

Bloomberg Businessweek®

Both Campaigns Succumb to Foolish Protectionism

By Ramesh Ponnuru

Ramesh Ponnuru is a Bloomberg View columnist and a senior editor at National Review. The opinions expressed are his own.

October 15th, 2012

If you live in Ohio or Wisconsin and own a television, you might be under the impression that America's main foreign enemies are the exporters of China. They're the leading villains in political ads from both presidential nominees.

Mitt Romney criticizes President Barack Obama because "seven times" he failed to label China a currency manipulator and slap tariffs on its products. Romney promises to take both steps on day one. (Tariffs are the only kind of taxes Romney has shown any interest in raising.) Obama says he is the real trade warrior and Romney is only faking. According to one of the president's ads, Obama "stood up to China" by putting a tariff on tire imports. The ad faults Romney for opposing his action: "How can Mitt Romney take on the cheaters when he's taking their side?" the ad concludes.

The tire tariffs are nothing to brag about. (They were imposed, incidentally, because imports had surged, not in response to any "cheating.") Obama said in his State of the Union address in January that the tariffs had saved more than 1,000 jobs. The Peterson Institute for International Economics found that in 2011, the tariffs had probably, on balance, destroyed more than 2,500 jobs, an estimate that doesn't include the casualties from the retaliatory actions China took against U.S. exporters. If the tariffs saved any jobs, they did so at a cost of at least \$900,000 per job.

“The big winners,” the Peterson study concludes, “were alternative foreign exporters, primarily located in Asia and Mexico, selling low-end tires to the United States.” Their sales displaced those of Chinese companies.

Romney Goes Wrong

So Romney was right to oppose the tire tariffs. Where he goes wrong is in imagining that his own tariffs would somehow avoid the negative consequences of Obama’s.

Romney claims that by manipulating exchange rates China has added to its trade surplus with the U.S., and this surplus has cost at least 450,000 American jobs. His argument may have political appeal, but it doesn’t make economic sense -- which is why he largely ignored his own economic team on the question.

The bilateral trade deficit is an increasingly meaningless statistic. It treats iPhones as Chinese exports because they are assembled and shipped in China. Pascal Lamy, the director-general of the World Trade Organization, has said the U.S. trade deficit with China might be halved if the statistics took better account of supply chains.

To get its estimate of 450,000 lost jobs, the Romney campaign cites a Washington Post article, which in turn attributes the number to “a pro-labor advocate at the liberal Economic Policy Institute.” It’s a nonsense figure, reached by falsely assuming that if exports create jobs, imports must destroy them at the same rate. Almost all economists believe that two countries can both come out ahead by trading, just as two people can.

China has been letting its currency move closer to market levels since 2005. So far, that movement hasn’t been correlated either with the size of the American trade deficit with China or with the number of jobs available in the U.S. Dan Ikenson, a trade-policy analyst at the Cato Institute, provides one reason the appreciation of the yuan might not have the effect on the trade gap that Romney wants: It makes some Chinese exporters more competitive by cutting the cost of their imported inputs. Romney would be risking a trade war to get China to accelerate a policy that hasn’t yielded any visible improvements for the job prospects of Americans.

Trade attorney and blogger Scott Lincicome makes a strong case that presidents don't even have the legal authority to take the steps Romney advocates. The president can't just instruct the Treasury Department to reach the formal conclusion that China is a currency manipulator, or order the Commerce Department to start levying tariffs.

Real-World Consequences

Romney would probably be more of a free-trade president than Obama, if only because he is less beholden to protectionist unions and has never expressed the skepticism about trade agreements that Obama has. Romney's book "No Apology" recorded his opposition not only to Obama's tire tariffs but to former President George W. Bush's steel tariffs, as well.

Romney's decision to portray Obama as weak on trade with China, however, has had more real-world consequences than his free-trading comments. Last month, Obama announced -- while campaigning in Ohio -- that he was filing a complaint at the WTO against China for subsidizing its automakers. (News reports don't record whether the self-proclaimed savior of Detroit blushed while he spoke.)

Romney pushed Obama in this direction -- and the two of them have given this campaign a more protectionist flavor than any presidential election in recent memory.