or quotas that Japan couldn't send so many cars to the United States, and ultimately he ended up getting a big economic and trade deal with Japan and ultimately got a number of Japanese firms to open up factories in the United States. That's seen as very much a big win for trade policy or what's sometimes known as economic warfare or economic statecraft. But there was a really clear goal that Reagan was trying to achieve, and I think right now Trump has so many different goals, it changes by the day. Are we trying to fix the trade balance? Are we trying to bring back jobs in manufacturing? Are we trying to bring in revenue? Are we trying to end the war in Ukraine by threatening Europe with tariffs? What is the real goal here?

Bill Haslam: Let's maybe back up and ask a more fundamental question. Why do we have trade policy anyway? Why don't we just let the market run and let people buy what they want, from whom they want, when they want.

James Lake: There's a few answers to that, Heather hit on one. There can be particular circumstances where you might want to encourage the expansion of a domestic industry and for whatever reason the market is not allowing that industry to expand. Perhaps it's because with the auto sector, maybe if you expand the domestic production of cars, all of a sudden there's the opportunity for a whole bunch of auto sector input producers to crop up. And so maybe there are these sort of other benefits that could crop up and maybe justify why the government might want to step in.

Along these lines, in terms of thinking about whether the government can pick winners, one potential thing that's cropping up at the moment, and I think is going to play out more going forward, is the national security angle. I think this is an important issue that hasn't been fleshed out as well in public discussions. The Trump administration put forward national security reasons as a rationale for the steel and aluminum tariffs in the first Trump administration, and I don't think many academics or public policy experts think that that was justified on national security grounds. But once you start to think of things like AI, clean energy, semiconductor chips, rare earth minerals and critical minerals, I think once you start to think about those kind of products and the uses that they have abroad, then that would be one reason.

Heather Long: Broadly speaking, I would say the United States from say certainly the 1990s until 2016 was embracing a pretty free market trade policy. We were lowering our trade barriers. We were saying, "Let the best companies compete and win against each other." We were signing a lot of trade deals around the world. But as Professor Lake points out, there's really two arguments that are I think appending our belief in the free market. Number one is the national security arguments, and you can debate how much steel capacity does the United States need, and semiconductors are another area that's really come to the forefront in the United States. We all have these phones and computers. We're listening to this podcast on audio equipment and most of it it's run off semiconductors of which the United States imports currently 90% from abroad. Should we be that reliant on foreign sources for something so key to our economy?

The other one that we haven't talked about, what do you do with countries that don't play by the rules? Now there's always little skirmishes, particularly over agriculture. Europe doesn't want to eat American food because of our genetic modifications or we're constantly fighting with the Canadians over milk and who can produce more milk and who should be able to export more milk, but then enters China. And China is fundamentally playing by totally different economic policy rules than pretty much everyone else in the world. They are heavily, heavily subsidizing industries, particularly their manufacturing sector. They are dumping loads of steel onto the world market to try to undercut all these other players.

What do you do when you have someone like China who is completely so far away from free market economics? Do you punish them? Do you fight back? I think that's been a real awakening in Washington and a sea change in the past decade of particularly what to do with China or other countries that are so off how everyone else is operating.

Phil Bredesen: We've done several conversations here around economic policy and deficits and the like, just did one earlier this year. Another aspect of this is, of course, we have for a long time run substantial trade deficits in the country. Do you see that as an economic problem? Is that something that should be put on the list along with structural deficits in our own economy as something that needs addressing?

James Lake: I would say no. The fact that we have a trade deficit, at the margin trade policy may play a small role, but trade deficit is much more about the macro-economy, national savings, national investment. If you look at the only times in the last 50 years that the trade deficit substantially reduced, they're in times of economic crisis where investment plummets, and so that's not really the kind of environment that we want. The trade deficit has improved in the last 50 years in times where the economy is in crisis. Do you want to go to a situation where investment is plummeting and firms are not investing in plants and equipment and things that make their workers more productive, things that make the economy stronger going forward? No. And so the trade deficit is a fundamentally different object than, for example, the government deficit. And so this is not really anything that we should be worried about in terms of using trade policy to manipulate it.

Heather Long: I will just put an asterisk on that. I generally agree with professor Lake, but I think as you may have already deduced, I'm one of the people who's bought in a little bit more to, "Yes, generally it's not something to worry about but," and the but is China. China is not just running a massive deficit with the United States. They're running a massive trade surplus against most of the world. They're purposely trying to control markets and root out any competition from anywhere else in the world. Personally, I think we've seen a lot of devastation from that and I wish – there's obviously a movement in Washington to try to specifically target China's unfair economic policies.

Phil Bredesen: Just to follow up, do you not think, I'm not an economist, but do you not think there are vulnerabilities in our country when you have these huge stockpiles of dollars being held in other places, not necessarily friendly places?

Heather Long: Obviously, I worry a little bit about that. I'll let Professor Lake go first.

James Lake: No, I would say yes, at least to some extent. If you think of China holding – China holds the vast majority of, for example U.S. government bonds and huge foreign exchange reserves. And so when any one country holds such a large share of anything that's traded, then they can move the market price. And so that is a potential vulnerability. At the same time, it's not going to be a win-win for China. If they all of a sudden decide that they want to unload all of the U.S. government treasuries they have or all of the US dollars that they have, the price is going to tank. And so the value of the thing that they're holding, those U.S. dollar denominated assets is going to plummet. And so there's a mutual interest here at stake that reduces the extent of vulnerability there. If any one country holds a vast share of U.S. dollars or U.S. government bonds, then that is a potential risk.

Bill Haslam: Let me back up a little. I am basically somebody that believes in free markets, but I think, Heather, the point you bring up about China is a great one. When we're dealing with a controlled economy on the other side, that can manipulate markets in ways that we really can't, do the rules change when we're dealing with, like I said, China who's for their own reasons might be moving product in here at rates that nobody could compete with. And so it blows my free market argument up.

Heather Long: I've certainly become a lot more sympathetic to the notion that the Chinese are undercutting to an extent that we need to take action. For instance, obviously I'm a reporter, a journalist, and I was talking to a U.S. manufacturer out of Wisconsin, and he was explaining to me that they sell a lot of office furniture and most of it is made in the United States, including in Erie, Pennsylvania. I'm originally from Pennsylvania, but the problem is already President Trump has put tariffs on China.

And he said, "Heather, I wish you were at this recent trade show with me where all the office furniture sellers showed up in Florida, because the Chinese were literally, one of these companies, was literally offering already their office chairs and tables for lower than the price to manufacture it." Everybody else had a price at $17 a chair, and they were already at 15.99

trying to say, "Despite the tariffs, we are going to undercut the market." He said, "Look, I can't prove this to you, but pretty much the only way they can be doing that is if they're going to get an even bigger subsidy or tax write off from the Chinese government. It's just not possible to stay in business."

James Lake: I would push back somewhat against that, in the sense that, don't let this example per se lead you to waiver in the benefits of the free market here. I think it's a great example of winners and losers. Heather clearly identified some of the losers here. The U.S. furniture manufacturer is a clear loser, but who are the buyers here? The buyers, I think you mentioned office furniture, Heather, the buyers are not us as consumers, the buyers are U.S. businesses. And so to the extent that U.S. businesses have to pay more for their office furniture, it just increases their overhead, it makes business more costly for them.

It's going to presumably lead them to hire a few less workers. Sure that cost is going to be dispersed over lots and lots and lots of different firms. So each firm may only hire a few less people, but when you aggregate that across the whole economy, you could easily get into a situation where the number of jobs lost throughout the rest of the economy is more than any potential jobs saved in the Erie furniture manufacturers.

I don't think that's a reason to waver in your free market views, but I would say at the same time, it comes back to a point Heather made earlier, which is what's the goal? If Erie Pennsylvania's economy, 80% of their employment is related to this office furniture manufacturer and not maybe just the firm that's making the furniture, maybe there's local woodworkers and other businesses that contribute to that. If you all of a sudden take away trade policy or let the Chinese come in and undercut it and decimate that industry, that could be a massive cost for that community. It could be really concentrated.

And so then one could make a distributional argument. Independent of the free market economics, it's more of a social objective. Maybe despite the efficiency gains there, and despite the fact that the number of jobs that we would save by removing the tariffs and letting all businesses that buy office furniture hire a few more workers, even though that would create more jobs than the jobs that are being preserved there in Pennsylvania, maybe that's a trade-off we're prepared to make, just because the economic cost is so concentrated, but it comes back to the goal.

Bill Haslam: Professor, let me, that's great arguments. What you're saying is, listen, if somebody can get that office chair cheaper, businesses all across the country are going to save. The converse is, not only is that chair manufacturer going to go out of business, but so is their lumber supplier and so is their local restaurant, et cetera, et cetera. We're both business guys who went into politics. How do you figure out the contrasting ROIs on each of those proposals?

James Lake: I mean, I think it's really difficult for two reasons. One, because once you look at this thing in the rear view mirror, we can look at for example, the textile industry in North

Carolina, perhaps the office furniture industry in Erie, Pennsylvania. You can see those things get decimated after the fact, and then you can see the political resistance that it generates to free market policies. You can see the kinds of trade policies that then emanate from that, such as the current trade policies we're thinking about.

And you can say, "Wow, there's a lot of costs there," but when you're thinking about it from a prospective perspective – we have a lot of auto industries here in Tennessee, like 4% of employment in Tennessee is autos. Like 20% or 40% of manufacturing employment is autos. How do we value potentially tariffs at the moment on the auto sector preserving the economic health of these counties in Tennessee? It's really hard, in part because the costs are abstract. How is it going to impact the population's view of trade going forward? How is it going to manipulate the political discussion going forward and the types of public policies that we see emerge? It's a really complicated issue and I don't think anyone has a good answer for that.

Heather Long: And I just jump in real fast. I spent a lot of time traveling the country for the Post and CNN. I think we can all agree we've done it. The free market answer to what happens to those people in Erie, Pennsylvania or elsewhere across the country is they should just move and find a new job in one of the industries that's growing, whether that's healthcare or AI. The problem is we have done a terrible, terrible job in this country of helping people transition. Things like trade adjustment assistance, bipartisan agreement, that's been a huge failure. It's not enough. Obviously people in the U.S. just don't move very much anymore. So the idea that they're going to leave Erie, Pennsylvania, or leave eastern Tennessee and suddenly move to Texas or Atlanta, it's just not happening. And so I think that's something that took a long time for economists, for politicians, for the business community to realize that our free market "solution" to help the losers in this scenario didn't work at all.

Phil Bredesen: I'd like to go back to China for just a moment. I'm certainly a believer in free trade, but in this country we've got laws having to do with monopolistic practices and pricing, which is designed to drive –

Bill Haslam: Employment law.

Phil Bredesen: Yeah. Pricing which is designed to drive competitors out of business. Shouldn't a China at least be held to the same level as a U.S. company in terms of they're using these tools to gain an unfair advantage?

James Lake: Yeah, a 100%. There are those rules in place already at the World Trade Organization. In particular, if China or any country for that matter, sells at below fair market value, then the U.S. can use what's called anti-dumping duties. They're tariffs that are imposed on the foreign country by law in the U.S. They're temporary in nature, so very different to the kinds of tariffs that the Trump administration has imposed. But these are regularly used and have been by many administrations over the last couple of decades. The WTO has recognized that there are circumstances where countries are not playing by the rules, that countries can use tariffs as a way to penalize them and hopefully lead them to stop that unfair practice.

Heather Long: The counter to that is that China is such a fire hose, and that's trying to use, I don't know, my child's little sand bucket for the beach to try to stop this problem. In theory, it's a good idea and it's a good structure that's worked well. But again, China is just in such a different category than dealing with the European Union or dealing with Mexico and Canada that unfortunately the WTO, I would argue, hasn't worked very well in this case.

Bill Haslam: Let me shift and ask another question because of President Trump's strong position and rhetoric on this issue, we think of tariffs in terms of the president's power. Does Congress have a role in tariff and trade policy? Give us some education on how it actually works.

James Lake: Yeah. Actually according to Article I of the Constitution, Congress has authority over taxes including tariffs, for example. However, at various points in the 1900s, Congress delegated authority over tariff-setting to the executive, and so did this in a few ways. Some of these are the kind of temporary tariff measures that I was just talking about a couple of minutes ago, things like anti-dumping duties. Another one is the power for the executive to negotiate reciprocal trade agreements, for example, NAFTA, but also global tariff reductions such as the Uruguay Round back in the 1990s. And it also delegated authority in more broad and relatively unused circumstances, which is what the first Trump administration picked up on. Imposing tariffs in the name of national security, imposing tariffs on China for unfair trade practices, the threatened tariffs on Canada and Mexico just a couple of weeks ago in the name of domestic national emergency. And so, this is where we're at in sort of the legal authority of who levies tariffs. Fundamentally Congress has it, but they've delegated it to the executive branch.

Bill Haslam: How do we know when tariff for trade policy is not working? I know you say there's a hundred different ways, but how do we know when we've gone down the wrong path?

Heather Long: I'll take a first stab at it and Professor Lake can do the cleanup. How about that? The obvious ways that everyone's already concerned about in the United States is that costs are clearly going to go up if we're doing a lot of these tariffs, and at certain points people are going to balk at that. Again, it's one thing. I think even President Trump has recognized that in his own statements, it's one thing to ask for short-term pain for some sort of bigger goal, but if people can't see that bigger goal for long, and then we saw that a little bit when the gas prices shot up after Russia invaded Ukraine and the media, it was, "We're all for Ukraine," but man, those gas prices staying high, people were pretty angry.

The second one is the GDP, the economy. If we keep too many of these tariffs in place and stop trading, generally speaking, we're going to be a poorer nation over time and we're not going to grow as well as we have in the past. I think for the United States perspective, you're the politicians here, you know this better than we do, but there's a real risk to U.S. influence. Right now we are the dominant country in the world, particularly economically, whether it's the Federal Reserve, whether it's the U.S. dollar, the reserve currency, whether – my first job was working in an investment firm in London, just before the great financial crisis. I used to have to make the case in the early 2000s for people in Europe and the Middle East and Africa to invest in the United States.

They were like, isn't U.S. the country in the past? Then we had the great financial crisis, and for the past 15 years, we are the dominant place to invest. People see us as a safe and a stable country, and do we get to a point where we erode that vision and erode our institutions, sort of everyone's belief in what the U.S. stands for and what the U.S. economy is to a point where people start looking elsewhere, whether it's for trading partners or investment opportunities. Again, that really costs us. It's hard to see it year by year by year as it gets etched away, but these are all potential risks.

James Lake: Yeah. I'd add a couple of things. One is a point that's been raised before, which is, it's kind of hard to answer that question without knowing what the goal is. To assess whether trade policy is working or not, you want to see, okay, what were the planned benefits? Are we achieving them? What are the potential costs? How are they unfolding? And so, without knowing what the stated objective is, you're only partly getting at that issue. Nevertheless, a couple of things come to mind here. Going back to the negotiating tactic idea, to the extent that tariffs stay in place for a long time, that's an indication to me the trade policy is not working because whatever the objective was, presumably it hasn't been met yet because the tariffs are still in place. Tariffs have a cost, they might get some kind of benefit. Once that benefit is yielded, then maybe the cost goes away.

For example, Trump's threatened tariffs on Canada and Mexico. He pretty quickly withdrew them once he got what he thought he wanted. How does this relate to where we are right now? The tariffs imposed by the first Trump administration is still in place, seven, eight years later. That's 25% tariffs on China, some tariffs on steel and aluminum on everyone else. That itself was the biggest about of U.S. protectionism basically since the Smoot-Hawley tariffs in the 1930s, and Biden didn't remove them either. And so they're still here. When are they going to go away? Who knows? And so to me, that is an indication that at least that part of trade policy is not working.

Another thing that I think comes to mind in terms of recognizing when trade policy is not working is throwing good money after bad. Potentially one might want to take some efficiency costs to distort the free market, to protect furniture makers in Erie, Pennsylvania because the Chinese are about to come in and devastate that local economy. But the idea that we can bring, for example, hundreds and thousands of steel manufacturing jobs back to Allegheny, Pennsylvania, that's not going to happen. Protecting the steel industry now is not going to bring those jobs back. And so that's an example of throwing good money after bad. And so I think that's another situation where you can recognize that trade policy is not working.

Phil Bredesen: We have worked out in this country over decades, I guess really since the second World War, a trade policy with trade agreements and tariffs in some cases and so on, that seems at least to me to have more or less worked. The question I have for you is, if Bill here became president next time around and called you up and said, "ook, I want to look at this issue and national security is first in my mind, and keeping a strong economy that keeps Americans employed, and keeps low prices for goods is second." What would you suggest to him that needed to be altered or changed or expanded in any way?

Heather Long: Well, it probably won't surprise listeners to hear that I think keeping on some pressure on China is wise. We can maybe debate and tailor it a little bit. I think the bigger thing is really the national security question. There's a reason that the CHIPS and Sciences Act passed with bipartisan support to try to revive the semiconductor industry in the United States and become less dependent on Asia, particularly on Taiwan and China via third party countries where we were importing semiconductors from. To me, that national security argument trumps the economic argument, and it makes a lot of sense. There's a number of other strategic industries. You all obviously know the auto industry probably better than I do, given your history in the state of Tennessee. There's a lot of debate that I've heard both Democrats and Republicans in D.C. make about how do we protect and foster the electronic battery market, these sorts of things for the cars of today and tomorrow.

I think there's a number of national security industries of the future, I would argue. What are the industries that are driving the future? Obviously AI is a part of that conversation. What do we really need to ensure that AI grows to ensure that our energy sector is strong enough to foster that AI growth? I do think some of those industries may need at least temporary protection. I know we've been talking about tariffs, but the other thing that's frustrating not to hear President Trump talk about alongside tariffs, is we got to make some investments. Some of this is also about countering China and other nations by strategically investing some money from our federal government into these key industries of tomorrow.

James Lake: Yeah, I think that's right. I think national security and all the things that Heather pointed to. From an academic perspective, I think that's a legitimate issue that is already being discussed in policy circles. There's already plenty of restrictions that the Biden administration put in place in terms of exports of chips from the U.S., of software and tools used in foreign, semiconductor plants, all with the aim of trying to stop China getting access to advanced chips for various purposes, 5G infrastructure, military purposes, et cetera. I think there is a serious issue there that needs to be addressed.

I think the other thing going forward is to, and this touches on things we've already talked about, we need to be wary of future adverse impacts of trade that are concentrated on certain groups of people within the American population. Lots of people are upset with trade policy. Lots of people have lost. The free market doesn't say that everyone in the U.S. is going to be a winner. The free market says that there's always winners and losers from price changes, and we need to understand that and better identify where are those losers going to be. Are they concentrated to a particular type of worker, to a particular type of location, especially a particular type of location, because there can be a lot of costs there and in particular that can really affect public policy for generations to come, and we're seeing that today.

Bill Haslam: Okay. Final quick question. The podcast takes its name from Senator Howard

Baker's quote of always remember the other side might be right. Can each of you think of examples where now looking back and maybe particularly on trade policy if you can, but it doesn't have to be, one time I didn't exactly have that right?

James Lake: Yeah. On trade policy, definitely. Getting back to the question of who pays the tariff. Is the foreign exporter going to give us as a U.S. a discount when all of a sudden we restrict the amount that we're buying from them? The free market principles would say, yes, anytime there's a decrease in demand, the price should go down. And that has been staple intuition among international trade economists for a number of decades. And so when the Trump administration imposed the raft of tariffs that they did the first time around, trade economists expected that the foreigners, mostly China, because that's mostly where the tariffs were imposed, would give the U.S. a discount. That the U.S. consumers would not be paying the whole amount of the tariff because we'd be getting a bit of a discount relative to what the Chinese were selling to us before.

But a bunch of academic evidence came out looking at the data, looking at what was happening in the real world, and found that, hang on a minute, to our surprise as academic trade economists, that wasn't happening. The Chinese were not giving us any discount. Us in the U.S., we were paying basically all of the tariff. That was surprising. I wouldn't have guessed it. I was skeptical before seeing multiple papers with different approaches, slightly different data, come to the same conclusion.

Heather Long: Yeah, I would just echo, my views really changed about how I think the United States needs to fight back against China and what I see as very unfair economic policies from the Chinese. Now, are tariffs the right way to do it? We can have that debate, but I think my generation, Millennials, really grew up under the free trade 1990s, early 2000s. I think there's been a lot of people, and myself included, who have looked around now, who've seen what some happened to some of our hometowns in this era and have really shifted our views about whether free trade is the ideal. I would say it's free trade with an asterisk, and there's a big asterisk as long as China continues to do what it's been doing. So partly President Trump in that momentum in 2016 did shape my views and have changed.

Bill Haslam: Hey, thank you all both for joining us. We really appreciate it. Very insightful. Like I said, I think one of the great things you all just did is explain how complex this is and that there are pretty serious ramifications every time you pick a winner here.

Phil Bredesen: My own thanks too. This has been very interesting. We could have gone for a long time. Thank you.

James Lake: Yep. Thanks.

Heather Long: Thanks for having us. Happy buying.

Bill Haslam: Well, Phil, one of the things I always say about governing is, it's a lot harder than it looks on TV. I think they did a nice job, as I said, of showing there are ramifications. It's easy to say I'm a free trader, but then are we going to let China take some unfair policies to produce goods cheaper than we can and sell into our market? Like I said, none of this is really simple.

Phil Bredesen: Yeah. I think also the point that was made which is free markets imply winners and losers, and sometimes you have to focus on, I think I'll use the example of Erie, Pennsylvania, and people were not going to move en mass to, I don't know, Denver, Colorado, or something, because that's where the jobs are. You must have as well seen that in Tennessee, where we had all of these manufacturing operations in rural parts of the state, which were significant parts of the economy of these counties and these cities, and it all went offshore. It's changed the politics of Tennessee, it's changed the economy in Tennessee, and not in a good way.

Bill Haslam: I think the hard thing – listen, politically I think President Trump was really smart to realize, "Hey, there's a lot of big-felt emotions about this" and was able to take advantage of that. I think the hard thing for me is, everybody talks about, well, make certain you're not protecting the legendary buggy whip manufacturer, the person that was manufacturing stuff for a different era. One of the hard things when you put together a trade policy is when are you trying to protect somebody against an unfair advantage versus protect them against a changing economy, which you can't do.

Phil Bredesen: Right. That's exactly right. You use the example of, I don't know, buggy whips versus automobiles or something, but a lot of times it's a lot more subtle than that. It's hard to tell what are those declining pieces that really ought to be left to their own devices.

Bill Haslam: For me, this is another one that reminds us, like I said, nothing is as simple as it sounds. It's easy to say, "Well, I believe in free trade," which I do, but I do believe, as Heather said, free trade with an asterisk.

Marianne Wanamaker: Thanks for listening to "You Might Be Right." Be sure to follow on Apple Podcasts, Spotify, or wherever you listen to your favorite shows. And please help spread the word by sharing, rating and reviewing the show.

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