



# Protectionism Is (Almost) Mainstream

BY EAMONN FINGLETON

A review of **No Trade Is Free: Changing Course, Taking on China, and Helping America's Workers** by Robert Lighthizer, Broadside Books, 2023.

“**W**hen the facts change, I change my mind. What do you do, sir?”

Often attributed to John Maynard Keynes, this stinging remark makes a fitting epigraph for Robert Lighthizer's outspokenly mercantilist new book. One fact change in particular is hard for his opponents in the free trade camp to gainsay: China has now passed the United States as the world's largest trading nation. The implications, as he suggests, are profound.

Lighthizer, who served as Donald Trump's United States Trade Representative, has become increasingly critical of free trade over the years. It has been a tough slog, and for many years challenging the free-trade consensus was only slightly less damaging for one's social prospects than, say, admitting to having a current case of covid.

One thing we can all agree on is that the speed of China's rise has been awesome. As recently as 1999, when Beijing began negotiating to enter the World Trade Organization, China's exports totaled little more than one-quarter of America's. But China was already then an unstoppable freight train and it passed the United States in total exports as early as 2009. Then in 2013, it passed also in overall trade (imports plus exports). It is evident moreover that China's run is far from over: year-in and year-out, China continues to ramp up its manufacturing base and on the most recently available figures, its exports exceeded America's by nearly 40 percent.

Hardly anyone now holds out much hope that China will ever embrace free trade. Given that it is usually the

winners, not the losers, who set the rules, the implications spread out in all directions. What exactly is the World Trade Organization's role going forward? And how does the new reality play in the Second and Third Worlds? It seems only yesterday that the United States packed enormous moral authority in promoting free trade around the world. Now, to say the least, America's authority has been holed below the waterline.

How did all this come to be? One promising place to start might be with Lighthizer's predecessors at the office of the Trade Representative. He avoids naming names and even Michael Froman, who served as President Obama's USTR between 2013 and 2017, does not figure in the index. But reading between the lines, it is evident that he regards incompetence among his predecessors as a key factor.

Another factor has been—dare one say it?—graft. The revolving door has long been a major factor in the trade field and was the subject of a memorable exposé in Pat Choate's *Agents of Influence* as far back as 1990.

Speaking about the “trade-deficits-don't-matter” crowd, Lighthizer puts it this way: “The political establishments of both Republican and Democratic parties, under the influence of multinational corporations and importers, were unwilling or unable to recognize their mistakes.”

Then there are the economists. Lighthizer is undoubtedly right to suggest that classical economists such

**Hardly anyone now holds out much hope that China will ever embrace free trade.**

---

*Eamonn Fingleton is a former editor for Forbes and the Financial Times, and author of In the Jaws of the Dragon: America's Fate in the Coming Era of Chinese Hegemony (St. Martin's Press, 2009).*

as Adam Smith and David Ricardo would never have stood for the vast trade deficits America has incurred in the last forty years. But these economists' successors in the modern economics profession seem to have been almost entirely asleep at the switch. Lighthizer generally goes easy on the profession but, in a stinging slap, describes Larry Summers as "China's favorite former Secretary of the Treasury."

A further factor has been America's allies. Lighthizer reports that they have often been less than supportive of America's efforts to open the Chinese market. This was particularly evident in the lead-up to China's admission to the World Trade Organization. Referring to the WTO, he writes: "Many U.S. policymakers hoped that by creating a new multinational organization—and giving that organization the power to rule upon trade disputes—we could obtain better cooperation from our trading partners. But our trading partners in Japan and in Western Europe had a very different agenda. They were looking for ways to stop Americans from using the leverage of our huge market in trade negotiations."

Here and there Lighthizer could have dug deeper. In the case of Japan, for instance, he accepts the conventional story that the Japan economy is deeply troubled. He talks of a Japanese "fall." But if it is a fall, Japan's exporters seem somehow to have defied the law of gravity. One useful indicator of the real Japan is the auto industry.

**Anyone who knows Japan can point to how rapidly living standards continued to rise during the lost decade.**

Japanese automakers continued to win global market share all through the 1990s and afterwards, and did so mainly at the expense of their American competitors. As Japan entered its supposed "lost decade," General Motors was still very much the world's largest automaker with sales more than double those of its nearest Japanese rival, Toyota. But Toyota has consistently outperformed GM and the result as of 2022 was that Toyota's sales were nearly 70 percent larger than GM's. Toyota passed General Motors in global sales as far back as 2007. Such is the alertness of the modern American business press that the news went almost entirely unrecorded.

The "basket-case" story can easily be shown to be fiction. It is based almost entirely on uncheckable forecasts, not on checkable facts. The forecasts—typically of a banking collapse supposedly just around the corner—came almost entirely from foreign observers, generally investment bankers and stock analysts, many of whom clearly had a questionable agenda. What is undeniable is that Japan's trade negotiators used the basket-case story to



*U.S. Trade Representative Robert Lighthizer speaks prior the signing ceremony of the U.S.-China Phase One Trade Agreement on January 15, 2020, at the White House.*

great advantage. Fears that Japan might be tipped into a 1930s Great Depression constantly restrained Washington in trade negotiations to open Japanese markets.

How did Japan really do in the 1990s? The official GDP numbers suggest there was virtually no growth. Yet the reality on the ground, so far as any outsider can tell, is that Japan went from strength to strength. Yes, thanks to jolting changes in population policies in the 1930s and 1940s, Japan's demographics are uniquely distorted. But judged by per-capita numbers, Japan remains what it has long been, an increasingly prosperous society. Take life expectancy. Despite the fact that the Japanese diet has been becoming more Americanized in recent decades, Japan's life expectancy keeps on growing. It was up nearly two years in the 1990s and now runs nearly six years longer than America's.

Anyone who knows Japan can point to how rapidly living standards continued to rise during the lost decade. Take, for instance, travel. During the "lost decade" alone, vacation travel out of Japan increased by 69 percent.

The remarkable degree to which the real Japan diverges from the basket case version was recently the subject of a major essay in the *New York Times* by Paul Krugman. Krugman even suggested that Tokyo is so vibrant that it might be compared with *fin de siècle* Paris. He commented: "The Japanese are clearly having great

success with sophisticated urbanism; if you think of Japan as a tired, stagnant society, you're getting it wrong."

Where do we go from here? Lighthizer convincingly argues that the era of free trade is over. Certainly that is the case for the United States and other large economies. The main nations of East Asia have all in their turn already chosen mercantilism and, far from finding themselves cast into outer darkness, they continue steadily to increase their trade surpluses and their living standards. Their success will surely be emulated by other nations in the years ahead.

Lighthizer's solution is tariffs, and together with his Trump administration colleagues Peter Navarro and Wilbur Ross, he managed to spearhead a bipartisan effort to impose tariffs on China. But if America is ever to balance its trade again, this initiative alone is far from enough. For a start, China is not the only problem, but merely the largest and most visible. The world trading system is full of cheats. Yet Trump or no Trump, it is hard to see America rapidly restoring the sort of comprehensive system of tariffs it had in, say, the Roaring 1920s. There are just too many well-placed opinion makers in the American establishment who recoil at the mere mention of tariffs.

Luckily, however, there is a promising alternative: the Buffett plan. Proposed by the financier Warren Buffett in 2004, the Buffett plan would require American importers to buy import certificates from American exporters. For each dollar of exports an exporting company generated, it would receive a government voucher entitling the bearer to import a dollar's worth of goods or services. The effect would be to make the trading system self-righting.

Lighthizer mentions the Buffett plan but offers no analysis of its merits versus tariffs. Yet the Buffett plan has a special attraction in that it would make elegant use of the market mechanism, and thus might go some way towards smoothing the economics profession's ruffled feathers.

This brings us to the question of where the economics profession went wrong. Wearing his trade lawyer's hat, Lighthizer takes it for granted that everyone can see that free trade is a disaster. Thus he sees no reason to go toe-to-toe with economists in debating the merits of, say, the Theory of Comparative Advantage. That is a pity, because in any effort to build a new and better trading system, it would be useful to have the American economics profession on side.

This is not the place for a detailed discussion, but surely a major point is that the theory has not kept up with reality. We accept change in other areas of life. We don't use coal-fired vehicles to get around anymore. We don't expect medical doctors to administer blood lettings. Why didn't economists keep up? A big part of the

answer surely is that American economists have hitherto had little chance to study East Asian supply chains. The functioning of these chains diverges radically from how the Theory of Comparative Advantage might suggest. A key assumption underlying the theory is now seriously obsolete: the idea that marginal costs remain constant as production rises. The reality in many industries, particularly in key producers' goods industries, is that marginal costs tend to nosedive as production increases. Sometimes known as the Cost Structure Revolution, this tendency opens the door to all sorts of strategic pricing as competitors in new niche industries race to gain incumbency. The effect is compounded by the no-layoff policies in many parts of East Asia: the point is that labor behaves more like a fixed cost than a variable one.

We hear little about this because producers' goods are almost invisible not only to consumers but even to economists. And even Lighthizer largely overlooks their importance. Yet economic history tells us they are of pivotal importance.

Britain owed its nineteenth-century economic supremacy in large measure to dominance in key producers' goods, especially production machinery and other important niches where incumbents enjoyed a huge advantage. Then in the early decades of the twentieth century, leadership in producers' goods passed to the United States. After World War II, the Americans' lead seemed utterly unchallengeable, but with skillful use of protectionism Germany and Japan slowly but surely increased their market share. Today, the Japanese seem almost as dominant as the British were in their heyday, with the Germans and the South Koreans sharing the market in some important niches.

Not the least remarkable aspect of this book is who has endorsed it. The list includes such big names as tech billionaire Peter Thiel and Fox Business presenter Larry Kudlow. The policymaking community is represented by such a heavyweight as Senator Marco Rubio (R-FL), as well as the late United Steelworkers leader Tom Conway, and Trump-era national security advisor Lieutenant General H. R. McMaster.

With a list like this, it is clear that protectionism is becoming almost mainstream.

Robert Lighthizer is to be congratulated for being so early to warn of the dangers of globalism. His day has finally dawned—just in time for his memoirs! ◆

**The Buffett plan would require American importers to buy import certificates from American exporters.**