

Freer Trade Is Deregulation

Written by Steve Horwitz.

For those who like competitive markets, the prospect of a Trump presidency has not held a great deal of promise. His love of discretionary power, his weak understanding of economics, and his long history of cronyism all suggest that the next four years will not be a good time for those of us who think that market capitalism is the best economic system for raising the overall standard of living, and especially for the least well off among us.

Seriously implementing all of these promises and threats would require an enormous regulatory apparatus. One possible bright spot, however, has been Trump's promise of "regulatory relief" upon taking office. There are reports that he plans to repeal a number of Obama's executive orders and the GOP leadership has mumbled a few things about repealing the Affordable Care Act and perhaps Dodd-Frank.

This sort of regulatory relief would be most welcome as both of those laws have served to harm consumers while benefitting the large firms who helped write the regulations in question. Similarly, eliminating some smaller regulations imposed by executive order would be a step in the right direction.

However, More Taxes

However, for all of the talk of regulatory relief, there is at least one area in which Trump has made it clear he intends to dramatically increase government regulation - the buying of goods and services across national boundaries. Trump has promised (or threatened) to impose an across the board tariff on imports, and he has promised subsidies or other benefits for firms who keep their production in the US. During the campaign, he indicated he would limit immigration and that he would punish firms who relocated to other countries.

Putting aside for a moment the tremendous harm restricting international trade would cause by itself, seriously implementing all of these promises and threats would require an enormous regulatory apparatus. Trump's program of economic nationalism would have to create new bureaucracies, or expand existing ones, in order to enforce a tariff or decide upon, and distribute, subsidies for firms who stay in the US or penalties for those who don't.

You won't find anything today untouched by the international division of labor. Restricting immigration and, in the extreme, building a wall, would require a vast increase in the scale and scope of power given to the not-so-friendly folks in the Department of Homeland Security, not to mention other departments and agencies.

US firms would face a multitude of new regulations and restrictions, and would have to navigate all kinds of red tape to comply with them. As proof, take a look at nearly every product around you now: clothing, smartphone, laptop, coffee cup, sneakers, whatever. You won't find anything untouched by the international division of labor. In fact, that might be why you can afford what you have at all. If you are going to start taxing this market structure, country by country, government will be newly involved a huge range of products that you depend on.

Regulatory Invasion

This is hardly the regulatory relief that Trump is promising elsewhere. In the same way that some associated with Trump have rightly argued that the ACA and Dodd-Frank and other forms of regulation have stifled US firms, imposing these restrictions on international trade would also harm US firms and US consumers in the process.

Trump has continued to argue for the need to “drain the swamp” of the lobbyists and bureaucrats who have overrun the federal government. But imposing his agenda of economic nationalism will worsen not solve that problem. All of the regulations and new powers that would be necessary to enforce his anti-trade program would be subject to the same sort of lobbying and rent-seeking that he claims to oppose.

One need only imagine Congress trying to decide on what level of tariff and on which goods it would be imposed, or determining what sorts of actions qualify for subsidies or deserve penalties (and of what sort) to see how heavily lawmakers would be lobbied by various firms wishing to protect themselves and/or harm their competition. Once such laws were in place, the battle to be exempted or to interpret the rules in ways that help particular firms would be endless, and the swamp would simply get bigger and more infested.

Blackmail and bullying by presidents is not a recipe for improving American standards of living. Most dangerously, as we've seen Trump do already, the chaos of such a process would open a path for a president willing to use discretionary power to make such decisions by his own lights. We've seen Trump talk belligerently about punishing firms that want to outsource production, and then we see Ford change its plans to move production of some electric and self-driving vehicles to Mexico. Not only does this undermine the rule of law, and substitute the rule of one man, it also means that firms will have every reason to curry favor with such a strongman and the results will be disastrous for the US economy.

Restrictions on international trade, including the threat of punishing individual firms, are a major form of economic regulation and will inevitably lead to just the sort of executive and legislative overreach and discretionary power that so many Trump supporters criticized Obama for. Blackmail and bullying by presidents is not a recipe for improving American standards of living.

Trade Generates Wealth

One factor that has increased the standard of living of Americans over the last century and more is the opportunity to purchase goods and services from across the world at steadily falling prices. When we can purchase imports cheaply, we can then use the leftover income to purchase items we could not have afforded previously, creating a demand for new jobs here at home. Despite booming international trade in the 20th century, we had no problem creating plenty of new and better jobs for an expanding population, as well as millions of women entering the labor force for the first time.

Similarly, immigration has enriched us enormously. Not only have immigrants been the source of many innovations through their entrepreneurship, they have provided productive labor in sectors from hotels to IT, and they have brought new food and culture with them, giving us options and variety that make our lives richer than those of a generation or two ago.

Genuine free trade requires no new regulations or bureaucracies. Trump-style economic nationalism, like the more full-throated fascism with which it shares much, aims to bring back the mythical glory days of the nation. But if we really want to make America great (again), we should learn the lesson of history, as well as economic theory, that prosperity comes from the free movement of goods, services, and people regardless of arbitrary political lines. Trade-tested permissionless innovation cares not about such boundaries.

It's good to hear Trump talk of regulatory relief – every sector desperately needs this! – but true regulatory relief, as well as broad economic growth that will benefit all Americans, comes through the free movement of goods and people. Genuine free trade requires no new regulations or bureaucracies – in fact, it requires that we eliminate things like the Ex-Im bank and the intrusive and rights-violating immigration bureaucracy.

If Trump is serious about regulatory relief, and really wants to improve the well-being of all Americans and not just his politically-connected buddies, the first thing he should do is abandon his economic nationalism and support the free trade and liberal immigration policies that really have made America great.

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