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Author, 'Free Trade Doesn't Work: What Should Replace It and Why'

Mitt Romney's Plan to Replace Free Trade

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As I've noted [before](#), Mitt Romney has given some indications that he may be serious about doing something about America's trade mess. He's made tough statements about dealing with China which, if sincere, would not only put him beyond the other major Republican candidates on trade, but also far beyond what the Obama administration is doing.

I've been watching Romney ever since for signs of whether he's sincere or not, and he just added a few more data points to the picture.

Here's what he's just [said](#) in an op-ed in the *Washington Post*, one that has the fingerprints of known China hawk Glenn Hubbard, a Romney advisor, all over it:

Free trade has the demonstrated ability to make the people of both trading nations more prosperous.

That's boilerplate. But then things get interesting:

But for free enterprise and free trade to work their magic, laws and rules that guide the participants are essential to prevent distortions and abuses...

Actually doing something about China's cheating makes some people nervous. Not doing something makes me nervous. We are warned that we might precipitate a trade war. Really? China is selling us \$273 billion per year more than America is selling China -- why would it possibly want a trade war?...

I'm glad I'm not the only person who's about as afraid of starting a trade war as Ronald Reagan was of starting WWII by proposing Star Wars! He continues:

If I am fortunate enough to be elected president, I will work to fundamentally alter our economic relationship with China. As I describe in my economic plan, I will begin on Day One by designating China as the currency manipulator it is.

Aha! I wrote [previously](#) about how currency manipulation is heating up as an issue and what difference it could make. Then comes the real nub:

More important, I will take a holistic approach to addressing all of China's abuses. That includes unilateral actions such as increased enforcement of U.S. trade laws, punitive measures targeting products and industries that rely on misappropriations of our intellectual property, reciprocity in government procurement, and countervailing duties against currency manipulation. It also includes multilateral actions to block technology transfers into China and to create a trading bloc open only for nations genuinely committed to free trade.

What Romney is basically doing is giving China one last chance to behave, and if speaking softly doesn't work, he's threatening a variety of big sticks.

The interesting thing is that he's dressing it all up as an heroic attempt to *save* free trade -- by, if necessary, resorting to such blatantly, indisputably, protectionist measures as "countervailing duties." (I'm not being dogmatic here. The Cato Institute, the *Wall Street Journal*, and the other usual suspects agree with me about this definition, and, incidentally, they all hate Romney -- which should tell us something.)

And Romney is threatening to set up an "authentic free traders club" of nations and keep China out of it. This is tough stuff, with multi-hundred-billion-dollar consequences.

It's also a brilliant stroke of rhetoric, given that there just isn't the time to explain to Republican voters that free trade really [doesn't work](#) and is a mistaken ideal, period. (Romney probably on some level believes in it, anyway.) But it's really a formula for defending not free trade, but *managed trade at a zero tariff*, which is not the same thing at all.

This is, in fact, quite possibly a Republican candidate spelling out the end of free trade.

"Free" trade, which is what America (though few other nations) practices now, means opening our borders (with trivial exceptions) and letting the chips fall where they may. It's the international application of the old *laissez faire* economic ideology of the robber-baron era. It assumes that if foreign nations aren't wise enough to reciprocate by opening their markets to us, we shouldn't care. We should live free whether anyone else does or not.

Managed trade at a zero tariff is another thing entirely. This position basically says that free trade is a wonderful system, with all these economic benefits, but it's only good for us if other nations reciprocate. It's not *laissez faire* at all, because there are rules. It's a

vision of capitalism as a game where we need to take our marbles and go home if the other side won't play fair.

"Fair" trade has traditionally been a left-wing concept in this country, centered on things like environmental and labor standards. Here we have the right-wing version. (Frankly, I'd prefer a non-ethical concept like *reciprocity* when dealing with foreigners who don't and won't share our values, but the implication is the same.)

Free trade only with nations that reciprocate was, broadly speaking, what we had during the Cold War. Of course, we cut a certain amount of slack to foreign nations we wished to rebuild economically to prevent them from going communist -- a loophole Japan got very greedy about exploiting long after its sell-by date -- but broadly speaking, Western Europe and the rest of the developed world toed the line. Other nations were either non-industrialized and thus not a competitive threat to us, or they were outside our trade bloc because they were communist (China, Eastern Europe, the Soviet Union) or socialist (India). It's no accident that for most of this era, we ran [trade deficits](#) that were either zero or tiny by contemporary standards.

What I hope Romney understands is that, if elected, his bluff well may get called. Probably not by the velvet-gloved mercantilists in Tokyo and Berlin, who will coolly assess his seriousness and fold their cards if convinced of it, but by Beijing. I could be wrong, but I have the impression that their dependence on their trade surplus with the U.S., plus their rising sense of their own power, will push them towards a confrontation rather than a negotiated settlement.

At the very least, there is the paradox that in order to avoid a conflict, the next president (whoever he or she is) must be willing to risk one. America will therefore need credible and well-worked-out contingency plans to impose a tariff on China and function, if need be, as a tariff-protected economy for a few years at least.

Teddy Roosevelt's America was, of course, a tariff-protected economy. So maybe the whole "speak softly and carry a big stick" thing will work after all.