



Leaked U.S. FART Act Could Be Negotiating Ploy

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The White House received a flurry of derision and scorn from across the political spectrum following the revelation by Axios of a possible new bill regarding tariffs. Most of the chuckles (including AP's analysis) derived from the acronym for the United States Fair and Reciprocal Trade Act, which in congressional practice would become the US FART Act – a rather outlandish and curious name for a proposal which would foist more power on the executive when it came to tariffs.

What's interesting is the Trump administration's rather muted response to all of the criticism. It may have been the Independence Day holiday, but the admin isn't the type to just stand still and take abuse like a donkey in a hailstorm. President Donald Trump himself didn't really address the issue a week ago, only lamenting the World Trade Organization had been treating the U.S. "very badly for many, many years and that's why we were at a big disadvantage with the WTO." He also noted nothing is being planned now, but "if they don't treat us properly, we will be doing something."

The only other bit of pushback on whether FART Act was a reality came from Breitbart who reported none of their sources believed "this was a serious piece of legislation," citing Section 301 of the 1974 Trade Act. It was also suggested some "very junior staffer" wrote the bill – which then ended up in Axios' hands.

It's an extremely similar defense given back in January to Breitbart after Axios reported the Administration wanted to nationalize 5G. It was sworn from the high heavens the notion was just an idea, and outdated. Six months later, Trump's campaign manager openly advocated for nationalized 5G on Twitter. Whether a similar wind of support will happen with FART in a few months is anyone's guess.

One other theory puts the leak of the proposal as a a red klaxon warning to WTO about America's future in the group. A bevy of nations – including India, China, and Russia –

are disputing the new tariffs before the WTO, so it's possible the U.S. is trying to get leverage with the organization.

"I think that this is – sort of a shot across the bow at the WTO," R Street Institute Trade Policy Counsel Clark Packard told me over the phone. "Look, if we lose the steel and aluminum cases, for instance, the president is prepared to just ignore that and potentially just impose tariffs, or whatever."

Packard also disputed the notion Trump already has power to raise and lower tariffs under Section 301. In an e-mail, Packer wrote that the Statement of Administrative Action for the 1994 Uruguay Round Agreements Act "prohibit the United States from using Section 301 unilaterally to combat practices that are covered by WTO agreements."

Of course, the U.S. actually has a decent track record at WTO – something Trump is conveniently ignoring for whatever reason – including recent wins in disputes with Indonesia, the EU, and Mexico. There are other American-filed complaints WTO is studying, including one over China's steel subsidies. Cato's Dan Ikenson wrote in *Forbes* last year the U.S. has won 91% of cases it filed against another country before WTO but has also lost 89% of cases filed against them. However, Ikenson noted WTO members don't file complaints to the organization unless "they are *as close as possible to 100% certain that they will prevail* if the matter goes all the way through dispute settlement" (emphasis mine).

It's an important distinction to make, and something WTO opponents fail to reveal in complaints against the organization. It would definitely be better if the U.S. reduced tariffs – and cut the size of the government – to encourage more economic growth. The government isn't exactly in favor of truly free trade (the U.S. already has a bevy of tariffs in effect before Trump's latest round), and WTO exists to settle disputes. It's far from a perfect solution, but it's still a useful forum and one that has given the US a significant amount of successes.

The other interesting feature of FART Act's PR is the notion from National Trade Council President Peter Navarro that Democrats would sign onto it. It's a laughingly pathetic idea since Democrats don't want to give Trump more power, but it does show how Trump's White House aligns with Democrats in opposing free trade.

"I think the populist right and populist left are on in the same on economics. It's nationalistic, it's xenophobic, it's protectionist," Ikenson told me in an interview while also pointing towards the original comments made by the Trump Administration on NAFTA renegotiations. "Wilbur Ross was asked, 'what changes do you want in NAFTA' and he just chimed out the left's line which are, 'Oh we need to make the labor rules better, and the environmental rules better,' he's saying exactly what the Democrats would say."

It's also questionable, despite the obvious policy similarities, whether Democrats would even be okay with giving Trump more power over tariffs.

"What incentive would they have to help him get something done in 2018 sort of in anticipation of him running for re-election in 2020?" Packard rhetorically asked of me. "I think that they're misreading the political tea leaves here and I don't think that Congress would give them this authority, even Democrats."

Protectionism is like the saltwater crocodile in Australia. It clamps down on the flesh of its prey and refuses to let go until the unfortunate target is rent asunder and swallowed whole. It's what's going to happen to U.S. industries currently subject to tariffs, just over a longer term. Politicians, specifically those who agree with Trump on trade but aren't in his party, will still do what they can to obfuscate the issue rather than point out the problems.

"You know if you protect the steel industry, in the short run it's going to do a little bit better, but over the longer run – median term run- you're going to see the steel industry get hurt," Ikenson declared when asked how Democrats might respond to the tariffs the support in principle.

"Politicians like to conceal the secondary effects; they just want you to see the first effect," Ikenson told me. "The Democrats will try to distinguish themselves saying, well yeah we wouldn't have done [the tariffs] this way."

Ikenson's theory is Trump and his allies are trying to use the tariff war to create uncertainty, so businesses won't move elsewhere. He cites the 1982 tariffs on automobiles which caused the Japanese to move production facilities to the U.S. Yet, much like Galadriel realized in *The Lord of the Rings*, the world has changed.

"Back then global supply chains were in the nascent stages, today they're fully out there," Ikenson pointed out, and revealed the U.S. has seen its share in the global GDP drop from the 1980s to now. "So, uncertainty isn't going to encourage people to come inside the tariff wall. Uncertainty is going to chase them away because they need to make sure that their supply chains have access to the U.S."

The Wall Street Journal recently noted cattle, orange, and maple farmers were all going to be negatively affected by the tariffs war with Canada. *McClatchy* also reported over the weekend California dairy and cattle farmers were going to be hit by tariffs, as well. There's no real industry looking to move into the U.S. because of the tariffs – without major government backing ala Foxconn in Wisconsin – so the chance of any long-term benefit for Americans is extremely unlikely.

The big question is whether the U.S. government will start propping up industries affected by the tariffs even more, which would basically turn America into some financial mirror of China, instead of vice versa. It's a dangerous road to go down and one which should be thrown into the dust bin, then the dumpster.

It is unlikely Congress will get any whiff of FART Act inside their halls, which is a very good thing. Yet, it wouldn't be surprising to see the Trump Administration or the Trump 2020 campaign start pushing this idea of giving the presidency more power over tariffs at some point. The protectionists need to remember the words of esteemed British economist David Ricardo.

"Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each," Ricardo wrote in his 1803 masterpiece On the Principles of Political Economy and Taxation.

"This pursuit of individual advantage is admirably connected with the universal good of the whole," Ricardo declared. "By stimulating industry, by rewarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general

benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilized world. It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England.”

It would be wise to heed Ricardo’s advice. The trade war between the U.S. and the rest of the world will not result in long-term growth for the economy, but a disaster which most likely plunge us into a recession, and possibly a depression.

This FART Act, regardless of its seriousness, should be waved away much like one does when their olfactory senses are impugned by someone else’s passing of gas. It’s a bad idea, even as a negotiating ploy, because it will strain relations with other countries instead of breaking down barriers on trade.