Welcome back to another episode of Bush School on Court. We're doing another live taping. It's been a few weeks since we've done one, so we're happy to be back here at Downtown Uncorked in downtown Bryan, Texas.

Historic downtown Bryan, Texas.

Historic downtown Bryan, Texas, that's right. We have one of our guests that we've gotten to hang out with before. I think this is maybe the third time that Dr. Robertson has made it. Third time that I've interviewed you, but only the second time for this podcast. We're excited that he's back with us. He recently took over the Mosbacher Institute, which we're going to get to learn a little bit about today.

As always, thanks so much Downtown Cork for hosting, and thanks so much to the Bush School for sponsoring. I think that's all my intro part. With that, Raymond, thanks for being here.

It's my pleasure. Thank you very much for having me out.

One of the things we've tried to do with the podcast this semester is introduce folks to the different research institutes, outreach institutes we have as part of the Bush School. You were recently named the director of the Mosbacher Institute. Can you tell us a little bit about the Mosbacher Institute and what it is and it's history. Then maybe we can talk about some of the projects you're doing and maybe go a little bit further on some of the directions you're hoping to take it. Just a preview of the things I'd like to know. Is that okay with you?

Absolutely, it sounds great. Thank you very much for the opportunity. We're very excited about what's going on at the Mosbacher Institute. The Mosbacher Institute, of course, is named after Rob Mosbacher, who is George H.W. Bush's secretary of commerce and played an instrumental role in shaping that administration's trade policy. When the end of the administration of George H.W. Bush came along, he wanted to do something to memorialize Rob Mosbacher, and so we started this institute.

The institute was originally focused on trade, economics and public policy. I'm the third director now. I'll be taking up the reins now from Lori Taylor, who was our previous director, and then Jim Griffin, who was the director before that. Each of those directors have had a different focus. Jim Griffin, of course, had a focus on energy or has a focus still on energy, energy policy. Lori Taylor has a focus on education. She did a lot at the institute focusing on education.

My specialty, as you know and as we've talked about here on Bush School on Court, is international trade. That was actually a little bit closer to the heart of Bob Mosbacher, Robert Mosbacher's work. We're really happy to bring it back to this focus on international trade.

Through the institute we're doing a number of exciting things. We basically have three main areas that we focus on in terms of the activities. The activities are supporting research. We're trying to get people involved as fellows in the institute. We've been promoting research. We have a take away series, which is a policy brief that we publish that features research of people that are affiliated with the institute and others, other friends. We also do events. Last month we had two phenomenal events. We had the very conservative economist, Anne Krueger, whom everyone thought was a raging liberal because she was very critical of President Trump's trade policies. Of course, she was speaking from the position of a very conservative economist who believed in very free trade.

Then we followed that up with the actual negotiator of the North American Free Trade Agreement, Jaime Serra Puche, who was the Mexican negotiator. He came in, and we had an outstanding panel, outstanding discussion about the importance of trade. One of the great things about that event was we actually had video footage of George H. W. Bush actually praising Jaime Serra Puche and his important work in bringing about NAFTA and talking about what an important agreement NAFTA was. That was just some of the events in February that have been going very well.

The third part of course is sponsoring students. We want to get students very much involved. We have an internship program where we support competitively two students who would apply for a summer internship, something engaged in trade policy in particular, some sort of international trade related organization. We would support their research and their internship throughout the summer months, in between that first and second year here at the Bush School.

Those are the three things that we mainly focus on in terms of activities. The three areas that we focus on are the same ones I mentioned earlier. We still focus on energy. we have a very alive and important energy program. We still focus on education. Lori Taylor is still very much involved, supporting governance broadly speaking but education in particular. We have other people engaged in governance.

Then of course, we are still engaged in trade. We're very excited about develop trade particularly with Latin America, but also we look at China and other parts of the world. Trying to promote this vision of free and open borders for the prosperity of, not just Americans, but also people throughout the world and the benefits that trade brings that accrue to both Americans and people in other countries, whether it's Europe or Japan or the developing world.

You're really a multiple of focus areas and a multiple of different types of activities you do. You're doing different types of research. Yours truly did a take away a couple of years ago, and it was on none of these things. It was on improper payments-

And governance. Governance is an important part, right. Sure, sure, governance.

Then doing outreach type education events and helping facilitate some of the Bush school students, which is all pretty cool. Do you have other events planned for the rest of the semester that people should be aware of that are listening and might want to join for an event or anything else on the books already or things that you're thinking about?

We sure do. We have a couple events coming up in April. We have an education policy research project that's coming up. Then we also have something later on in April on energy coming in the last week of April as well. Both of those, I think, are basically lunchtime events. If y'all are around, we'd love to share those details with you. They're going to be very exciting.

All right. Very good. Let's talk a little bit maybe about what types of take aways have you been doing? What types of research have you actually been highlighting lately within the institute? Is that something that you've been doing recently?

Yeah, of course. We're putting them out at an increasing rate, I would say. We've done some wonderful high quality ones. Yours was one of the ones that we talked about even this morning when we were meeting about some of the good ones. We'd like to have you maybe do more of those. You and Rob Greer, we thought, would be really good to put together. You worked with Rob on the last one. We thought that would be great to do a repeat. We also, I've done a couple recently. One on the USMCA, which is the follow up agreement to the North American Free Trade Agreement, about the differences between that and NAFTA. Jim Griffin, again following up on energy, did a rather critical piece on solar panels and some of the concerns that we should be having about solar panels installation, especially on residential units. We're also have a new one, our newest one is coming out from actually Kent [Portney 00:07:30] from our INSTePP, Institute for-

Science, Technology and Public Policy.

Public policy. He's putting one together, I think, that's going to follow up on some of the other research that he's done. They're doing a lot of research there. I haven't read it yet. I just got the copy earlier today, so I'm looking forward to reading that. We're actually trying to broaden the base a little bit to try to bring in a number of other people.

In order to get that going, I've actually been very excited about a new program we're implementing which is our research fellows program, where we're inviting people from our closest friends, people [inaudible 00:08:04] talk to you about this as well, as research fellows to get them more engaged in writing take aways on a more regular basis. We've already sent out a number of invitations. People on economics, industrial engineering, ag, econ are just some of the ones outside of the Bush School as well as a number of Bush School people to get them engaged. It's going to be broadening up the focus obviously with industrial engineering or even in economics. They do some different types of topics.

Our goal really is to try and provide things that are interesting to the broadest base of students as possible, to also get the word out about our research at the Bush School, but also to get students more familiar with some of the research opportunities that we have.

Sounds like you have a plan, man.

We have a plan. I have a vision. I have a vision and a plan. This is the end of March, so I've technically only been in charge three months, and already I'm starting to get the sense that things are changing quickly. Maybe a little too quickly. They are definitely changing at a real pace.

I think it would be fun to partner with. One of the things that I was thinking about getting ready for this event is I've been thinking about artificial intelligence and how technology has affected the workforce. Actually, our next podcast is going to be with Lisa [Combs 00:09:15] out at the history department on a documentary she did from PBS. We're going to talk about the future of work. One of the things that, this ties in with free trade, is what happens to jobs when we have free trade? Some of the concerns with NAFTA, when there were people arguing about whether it was good or bad, one of the claims is that it takes away job. We talked about whether or not that's true. One of the pieces I've been thinking about is the role that automation plays in that and technology. What that means in a trade context. Maybe we can get to some of that in a little bit. I think it would be do something for the Mosbacher.

It would be fantastic.

Maybe we can get something planned.

Definitely your name came up very favorably earlier today, so it's just a matter of us having time to sit down and talk about what that's going to look like going forward. I know that Professor Taylor was really interested in developing the relationship with her department, folks in her department and also in this governance idea more broadly speaking. Your original take away was under this broad umbrella of governance. We think that there's a lot of potential there for doing some really high quality work.

Now the podcasts are turning into collaborations. I feel that's [inaudible 00:10:31]. Maybe this is interesting. I'm not sure that us talking about collaborating is interesting.

I can hear people turning off their computers. I can just hear them in the future turning off their computers. Raymond, talk a little bit about the research projects that you've developed that are now going to be run through the institute. The work that you've done on Cuba, some of the other work that you've done that you've initiated since you've come to the Bush School.

Talk about getting people to turn off their computers. You asked me that question. I have a very long list. I'm going to compartmentalize it a little bit, so part of it has been building up one of the original take aways, was this idea of whether or not US and Mexican workers are complements or substitutes. That was something that you were saying about this debate about jobs in the labor force. There's been a lot of sense, I think, throughout at least the public and the popular press has been that United States workers compete with Mexican workers for jobs.

Perhaps that's because the president of the United States says it all the time.

He has said it all the time. In a way, the president, to be fair, is very much a mirror of America. Americans are saying this, and he-

More's the pity.

Even more so perhaps. I want to test this hypothesis empirically. This is a testable hypothesis. What I did was I got data from the United States and Mexico, at the very detailed industry level, and looked at how wages and employment move. I can get into the empirical details if you want to really turn people off, but basically the upside is that before NAFTA, there was some support for this narrative, that Mexican and US workers were competing for jobs. Actually, the results I've generated really suggest that since NAFTA that relationship has changed dramatically so that there's been a dramatic restructuring of the Mexican economy and a restructuring of the US economy, which could have been painful at times. There were definitely parts of the country that felt this more than others.

Now, we've basically generated a North American value chain where we're very much integrated in our production process. When you actually just simply look at the time series of US and Mexican workers, and this is not what the paper is based on, but it's more sophisticated than that. If you just look at the time series you can see very easily that the US and Mexican production workers actually move together through time. It's not like one is rising and the other is falling. It's not like there's a clear X emerging in the graphs. They actually move together through time and they share the same shocks. They actually go through the same types of movements. That is evidence that suggests that now we are part of this North American, integrated North America, and this is part of this research project that you were getting me to talk about, I think. That's one of the big issues.

Jaime mentioned this at the talk that Mosbacher Institute hosted. I got to go to that one, which was a lot of fun. I missed the Krueger talk, but I was at that one. He was making is that when you're talking about these economies, you can't really talk about them in isolation anymore. The market is North America. I mean, it is very much an integrated market and had all kinds of different numbers.

Yeah. We have another example of a research project that I started here that also deals with that. It looks at how our Mexican work is affected by US imports from China. We looked at one of the more sensitive industries, which is apparel. One of the things that we find is that when the United States is importing more clothing from China, that hurts Mexican workers. Wages go down. Unemployment goes down. That's because the Chinese are substitutes for Mexican exports to the US as part of that production process.

I think what people don't really realize is that when we're importing these products from China, that really does affect all of North America, because we're a single production unit. We come back to the same theme. It's really about North America rather than just the US or the Mexican economy. We need to start thinking about North America as a single unit.

How about the Cuba stuff?

The Cuba stuff is actually super exciting in a number of different ways. One of the things that we found ... I went to Cuba with [Annie 00:14:39] Johnson, who's the industrial engineering professor. There was actually two projects that came out of that. One of those was historical. We actually got mill level data while we were in Cuba of the Cuban millions. They had amazingly detailed information on the names and the owners-

Sugar mills.

The sugar mills. It's mainly focused on sugar. Sugar was Cuba's main export during this time. We visited the Hershey mill. Hershey's had a big plant and a railroad they put in and their giant mill. We visited that. There's a Hershey's plantation there because a lot of the sugar was being developed by chocolateers from the United States. We looked at whether or not a foreign investment was more productive than domestic investment in Cuba by looking at mill output between the foreign investors and the domestic investors. Most of the economic literature suggests that foreign investors are much more productive when they go into other countries. We did not find that. As a matter of fact, we found that the Cuban mills were just as productive as the American mills. This actually shakes up the literature a little bit because it really calls this bigger paradigm into question. That was the first thing.

The second thing that we found that was pretty interesting was that everybody that we talked to in Cuba tried to discourage us from focusing on sugar. "Sugar is the past. We don't do sugar. Sugar is part of our colonial heritage. It's not something that we do." Then if you try to get sugar export data from Cuba, it's very locked down. We came about this in another direction. We looked at other countries imports of Cuban sugar using the Comtrade database. We found that Cuban sugar exports have been rising dramatically, and there's been a big increase in the amount of sugar coming out of Cuba. Different countries have different motivations. Some of the Scandinavian countries are paying huge amounts for Cuban sugar. We think it's probably an aid program.

It's probably foreign aid.

That's foreign aid. Even so, the Cubans are doing very well in terms of their sugar exports. This goes against the Cuban native themselves about what they're focusing on. That was pretty interesting.

I actually have heard your encouragement several times, and actually my dad also gave me this advice, to really start studying the Cuban rum industry. Not just because I like rum, which I do quite a bit, but also it is fascinating because it's a value added. They take the sugar, and they add value to it as more complex manufacturing, and they've really been promoting rum exports and doing a great job. We have some of the best rums in the world. That's something that we might look forward to.

How was ... Did they have stats on after the mills were nationalized? What happened to productivity?

They did not have stats on that. Everything actually ... It was interesting because they did a sugar annual yearbook, which stopped abruptly in 1959. The data just completely got locked down. Our hope was to get in there and try and make some friends with folks. We're still working with that because there's actually a really robust group of faculty at [TAMU 00:17:41] who is interested in Cuba. We're trying to work with them to get back into Cuba and get some of those historical data, but we haven't been able to do that yet. Any excuse to go back to Cuba, I think, is a good one.

Is it harder now with the Trump administration?

The Trump administration made it a lot harder. Actually, when I started this there was this beautiful window where Obama was opening up relationships with Cuba.

We had an embassy.

Everyone was warm and fuzzy, opening the embassy. Things reversed dramatically when the new administration came in, making it a little bit more difficult. That kind of put the damper on it as well. Hope springs eternal, as it does in Cuba, and so we share that. We expect to get in there in the medium future.

Last time we had you on we talked about USMCA. You had a panel on USMCA. Is there anything, since we talked last which has been a few months, I think two or three months, has there been any recent developments that you've been following along that would be useful to update listeners that have been following along with the podcast.

Yeah, there's actually two things that I think it would be fun to share with you. One of the things that I've been working on since we last chatted was working with one of my students to dive into the US tariff codes specifically. One of the things I think people don't appreciate is that we got what we believed to be the actual US tariff schedule for the USMCA, which is basically they have eight digit product code lines. There's 32,500 of those. We've gone through the 32,500 lines of tariff code. We've actually compared basically the default tariffs, which would be the World Trade Organization most favored nation tariffs, which is what we'd go to if NAFTA gets canceled and we don't have the USMCA. Actually, those tariffs are relatively low for most products. You think of those tariffs as being in the 3% to 4% range, kind of as a mode. Obviously there are some that are a lot higher and there's a lot of zeros, but as a mode they're on 3% to 4%, which is pretty low especially compared to other countries, especially developing countries. United States generally has pretty low tariffs.

Then if you look at the NAFTA tariffs, NAFTA moved most of those tariffs to zero, specifically for Mexico and our other partners with whom we have trade agreements. The tariffs go basically from 3% to 4% or whatever down to basically zero for almost everything. If you look at the next step, which would be the USMCA tariff lines going through the 32,500, they all go to zero basically. In the main tariff codes, basically all the tariffs go straight to zero. On that sense it's more liberalizing.

One of the really fun, and this is fun for really geeky data guy, is that the codes basically start at zero and go up through the first two digits, go from 00 up to 98, 99, which makes sense. That's the whole range. Up to about zero to 97 at the first two digits, that's where all these tariffs basically go from whatever, very low, to zero. The 98 to 99, which is at the very bottom, that's where the special tariffs are actually listed. They show that the tariffs above, oh yeah, the tariffs above look like zero, but actually for those categories it's 100%. Actually for those categories, it's 55%. We actually have been trying to get through the 98 and 99s to bring them back up into the regular code to actually see what the actual tariffs are.

What we've found is there really are 50%, 100% tariffs on a lot of things we're looking at. They're the ones you're familiar with when you're following news. Steel, washing machines, solar panels. There's also some other things. Yarns, fabrics also have really high protection. There's this complex web over both quota, which is quantitative required restrictions, and tariffs added on.

Is that new with USMCA?

No, it's not actually unique to USMCA at all. What's been happening is outside of the USMCA, as you know and you've talked about this, but the Trump administration has been opposing all of these tariffs broadly speaking on all of our trading partners. The size of those tariffs are so large compared to the USMCA it's almost like, "Oh yeah, we're going to have the USMCA, which reduces tariffs to zero," but that's almost irrelevant compared to these huge tariffs, which are being imposed by the administration.

The huge tariffs are kind of global tariffs. They're not specific to Mexico necessarily.

That's exactly the problem. Mexico and Canada are both operating under the assumption that if we get the USMCA, we're going to remove these tariffs. Trump administration is like, "May be we will."

Maybe we will. Maybe we won't.

Maybe we won't. They were using them as an incentive to get Canada and Mexico to the negotiating table to get the changes in the USMCA that they wanted. Then once those agreements were finalized, they didn't remove the tariffs as they expected, so the tariffs stayed in place. Canada is more upset about this for some reason than Mexico. Canada has really got their ire up about this. I think they should. They're saying, "Wait a minute. We thought that this would be a result of the USMCA. It wasn't. We don't know."

If USMCA gets ratified, does that mean that the agreement then supersedes these individual tariffs?

No.

No?

No, no. That's the point. It does not. Right now we have NAFTA. NAFTA should supersede these other tariffs. The point was the Trump administration circumvented all the trade agreements and started imposing these very large tariffs.

By declaring national security.

Yes, as one. National security was one of them. There was a couple others. The anti-dumping provisions, other temporary trade barriers were others. Yeah, he completely circumvented the normal trade agreement process. That's the real problem. Does USMCA really even matter? I mean, there's a couple provisions that are very different in the USMCA than NAFTA, which are not tariff related, which are linked to, you could argue, more protectionism. The wage provision and the rules of origin provisions are the one we think about.

I think they're completely trumped by these other tariffs. I mean, they're overwhelmed by these other tariffs. That's where the real action needs to be.

It's so much better that you put trumped in quotes. Air quotes, which you can't see.

Which everyone listening to the podcast will appreciate.

[inaudible 00:24:00] drink your water. I want to ask you a different question, related to trade, but isn't about any of these specific cases and ask, what's the argument for tariffs? Greg mentions national security. One of the things that you're mentioning is how the Trump administration is circumventing free trade agreements. Why? I mean, other than political reasons, what are the arguments from an economic standpoint for tariffs? When are they justified and when it is useful?

Well, you're kind of asking me to turn in my membership card to the International Economics Association. Basically all international columnists are going to argue against that.

I'll give you the historical case. Go back and read Alexander Hamilton's first report to the Congress on manufacturers. The United States policy was we're going to have high tariffs on manufactured imports because we want to develop our own industries. That was the Hamiltonian plan to develop the United States as a manufacturing power. We basically followed that plan for a while. I mean, the agricultural exporters of the South wanted low tariffs. The industrial manufacturers of the North wanted high tariffs. If you're looking for that alternative theory of the Civil War, that it wasn't about slavery, it was about other things. People do point to the tariff debate, which was for I think a lot of ... Certainly for the first half of the 19th century was one of the two major economic debates. The other one was the national bank debate.

The historical argument for tariffs is protecting infant industries. That was part of the World Bank's development plan in the '60s when Robert McNamara ran the World Bank. The World Bank encouraged third world countries to have high tariffs so they could all develop their own steel industry. I think it proved to be not nearly as effective in increasing overall global welfare as more open trade, but that was the argument for tariffs.

Yeah, I think that's absolutely right and fair. I think to be fair about it, to be fair about it, I think if you look just past the United States and past the World Bank, a lot of times even if you look at the development policies of Asia, specifically south Asia, east Asia. Then you look at Africa and Latin America. There is actually two very different experiences with these protections tariffs. All of these regions actually had pretty high protectionism in order to develop their domestic industries. The big difference was that east Asia, which was pushing more of a trade base-

It was export led growth.

It was export led growth, so it wasn't about import freedom, reducing import barriers. They actually had pretty significant import barriers, but they were promoting exports. That was the real difference. It was trade through growth, but it was trade through exports rather than trade through free imports. To the extent that we look at the United States and you look at England to some degree, but if you look at Japan, Korea, China. These are examples and there's a number of others, but these are examples of countries that had tariffs to protect their domestic industry and foster them.

To be fair though, on the other side of the coin is that Africa, south Asia, mainly India, and then you look at Latin America also followed the same policy of very high import protections, and it was not as successful. Once they have a smaller economy like Costa Rica or central America, you don't have enough domestic market size to really foster domestic industry. Even if the state isn't putting in a lot of money as it was, it's not enough to really industrialize.

Well, of course India does have a big enough market, but they couldn't use this infant industry policy to launch economic growth takeoff and productivity increases. They needed to liberalize their economy and open up to more of the world trade. That at least is the shorthand version of Indian economic growth in the last 15, 20 years.

Yeah, I think that's right. I think India is now starting to realize the value of exports, whether it's services or these other industries. That's one of the thing, actually had a new book that we published this year with the World Bank that argues exactly that. Now that there's actually labor market benefits in terms of higher wages and jobs and moving people out of the informal sector that are linked directly to exports, and that's what our results show. We actually shared that widely in India. You saw the long list of media hits in India and Sri Lanka where the book was being promoted. That's the kind of thing that I think Asia, south Asia in particular, is still wrestling with. I think they're moving in that direction for sure.

Another one for you. One of the things that President Trump talked about in the campaign and has continued talking about is trade deficit and trade deficit with China for example. One of the things that was in the news a couple weeks ago was that with everything going on, the trade deficit has actually gotten worse, setting records for trade deficit. I was wondering if you might talk about what a trade deficit is and if that matters and should that be something we should be basing policy around, particularly with a large trading partner like China.

Yeah, there's a little more heterogeneity in this debate. There are some people who would argue that trade deficits, you shouldn't worry about them at all. There's other people that think about them as very dangerous to the country. One of the things that I teach in my global econ class is how trade deficits are actually determined. I think people have a very misguided notion that they're linked to trade agreements and tariffs. I really loved Jaime Serra Puche's point, which I hadn't quite seen put so eloquently as the way he put it, but if you look at, all the countries of the world that we're trading with, there are some who have trade agreements and some who don't have trade agreements. Our largest trade deficits are the ones with whom we do not have a trade agreement.

China.

In particular China, we don't have a trade agreement with China. China is last on our list of countries with whom we're going to have a trade agreement.

We just have WTO.

Right. Now we have the WTO, and different than all these other countries.

That's not a specific trade agreement. That's a global-

Exactly. It's not linked to trade policy. If you increased tariffs, in the short run you might see a little bump because your imports might go down. We have seen imports of steel and other things go down a lot. In the longer run, the really mechanism of the trade deficit, which you asked for the definition, is just exports minus imports. It's what we export minus what we import. Because we import so much more than what we export, we get a negative number. We subtract the imports from the export, and that's the trade deficit, that negative number. You impose these tariffs, and it doesn't really have the effect in the long run because the real cause of the trade deficit is actually the capital account. It's international borrowing and lending.

I did another take away through the Mosbacher Institute, which explains that if you raise these tariffs, you're never going to really solve the trade deficit. The trade deficits, I would argue as I did through the take away which I published, and also Jaime Serra Puche also mentioned this point. It's not just me. It's well known among economists. What's happened to US borrowing since Trump came into power? It's increased sharply.

Because of tax cuts.

Because of tax cuts. The United States federal government is borrowing more money. Where did they borrow that money from? They borrowed it from China. It basically raises the demand for the dollar, and it makes Chinese good cheaper and makes the trade deficit worse. The whole idea of the idea that tariffs are going to solve this problem is not very effective. What we really need to be doing is thinking about fiscal responsibility and balancing our budget and reducing our borrowing. There's a whole bunch of reasons why reducing our borrowing would be a good idea, but that is one of them. We really want to address the trade deficit.

Maybe not balancing the budget. That's a bugaboo. Maybe reducing the deficit.

If we reduce the deficit, we're moving in the direction advocated by both of us. We would agree on that. Any move in that direction we agree would be good.

Yes, as long as it's done through the same mechanisms.

Sure. You don't want to slash all X funding or whatever.

You don't want to slash government spending to causes, to people who need it and to investment.

Yeah. There's a whole bunch of ways that it could be done well and things that, yeah, we could ... I agree with you 100%.

Maybe not cutting taxes during a rising economy.

Yeah, boom.

Isn't that the other reason that the trade deficit went up is the American economy in the last year and a half was growing, and so people are buying more stuff.

Sure.

You go to Walmart and buy stuff, you're adding to the trade deficit.

That's definitely true. American consumers are definitely responsible for a lot of the trade deficit. Arguably everything comes down to prices for trade economists and economists and other folks. Why are these goods cheaper? Our income is going up, but also the price of these things are looking relatively cheaper as well because the dollar-

The dollar is stronger.

I'd also point out just as a side note that is really fun is that Trump really was upset about the trade deficit with Mexico. This is a great example of how this work. He said, "We are really upset about Mexico, and we're upset about this trade deficit with Mexico." He said, "What we're going to do is we're going to revoke NAFTA because the cause." This talk of revoking NAFTA created a whole lot of instability and insecurity within Mexico, especially with Mexican investors and reduced the value of the Mexican peso, which made Mexican good much cheaper, which then made our trade deficit much larger. It's exactly these types of comment that made the deficit worse, through the mechanism of the exchange rate. Understanding how the exchange rate relates to these trade deficits is absolutely fundamental. That's why we're teaching it in trade policy Thursday, and that's why we're teaching that as part of fundamentals in the global economy.

I have a question about all of this. What does it have to do with the Mueller report.

You snuck it in there.

I'll let you all opine on the Mueller report.

It has to do something with uncertainty.

Uncertainties in the 18th century economic theories that our president believes in. It has nothing to do with the Mueller report. This is the only podcast being done during the last week of March that will not discuss the Mueller report, unless we have questions from the audience. We're getting to that time.

We are at that time. It's hard to top Raymond's passionate examples of misguided policy claims. With that, we do have about 15 more minutes available in our space. We have a nice crowd with us today. We'll turn it over to you. Does anyone have questions for [inaudible 00:35:42]. Yes.

In my understanding, you mentioned some synchronized characteristics between United States economy and Mexican economy. You mentioned about the tariffs. When you were thinking about those characteristics as the explained [inaudible 00:36:01], what could be impacts like in standing wars and the border between United States and Mexico could be affecting on if the United States economy? I'm saying in other words what could be the implications of the current border policy on the United States?

That's a great question. I think that is the question we should be asking ourselves when we're thinking about these policies.

Question about border. In case the mic didn't pick it up about border policy.

The question is when we're thinking about these border policies with Mexico, how are these border policies, given the fact that the economies are integrated, how will this affect the US economy? It's going to affect the economy, I think, in two important ways. We've already seen both of these. One of these is that the way to think about goods coming in from Mexico, which is what we're trying to reduce, what I think about them in two categories. One is that there are consumption goods. Avocados. Avocados are a great example. We love guacamole.

Speak for yourself. I actually don't like guacamole.

You're the only person in Texas that doesn't like guacamole.

I don't like guacamole.

I need a new cohost.

Do you like tomatoes?

Yes.

Okay, we're bringing in lots of tomatoes. Forget the avocado. We'll go red instead of green. When you add these barriers, it raises the prices to consumers and makes the consumers less worse off. We're consuming less, and we're less happy because tomatoes are good for all kinds of reasons, healthy and others.

I would be happy with fewer avocados.

But more tomatoes.

Yes, I want more tomatoes.

We actually bring a lot of tomatoes. We bring in strawberries. There's lettuce. There are a whole bunch of other things that are good healthy foods bringing in from Mexico. That's consumption.

Avocados aren't that healthy. They're actually very high in cholesterol, but go ahead.

The deliciousness makes up for it, and there are good oils and bad oils. There's good fats and bad fats. I'm not a dietician. I shouldn't be talking about the benefits of the avocado, but I know that they're delicious on chips. The second one is I think when you really think about our trade with Mexico, you really should be thinking about inputs. These are inputs in the production that Americans use. When you start imposing these barriers between the United States and Mexico, you're raising the cost of US production. When you raise the cost of US production, firms don't want to hire as many people. They have to substitute lower wages to pay for the higher cost. It actually is interrupting production here in the United States, and nowhere in the United States is this more relevant than Texas. The Texas economy is extremely reliant on the Mexican economy and integrated with the Mexican economy. It actually puts the Texas economy at risk.

That's why you see both Republicans and Democrats-

Right, if you push them, even the Republican Congressmen and women in Texas are not in favor of a border wall.

No.

I mean, that's people in Michigan and Ohio. Nobody in Texas in an elected position as far as I can tell is supportive of a big beautiful wall that cuts us off from Mexico.

Who should you trust about Mexican policy? The Texans or somebody in the northeast? You know what I'm saying? Who's on the front line. Who knows the best? The people that know the best are saying, "No, no, no, integration is better for us. Trade is better for us. That's the way we should go. We should not be putting in these walls."

Let's introduce [better 00:39:23] in Texas.

Well, that goes without saying.

Any other questions?

When you were discussing tariffs, it seems there have been some cases in history where tariffs have helped countries to pull themselves up by their bootstraps. In some cases where tariffs have just been mired as they were. Has there been much research into why they work sometimes and why they don't and what the differences are or anything.

The question was we've mentioned that sometimes tariffs have helped develop some local economies and what are the conditions under which it has been helpful versus the commissions in which it hasn't.

Yeah, there's two main answers to that question. I would like to point out that in northern Minnesota, for example, where they're producing inputs into steel, taconite in particular, the mines are opening up and more jobs are being created. There has been an increase in steel related employment. I think it's fair to admit that. In that sense it's bolstering it, but I think the United States is not at that point of industrial development where it needs tariffs to promote industry. Our growth industries are in knowledge and innovation and tech. We don't need tariffs to protect ourselves.

Entertainment.

Entertainment, right. We don't need tariffs to protect us.

We need intellectual property rights.

Yeah. No. Well.

So Mickey Mouse can't be stolen in China.

We can debate that I guess. To answer your question specifically, when does it work and when does it not work. I think a big part of the answer comes down to institutions. It's how well you can basically take advantage of that temporary boost you get from a tariff to foster investment. Investment requires good institutions, good courts that basically are protecting property rights, can dispute resolutions in the courts. Also it's important to have good education and macro economic stability. The places where they didn't have these other conditions, tariffs did not work. They're weren't sufficient. They're not a sufficient condition for development. I'm not even sure they're necessary, but they were helpful in some of those cases.

There's another thing, right, that you mentioned that I think is important to ... I'm not an economist, but I occasionally play one in the classroom.

And on podcasts.

The countries that use tariffs to develop industry, but then subjected those industries to international competition, right. That was the east Asia model, right. That was the Asian economic miracle model is that you're going to do export led growth. You're going to help these industries get started, but then you're going to subject them to international competition.

In third markets. Not in your domestic market.

Not in your domestic market, but in third markets.

In third markets.

If you were encouraging production for export, and then throwing these people, these companies out on the word market and saying, "Compete. Compete against everybody," that was a very different strategy than encouraging the development of domestic industry for domestic consumption.

That's absolutely right.

Where those industries were completely protected from competition and tended to ... I can tell stories about the part of the world that I studied, the Middle East, where those industries became welfare organizations and government said, "Well, you have to hire more people." Well, it's not productive. "We don't care. Hire more people." Yet, these large industries that were completely focused on the domestic market became completely unproductive.

That's also what happened in India. That's also what happened in Latin America as well. I mean, I actually did a study when I was in graduate school on sugar mills.

Back to the sugar mills.

It was back to sugar. I'm a big fan of sugar. It's so unhealthy, but a big fan of sugar.

Except in rum, and then it's all right.

Exactly, but in moderation. In the sugar mills, what they would do is they kept switching from public to private to private to public, and they kept going back and forth. I was trying to estimate the production function coefficients like the contribution of labor to the output of sugar. Labor contributes nothing to the output of sugar at the mill level. They would use them. When it became public, employment would just increase dramatically because of exactly what you were saying. The government would use it-

Four people to watch the machine instead of one.

Or 50 to watch the machine. Exactly. It really involves a lot of these other conditions. Great question though.

I think we have time for maybe one more if anyone in the audience has any remaining questions.

Nothing about the Mueller report?

It's not about the Mueller report. No, I guess thinking about our exports being largely innovation knowledge, entertainment, etc, is there a need to put in government policies to protect local manufacturing and other things because our reliance is increasingly moving towards international for food and clothing, etc? Is there a foreseeable future that we should be trying to protect and innovate within the nation?

The question was given our comment about some of our exports being knowledge and technology and entertainment, is there then a need to try to protect some of our domestic industries with tariffs?

I mean, one thing, just as a preface to what will be a more intelligent answer from Professor Robertson, we've left out one of the big exports in America is agriculture. We are enormous agricultural exporters. When the Chinese wanted to hit us back for the tariffs that President Trump put on, they hit it at agricultural exports. We do export all of these high tech things and intellectual property like entertainment and all, but we also export a hell of a lot of pork and soybeans and actual products, agricultural products that people eat.

Yeah, in those areas that are specifically exported to China, again, I'm thinking of North Dakota and Minnesota as well, they got hit especially hard.

Iowa.

Iowa. They got hit very, very hard by that. I mean, should we be protecting these manufacturing? I'm really glad you asked that question. It's a great question because I think it cuts at the heart of what should our policies be. My personal opinion is who should we really care about? I think we need to be caring about the workers. One of the big problems that we've seen in the last 50 years, and you can talk to all sorts of people who will agree on this now, is the United States did not take care of the workers who are adversely affected by trade.

I would like to think that as an American I believe in this Reagan exceptionalism. I think we're great at what we do. I think putting tariffs to protect our industries is basically admitting we can't compete, which is so unAmerican to me. That's ridiculous. We can compete. We need to be able to compete to the world, but some people are going to be adversely affected. It's going to be the workers. What we need is good policies to be put in place to take care of these workers that lose their jobs because of trade or automation.

Automation, which is actually a larger number of workers in the trade.

It's a question of social insurance. How do we best design an effective, efficient, low cost social insurance program that's going to take care of the people who bear the brunt of these costs of opening up to trade or whatever and then let the entrepreneurs compete in the way that they best know how, right, by finding the best way to do this through cost effectiveness or whatever. I think that will be a much better way to go than using tariffs to try to protect our industries.

Increase our productivity and then have a rational tax system that can be used to help to fund these kinds of social safety network and worker transition programs that would be a lot better than protecting the blacksmiths because-

We don't use horseshoes.

Because technological change is happening, and we'd have blacksmiths on every block, and they wouldn't have anything to do.

Right.

Excellent. Well, we're at almost the hour mark. We've covered plenty of topics and got multiple questions from the crowd, so I think we'll call it a wrap today. Thank you so much to the audience for being here and for your questions. Thank you so much, Raymond, for being with us again.

My pleasure.

It's always a treat. Thanks one more time to both Downtown Uncorked for hosting us and to the Bush School for sponsoring. We'll be reaching back out and having a podcast next week. Actually, the next two weeks we have live recordings next Tuesday at Downtown Uncorked and then the following Wednesday if you're interested in joining us.

Both at Uncorked?

Both at Uncorked.

One on artificial intelligence and the changing nature of work, which is exactly what we ended up talking about here. Then the second one with our colleague [inaudible 00:48:32]. That first one with Professor Lisa Cobbs from the history department at Texas A&M. Then with our colleague, [Greko 00:48:38] Wong, who's going to talk about some of her work on rebel governance.

It should be interesting. All right. Thank you so much for being with us today.