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GOP Field Bereft Of Free-Traders

At no point is restricting trade through taxes or promoting it through subsidies a good economic policy. That's not what Republican presidential candidates say.

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Thanks to Donald Trump's recent proposal to impose a 45 percent tariff on all goods from China, last Thursday's Republican debate featured an unusually long back-and-forth on the topic of international trade. Moderator Neil Cavuto asked Trump to defend his proposal, thereby giving all the other candidates an opportunity to chime in with their own condemnations and counterproposals. If you thought the candidates would all advocate for free and open markets, you were sorely disappointed.

Trade remains one area where many GOP candidates don't even pretend to support free market policies. They may pay lip service to "free trade," but there's almost always a "but." Rather than unite around the value of genuine free trade, candidates espoused a wide range of views. Not all of them were bad, but some of them were horrible.

Donald Trump, Belligerent Mercantilist

Among the candidates, Trump was certainly the most economically wrongheaded. After falsely claiming that he had never proposed a 45 percent tariff, he then explained why he supports a 45 percent tariff. According to Trump, China "is ripping us on trade." He complained about the U.S. trade deficit with China, which he overstated by about \$150 billion. After claiming to be "a free trader," Trump then explained that we need to impose tariffs on Chinese goods because the Chinese do the same to our goods, and that's not fair.

Trump's rhetoric is completely incompatible with a policy of free trade and open markets. If Trump truly were a free trader, he would understand that trade is simply a word to describe the way people living in different countries interact for mutual benefit. Trade is not a competition between countries in which exports and imports are points on a scoreboard. Free traders understand that artificial trade barriers protect incumbent industries from competition at the expense of economic growth, productivity, and consumer welfare.

Trump's proposal for a tariff would make us all poorer. Taxing American businesses and consumers does not make us richer simply because it also harms foreigners.

Ted Cruz, Respectable Mercantilist

Sen. Ted Cruz criticized Trump's tariff proposal on the ground that it would spark a reciprocal move from China. He then used the opportunity to highlight his broad tax proposal. Although he calls it a "flat tax," what Cruz proposes is in fact a value-added tax (VAT), that is, a national sales tax. In fairness to Cruz, he is proposing his VAT as an alternative to the income tax, but it is still a proposal for a new tax.

After talking about his visit to John Deere and the pitfalls of Chinese protectionism, Cruz noted how his tax plan would treat imports and exports differently. Importers would have to pay the tax, while exporters would not. "It's like a tariff . . . [but] there's no reciprocal tariffs that come against us. It puts us on a level, even playing field, which brings jobs here at home."

Cruz's proposal is more sophisticated than Trump's 45 percent tariff, but it relies on the same mercantilist economic fallacies. Cruz's VAT would work as a subsidy for exporters, but exports are not a magical category of goods that are better to make than other things. Like all subsidies, Cruz's VAT would cause resources to shift toward producing things that Americans have to work harder to make but don't use.

At the same time, the VAT would penalize imports, "like a tariff," and so make American consumers less wealthy and American businesses less efficient. Creating "jobs here are home" through taxes and subsidies is not a recipe for economic growth.

There's no way to characterize Cruz's proposal as anything other than a call for protectionism. What makes Cruz different from Trump is the senator's decision to sound respectable and deliberate while peddling bad economic policies.

John Kasich, Fair Trader

Just like Trump, Gov. John Kasich said he's "a free trader" and then proposed government intervention to ensure that we have "fair trade." He described trade as contest in which China is "cheating us." Kasich then promoted a particular trade policy known as antidumping—imposing tariffs on products found to be sold at "unfairly" low prices.

The U.S. antidumping law is not only economically unsound, the lawless and abusive way it is administered means that it mostly exists to protect a handful of politically powerful U.S. industries from legitimate competition. It's worth pointing out that most antidumping duties are imposed on basic materials used by American manufacturers. The Ohio governor's story about his family's work in steel mills says a lot about what industry he thinks U.S. trade policy should serve—regardless of how many jobs it destroys in downstream industries.

Jeb Bush, Trade Establishment

Former Gov. Jeb Bush thankfully noted that Trump's 45 percent tariff would raise prices for American consumers, especially people "living paycheck to paycheck." He then quickly shifted

his focus to the costs of foreign protectionism for American exporters. He brought up Iowa soybean farmers and Boeing's South Carolina plant as people who would be harmed by Chinese retaliation to Trump's tariff.

This sort of rhetoric drives America's current trade policy of opening trade through reciprocal trade agreements. He doesn't reject the value of imports or fret over "fairness" or the trade deficit. Where Kasich supports protectionism because it furthers the interests of import-competing businesses, Bush supports freer trade because it helps exporting businesses.

On the plus side, this business-friendly approach to trade policy has contributed to decades of reciprocal trade liberalization that has opened up U.S. and foreign markets for the benefit of billions of people.

However, this export-driven model of trade liberalization is no longer working as well as it used to. Our trade agreements include various policies (like rigid intellectual property protection or investment arbitration) that help some American businesses but don't actually liberalize trade. These controversial policies have become a political liability to achieving genuine trade liberalizing.

As interminably stalled World Trade Organization negotiations demonstrate, the political will to further liberalize trade is dwindling. Further progress may require more political daring and creativity than Bush is portraying.

Marco Rubio, Free Trader

Sen. Marco Rubio was the only candidate who responded to Trump's tariff proposal with a genuine defense of free trade. He started with an unambiguous condemnation of tariffs as taxes on American consumers.

China doesn't pay the tariff, the buyer pays the tariff. If you send a tie or a shirt made in China into the United States and an American goes to buy it at the store and there's a tariff on it, it gets passed on in the price to price to the consumer. So I think the better approach, the best thing we can do to protect ourselves against China economically is to make our economy stronger.

He then talked about reducing taxes and eliminating harmful regulations. Rather than blaming China for any economic woes, Rubio proposed to fix them by removing domestic impediments to growth and prosperity.

What makes Rubio's response so different from the others is that he refused to resort to trade policy as an economic policy tool. Unlike the mercantilists, he didn't say we needed protectionism to save us from protectionism. He didn't use "fairness" as an excuse to manage the economy in favor of political cronies. Unlike Bush, he didn't single out specific industries or companies that need our help. He simply proposed good domestic policies as a way to promote economic growth in an open globalized economy.

That's not to say Rubio has always been a consummate advocate for free trade during his career in the Senate. Local politics have driven him to be a staunch supporter of both the failed Cuba embargo and subsidies for sugar growers. Nevertheless, the approach he took to trade

in Thursday's debate is something we should expect to hear from anyone claiming to be a free trader.

Free traders know that trade is not a problem that needs to be solved. It doesn't become a problem simply because other countries are "winning" at it by some economically unimportant metric. At no point is restricting trade through taxes or promoting it through subsidies a good economic policy. We would all be better off if more Republican candidates were willing to promote in practice the economic ideas they claim to uphold.

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