Trade Policy

International trade is a cornerstone of what we understand as modern commerce. Trade expands the free market and allows every country to profit from the goods they create and purchase the resources they need.

However, when the trade system is misused, it can cause considerable difficulties for a country's people. It is essential for governments to maintain trade policies that both improve the lives of citizens and give their countries a valuable place in the world economy.

World Trade
International trade can provide immeasurable benefits to participating countries. Trade promotes business competition, driving down prices and forcing increased product quality—both of which are good for consumers. Additionally, it also allows for specialization in certain industries, allowing companies to focus on one portion of an industry and boost production rates.

Modern trade has allowed for the rapid increase in quality of life and the accelerated development of technology. The global exchange of goods has led to the exchange of ideas and greatly increased global economic output. It has also improved international relations and discourages wars and other conflicts.

Trade Policy
Though the major benefits of trade are built on free market exchange, national governments discovered long ago that they could influence trade in order to provide optimal benefits to their economies.

A government's trade (or "commercial") policy is the rules it lays down on the importing and exporting of goods. In general, trade policy is most often used to influence prices to shrink the competitive advantage of other nations. Trade policy primarily functions through tariffs and import/export restrictions.

Tariffs – Tariffs are taxes on traded goods. By increasing tariffs on imports, a government can effectively raise the price of foreign products. Countries can also place tariffs on exports, but this is rare and usually involves a mutual export tariff agreement with another country.

Import restrictions – Governments often put quotas on foreign goods to limit their share of the market. If a country restricts or blocks all goods traded with another country, it is often referred to as a trade "embargo."

Goals of Trade Policy
Governments may have several reasons to change their trade policies with the rest of the world or just a single country. However, the vast majority of trade policy is meant to protect domestic businesses.

By raising tariffs or limiting imports, a government can limit the appeal of buying another country's goods. High tariffs, which can be a flat rate or a percentage, increase the cost of target goods, allowing domestically produced goods to automatically become cheaper by comparison. Similarly, quotas can directly limit the amount of market share a foreign product is allowed to take in a country. In either case, a government is using trade policy to protect its businesses and give them a market advantage at home.

In some cases, trade agreements are necessary to protect a country's industries from total collapse. This is particularly true when a foreign company threatens to "dump" goods on a domestic market.

In such a "dumping" case, a well-established company from one country floods a foreign economy with its goods, selling them at a discount, and possibly even a loss. Since the established company is supported by sales in other countries, it can continue to suppress prices in a target market until all its domestic producers go out of business. Once the company has a monopoly, it can raise prices above a fair value. Governments will usually make "anti-dumping" agreements with each other, banning their companies from disrupting domestic markets through abnormal business practices or pricing.

Finally, a government's trade policy could involve punitive embargos against nations that are misbehaving economically or politically. If carried out by a large enough country, a full embargo can be devastating to an underdeveloped nation.

Problems

Trade policy is hardly free of problems. It is often said that trade policy works in opposite directions for businesses and for consumers. This refers to the increase on tariffs or other strategies used to protect domestic businesses. When a country drives up the cost of imports to protect businesses, it is doing so by lowering consumer choice (at a previous price point.) Additionally, higher tariffs allow domestic businesses to needlessly raise their own prices without costing more than foreign competitors do.

If a country routinely sets high tariffs or severely restricts imports, other countries may respond by sharply taxing its goods or avoiding its market altogether. This can lead to economic isolation, which (though beneficial to young domestic businesses) can cripple a country's international manufacturing or high-tech industries that depend on foreign sales.

World Trade Organization

Officially beginning in 1995, the World Trade Organization (WTO) is an independent body that oversees the creation and implementation of trade agreements between participating countries. The organization also provides an open channel for countries to discuss or debate international commerce and actions needed to accommodate the needs of developing countries. The WTO replaced the earlier General Agreement on Tariffs and Trade (GATT) that had governed since the late 1940s.

The vast majority of nations operate within the WTO (more than 95 percent of all countries are involved with it.) Though many countries settle bilateral agreements in private, the WTO provides an important public voice for trade policy. Since the existence of GATT and the WTO, tariff rates have stayed much more consistent around the world, increasing the stability of the global market.

Trade and Investing

Trade policy can be an important tool in protecting domestic businesses, but unless a country suddenly decides to move away from international standards, it is difficult to see the impact of policies on investing. Hikes in tariffs usually lead to increased profits for businesses that only provide domestic services. However, this domestic growth is usually accompanied by a drop in international sales and exporting.

Unless purchasing shares in a company that works primarily with imports or developing countries, international trade policies are unlikely to affect investors in avoidable ways. Changes to policy may cause short-term instability, but the market adjusts and new tariffs quickly become another part of doing business. Still, investors should always investigate a company's foreign operations before purchasing shares, just to be informed. A history of stability cannot guarantee anything about future trade policy.

the market at a glance

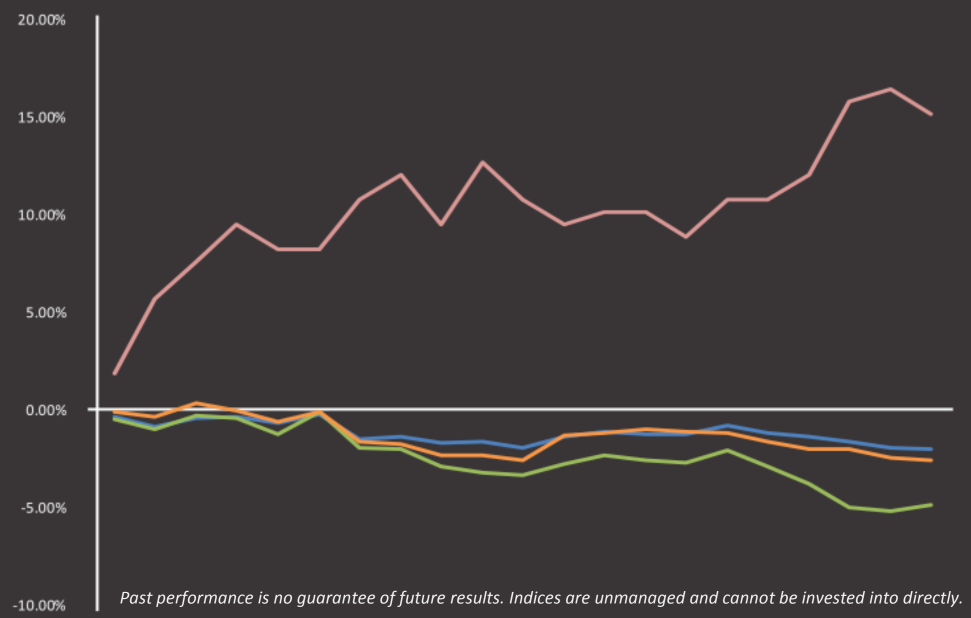
October

U.S. Large Cap
(S&P 500)
2,126.15 (-1.94%) ▼

U.S. Mid/Small
(Russell 2000)
1,191.39 (-4.81%) ▼

International Large
(NYSE International 100)
4,762.01 (-2.54%) ▼

U.S. Treasuries
(U.S. 10-Year Treasury Yield Rate)
1.84 (15.00%) ▲



The market in action

- The Department of Labor announces the economy added 156,000 jobs in the month of September. The modest job growth was enough to lure more discouraged workers back into the job market, causing the official unemployment rate to increase slightly to 5.0 percent.
- Multiple major banks in Europe release plans to cut a combined 20,000 jobs over the next few years as ultra-low and negative interest rates in the Eurozone hurt profitability. Dutch and German banking giants ING and Commerzbank plan for the largest downsizing, shedding 5,800 and 9,600 positions, respectively.
- The Social Security Administration announces a 0.3 percent cost of living adjustment (COLA) to social security benefits for 2017—its smallest increase ever. Although an improvement from the 2016 figures, when no COLA was made, the average monthly retirement benefit will only see a $3.92 increase.
- Bass Pro Shops reaches a deal to acquire Cabela's Incorporated for $5.5B. The deal will unite the two outdoor equipment retailers and aims to avoid sales competition as the two companies expand into each other's regional territories.
- Following three years of joint investigation, the IRS and the U.S. Department of Justice arrest a total of 56 individuals and indict 5 call centers in India for running tax scams that stole a total of $300M from over 15,000 U.S. taxpayers.
- Bankrate reports that out-of-network ATM fees have climbed for their tenth consecutive year, reaching an average cost of $4.57 per transaction. The increasing rates are attributed to the steadily declining use of ATMs (and cash) by consumers.
- In a landmark event for self-driving vehicles, a loaded semi-truck equipped with an autonomous driving system drives itself for 120 miles in Colorado. While limited highway driving only, the test proved autonomous technology could be used to enhance the quality and safety of work for America's three million professional truck drivers.
- Newell Brands Inc. streamlines its business operations by selling its tools division to Stanley Black & Decker Inc. for $1.95B. The sale will put the tool accessory brands Irwin and Lenox under Black & Decker's holdings.

Preliminary Tax Forecast

Many of President-Elect Donald Trump's policy proposals are too vague to analyze, but one area where he has been clear is on reforming our tax system. Here's a quick primer on the changes that you can expect to be introduced to Congress in the coming year.

1) A shift from seven income tax brackets to three:

Current (Married Filing Jointly)
10% bracket: $0 to $18,550
15% bracket: $18,550 to $75,300
25% bracket: $75,300 to $151,900
28% bracket: $151,900 to $231,450
33% bracket: $231,450 to $413,350
35% bracket: $413,350 to $466,950
39.6% bracket: $466,950 or more

Proposed (Married Filing Jointly)
12% bracket: $0 to $75,000
25% bracket: $75,001 to $224,999
33% bracket: $225,000 or more

The 3.8% Affordable Care Act tax on the lesser of net investment income or the amount by which your AGI exceeds $200,000 would also be eliminated.

In addition, President-Elect Trump has proposed increasing the standard deduction from $12,600 to $30,000 for joint filers (from $6,300 to $15,000 for singles), and capping itemized deductions at $200,000 (joint) or $100,000 (single). He has proposed eliminating the personal exemption, which phases out after a taxpayer's adjusted gross income hits $259,400 (single) or $311,300 (joint), and scrapping the alternative minimum tax altogether.

Who wins? Low-income taxpayers earning less than $18,500 will move from a 10% to a 12% tax bracket, and some filing couples earning between $225,000 and $231,450 will move from the 25% to a 33% bracket. Most others would see their taxes reduced, particularly those who earn more than $466,950, who see their marginal bracket fall from 39.6% to 33%. Eliminating the 3.8% tax would provide tax relief for taxpayers above $200,000.

Strategies? If you believe the first 100 days will involve the promised tax changes, and that rates will be lower next year than this, there are a variety of possible ways to take advantage. The simplest is to shift income from calendar 2016 into calendar 2017, and aggregate as many losses and deductions as you can into calendar 2016. You might also find an IRA rollover into a Roth to be suddenly less advantageous. Why? If rates in the future are lower than rates today, it would be more expensive to pay ordinary income tax on the amount converted today than it would to pay taxes at the future lower rate. This is less certain, however, since there may be several different Presidential administrations (and changes in tax law) between now and when the money comes out of your retirement plan. A better strategy might be to wait and see if President Trump does give us lower tax rates, and then consider a Roth conversion during that window—especially if the tax giveaway looks like it might bust the federal budget, necessitating higher rates in the future.

Meanwhile, the Trump plan would repeal the estate tax altogether, but any capital gains above $10 million would be taxed—that is, no step-up in basis, with exemptions for small businesses and family farms. People would no longer be allowed to deduct a charitable donation of the full market value of appreciated assets.

Who wins? The truth is that most estates aren't taxed under the currently generous estate tax exemption anyway, so for most people this won't have a big impact.

Strategies? For people who ARE looking at paying estate taxes someday, the best advice may be to wait and see. This provision, if enacted, could open a window for individuals to transfer their wealth to heirs tax-free before some future administration decides to reinstate estate taxes.

How likely are these things to happen? There's never any certainty that a wish list will make it, unscathed, through Congress, particularly a Republican Congress that has expressed concerns, in the past, about paying for any tax cuts they create. For many Americans, the next year or two will be a great time to consult with a tax professional.

-Bob Veres

Source:
https://www.nerdwallet.com/blog/taxes/trump-campaign-tax-plan/

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