Human Events.

Crony Capitalists vs the Trump Doctrine

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Perhaps it's time to bring some cost-benefit analysis to exercises of U.S. muscle on behalf of "our" corporations abroad.

The world is on the cusp of a 5G revolution, but the US is lagging behind from decades of gutting our own telecommunications sector through force and neglect. While major U.S. companies produce telecom components (Qualcomm, for example), we lack a fully integrated network provider. With a system of subsidies and strategic investment, Huawei seeks to fill that vacuum—and China is going to bat for it.

Huawei's shadowy connections with the Chinese government cannot be ignored, and we should be concerned about enabling it to become such an integral part of our nation's infrastructure.

The Trump administration recognizes the threat.

Earlier this year, the United Kingdom greenlit Huawei's involvement in their own development of a 5G network, but on May 15, President Donald Trump signed an Executive Order on "Securing the Information and Communications Technology and Services Supply Chain." That same day, Secretary of Commerce Ross announced the addition of Huawei and affiliates to the "Entity List" of the Export Administration Regulations.

The thrust of these actions (as well as ongoing trade talks with China) is to take economic development off autopilot and enable Congress and the American people to think critically about how we choose to structure business and trade relations.

To be certain, corporations that stand the most to benefit from unfettered trade aren't going to like it. They'll squawk, as will reflexively anti-worker think-tanks and the usual mix of congressional true believers and revolving-door career opportunists.

But for every other American, the President is acting to our benefit.

We often hear from these quarters the refrain that free trade is an unmitigated good. But is it, really?

The neoliberal view on trade generally argues that free trade is Kaldor-Hicks economically efficient: in other words, while some individuals might lose their jobs from free trade, the economic pie under a free trade regime gets bigger, so that the net gains are bigger than the net losses.

Someone might lose their $40,000 per year welding job, but the economy might be better off by $45,000. In theory, the man who lost his job could be compensated by welfare or something else, and we'd all be collectively $5,000 richer.

Ironically, those who argue this way about trade never stick around to determine whether the losers in this arrangement are actually "made whole" by the winners. That former welder typically goes on the public dole, costing all of us, while the economic benefit inures to the few. In other words, the costs of free trade are diffuse, but the benefits are often concentrated.

So how do policymakers deal with this?

The neoliberal way is to fully socialize the costs of the welfare state by continuing free trade, but implementing higher taxes and, perhaps, a universal basic income. In this option, we wouldn't need to determine which companies are really "American" and which are not, because every corporation would have to pay high taxes and every individual would receive enough compensation that they would be desensitized to the structural and cultural changes caused by the arrangement.

If you're getting $1000 per month (or some basket of services rationed by the Amazon company store), you don't particularly care about the inequality of gains, or, presumably, that your local way of life has been eroded.

The inverse, however, appears to be the Trump doctrine on trade, which is becoming clearer as time passes.

If reflexive trade liberalization is justified by Kaldor-Hicks efficiency, the Trump doctrine is about enforcing that efficiency at the back-end, and this enforcement is perfectly tailored to respond to China. Understanding American politics, the Chinese response to hardline U.S. trade negotiators has been to seek to cause targeted, disproportionate losses to Trump voters by, for example, limiting soybean imports, and imports of other agricultural products.

In response to Chinese actions, Trump has provided targeted relief to middle America, ensuring that the costs of enforcing fair trade are not borne by any single group.

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Firstly, in economic terms, when the Chinese target the American heartland with tariffs specific, to say, Iowan corn, they are seeking to apply targeted pressure to encourage U.S. trade policy to act disproportionately to the value of Iowan corn. When USDA provides targeted relief to offset Chinese aggression, it is permitting economy-wide rules time to take effect.

While think tanks like the CATO Institute might decry this kind of sector-specific "subsidy," and while the Heritage Foundation might complain about the Export-Import Bank, these types of tools are part of the architecture of any nation built on liberal trade.

Secondly, the Trump doctrine on trade does require support for U.S. trade policy across government and the country. This is because concentrated interests are ordinarily able to sway the USTR to change course. Not every administration has an Ambassador Lighthizer or a President Trump willing to take sustained political fire to enforce the rules of the game.

In order to ensure we can enforce liberal trade norms in the future, grant-making agencies across government need to be clued into those sectors of the economy that might suffer losses in trade wars, to provide targeted relief proactively. In this way, rather than trade liberalization providing diffuse losses and concentrated benefits, we can unwind with diffuse benefits (a more robust market, inoculated against external political control) by compensating those who suffer concentrated losses (the agricultural sector, for example).

The administration's actions are, on balance, a good—but the Chinese government is quite savvy and will continue to target specific areas of the U.S. economy to make it easier for weaker-kneed Cabinet officials and other politicians to cave.

While we in the U.S. still don't have a fully formed notion of how we should balance the costs and benefits when a U.S. corporation is treated unfairly by a foreign nation, the Chinese do.

China's goal is typically to undercut an entire sector of an economy—say, rolling stock production, or telecom—and develop a strategic monopoly. Likely that's not the U.S. goal, but we do need a theory.

When a multinational corporation has property expropriated in, say, Venezuela, should the United States get involved? Well, how much does the corporation pay in taxes, and how many U.S. jobs do they provide? Are they good stewards of American ideals abroad?

Perhaps it's time to bring some cost-benefit analysis to exercises of U.S. muscle on behalf of "our" corporations abroad.

We might conclude that there really is no problem with Huawei because Ericsson is no better, or we might not. We might determine that it's not worth it to go to bat for Apple abroad, but that in certain circumstances we might do so for Siemens, or Volkswagon, or Nokia.

But until we have this theory worked out, it does no good to shout slogans about free trade.