

American Trade Hypocrisy

BY SIMON LESTER

*The notion that
the United States
is being cheated
across the board is
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but dangerous.*

In U.S. trade politics, we are flooded with allegations of unfairness, with Americans cast as the victims. We are told that other countries are constantly cheating us with a vast array of nefarious practices. The exorbitant subsidies given by the Europeans to their aircraft and agriculture sectors are unfair. The low wages and weak labor protections in Mexico constitute “social dumping.” The “rapacious” Chinese are manipulating their currency and stealing our intellectual property. Even our polite neighbors in Canada are up to no good, with their lumber subsidies and agriculture restrictions.

And it’s not just other countries, but international institutions as well. The World Trade Organization itself, President Donald Trump has said, “was set up for the benefit for everybody but us. They have taken advantage of this country like you wouldn’t believe.”

Everyone is cheating us!

By contrast, the implication is, we in America behave appropriately. We compete only with hard work and ingenuity. Any problems we are experiencing are the result of bad behavior by others. We are the victims here.

For anyone who follows U.S. trade policy, it is obvious that this narrative is wrong. Buy America procurement laws, agriculture subsidies, the Jones Act, and abuse of antidumping law are just a few of the practices our trading partners, as well as the Americans who are harmed by them, complain about. U.S. trade policy suffers from all the same flaws—ignorance

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about economics, favors to special interests—that other countries exhibit.

And Trump's claims about the WTO have no basis in fact. He says, "We lose the lawsuits, almost all of the lawsuits in the WTO—within the WTO. Because we have fewer judges than other countries." The reality is that the U.S. record in WTO dispute settlement is very similar to that of other countries.

But the cheating narrative is not just wrong, it is dangerous. When we accuse foreigners of behaving unfairly, we fan the flames of nativism. Spreading the myth that others are taking advantage of us gives rise to xenophobia, which we have seen intensify in recent years. When political leaders and commentators continually cast aspersions on foreigners, people start to believe the foreigners are doing something wrong. Trump may be an extreme version of this, but people on both sides have been guilty over the years. The result has been a largely mistaken conception of how other governments behave on trade, and growing anti-foreigner sentiment.

Some perspective can be useful here. How does the United States perform in an international comparison of "unfairness" in trade? To assess that, we need to know what we are measuring. What exactly does "unfair" mean in this context?

This is where things get tricky, as the complexity of modern trade agreements makes the comparison challenging. Tariffs and other forms of protectionism are somewhat manageable, as you can get overall averages. Here, the United States is about the same as its wealthy counterparts, but better than most developing countries.

But today's trade agreements are much broader. They include intellectual property, labor rights, environmental protection, due process-type rights for foreign

investors, and requirements that food safety regulation be science-based, among other things. These additional items were mostly demanded by the United States and other wealthy countries.

Unfortunately, it is simply not possible to do a quantitative or qualitative assessment that weighs and balances all the elements, to determine who got the best deal in the

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negotiation, and who is being taken advantage of. If the United States signs a trade agreement with Colombia, for example, and Colombia's tariffs remain higher than those of the United States, but Colombia agreed to the U.S. demands on all the issues noted above, who got the better of the deal? From an economist's perspective, obviously the winner is the side who cut its tariffs more, but most politicians and the general public see tariff cuts as a "concession."

Even the individual items can be challenging. Take intellectual property, for example. Is China being unfair by failing to adequately protect intellectual property? Is the United States being unfair by overprotecting it? Perhaps it is a bit of both, but who is worse?

How about labor rights? Some poor countries have lower wages and weaker labor rights. Is that unfair to the workers in rich countries? What if those richer countries had the exact same labor situation when they were developing?

Clearly, fairness is hard to define. That does not mean we should not try, but we should be a bit circumspect in our judgements. The problem with the language of fairness is that it is vague and can easily be exploited. If you are inclined to believe the foreigners are cheating us, you can cherry-pick some evidence to support that.

On the right, people are often explicit about their attempts to demonize foreigners. There is not much subtlety in Trump's criticism of Mexicans. On the left, the awareness may not be there, but the impact is similar. People on the left might not mean to create antagonism toward Mexicans when they accuse Mexico of cheating us on trade, but that will sometimes be the result.

Professional economists can avoid these concerns with a detached and rational examination of the costs and benefits of tariffs and other protectionism. That leads them to

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support free trade, whether done unilaterally or by a trade agreement. We benefit by opening our markets, and others are only cheating themselves with their protectionism or other bad policies.

But non-economists seem to want to feel a sense of “balance” in a trade agreement. Who got the most out of the agreement? Who negotiated the “best” deal? In the past, counting up tariffs could give you some number to rely on here. But it can be hard to evaluate these issues when the scope is expanded beyond traditional issues such as tariffs.

Concluding trade agreements with a balance that is acceptable to the general public can be done, but only if the public debate gets some new language. Different intellectual property and labor policies are not cheating, not unfair, not dumping. They may require discussion and adjustment between countries, but policy differences are generally not based on a plot against the United States. Suggesting that they are poisons the policy debate, generates antagonism towards foreigners generally, and make solutions to trade conflict more difficult.

China is a particularly hard case, because of its size and some of its policies. But instead of vague assertions that “China is stealing our stuff,” we should debate the appropriate level of intellectual property protection and enforcement. There may not be a single “fair” level—reasonable people can disagree, as they do within the

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United States. It is not unreasonable to ask China to do more, but the current approach will not get us very far. For its own political reasons, China cannot sign a trade deal where they give a lot and the United States gives nothing. But the public debate in the United States demonizes China in a way that demands just such a deal. That has contributed to the current impasse.

Ultimately, an effective U.S. trade policy should not focus on “cheating.” Rather, the goal should be to work out a set of rules that constrain protectionism in ways that countries with different policies and development levels can all live with. In an ideal world, where everyone understood trade policy, each country would adopt free trade on its own. But in the real world, an appropriate balance may be necessary for political reasons. However, arbitrary assumptions and public allegations that everyone else is cheating us create an atmosphere where such a balance is very difficult to achieve. ◆