

Deepening The Swamp: The New Mercantilism

To promote U.S. interests, a sensible approach to free trade and regulation is needed now.

BY HAL SHAPIRO

It may seem odd for a Democrat to ask this question, but who now will speak for free trade?

We appear to be entering a new mercantilist age in which the government will decide which businesses to protect and which workers to help—government intervention not seen for decades.

Free trade has been an engine of growth since World War II. Hundreds of millions, perhaps billions, of people have been lifted from poverty around the world, and standards of living have been improved by competitive forces resulting in new, better and cheaper products.

Some critics of international trade maintain that it has harmed the U.S. economy and has cost large numbers of jobs.

Yet, the United States, with 4 percent of the world's population, has the world's largest economy, accounting for 22 percent of the global economy.

Despite the impression that the United States no longer makes things, it is the second largest manufacturing nation in the world after China, with 18 percent of global output. U.S.



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manufacturing is greater than that of Germany, France, India and Brazil combined. And it has grown in recent years.

Trade critics point out that the U.S. share of world manufacturing has declined from almost 30 percent in the early 1980s, with the loss of some

5 million jobs. Blaming trade alone, however, oversimplifies the situation.

This downturn is also attributable to technology, the automation of production, and changes in the dollar's value. Currently, manufacturing comprises 12 percent of the U.S. economy, which critics maintain is too low.

But, the Congressional Research Service said earlier this year that a higher percentage “is not necessarily a sign of economic vibrancy,” noting that countries with a higher percentage tend to rely on inefficient trade barriers, subsidies, and labor practices.

Ironically, it is these very policies that appear to be the centerpiece of discussion following the election.

President Donald Trump and others have talked about targeting certain sectors or nations, such as Mexico, with prohibitive tariffs.

And there is discussion of pressuring companies to keep factories in the United States, which might require special benefits be given in exchange.

Such policies are fraught with problems. Governments are not well-positioned to know which products or businesses deserve protection or aid.

Even if they were, such policies are inefficient, resulting in costs to be borne by consumers and the broader economy. For example, imposing tariffs on imported steel might help domestic steel producers, but they would harm other U.S. manufacturers, who use steel in further processing, and consumers, who would pay more for steel products.

Picking winners and losers in this way would result in increased lobbying and possible corruption in making these choices.

Indeed, by definition, you would have “special interests”—for example, affected companies, labor groups or both—seeking government benefits for a relative few.

The diffuse costs of protectionism provide little reason for the broader population to lobby for their interests in return. But make no mistake, this will result in the very “special interest” politics that many on the right and left find objectionable.

PREPARING THE COUNTRY TO PROSPER

A better approach would be to adopt principled policies that position the United States to compete and prosper.

First, America’s leaders need to be honest with our workers and prepare them to adapt to an evolving marketplace.

Workers need to know that they are less likely to remain at one job than their parents. They need more sharply honed skills, and they need to update those skills over time.

Second, the federal and state governments should resist the temptation to subsidize particular businesses and instead use scarce money for investments that will lead to wide gains.

Governments should build better roads, ports, airports and bridges. They should provide incentives and funding for academic and business research and development.

Third, governments should update and enhance worker training and relocation programs.

In recent years, we have seen parts of the country with a shortage of workers while others suffer higher unemployment.

We are poorly equipped to help workers learn where jobs are and help them move. Enhanced programs to help workers retrain and relocate

would provide a positive return on investment.

Fourth, the tax code and government programs need to be simplified. If the 2016 election signals anything, it signals that voters are dissatisfied with government and do not feel it works fairly or for them.

Complex programs are not only discouraging, they also buttress claims that the system is rigged.

Perhaps there has been no time when policy and principle seem to be so drowned out by polls and politics. But that makes such a discussion now all the more important.

We can find a bipartisan approach that advances American interests and “drains the swamp”—free trade buttressed by sensible regulation and programs designed to help the United States compete in a way that is good for employers, employees, and consumers alike.

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