

BY GREG RUSHFORD

“Politics ain’t beanbag,” Mr. Dooley, the fictional homespun humorist from Chicago, famously observed. And now, some hundred years later, a Chicago Democrat named Barack Obama and his Republican rival, John McCain, have reminded us that presidential campaigns sure ain’t economics seminars, either.

As Obama and McCain competed for votes on the hustings, neither ever really outlined the upside (or downside) of open international trade in intellectually honest terms. While McCain ran as an advocate of free trade, he never got beyond abstractions to explain why trade is important to Joe the Plumber – not to mention Arlene the Aircraft Assembler and Lakshmi the Software Engineer. Nor did Obama level with the American people about how much was at stake in keeping America’s borders open to trade. And his campaign commitments are, of course, far more important than McCain’s because he will occupy the White House for at least the next four years.

The Democratic candidate told the usual suspects what they wanted to hear. Ohio factory workers got their quota of China-bashing, autoworkers learned why Detroit needed federal largess to compete against fuel-efficient imports, textile workers in North Carolina were supported in grievances about their counterparts in Vietnam, Pakistan and Bangladesh. To judge solely by Obama’s rhetoric,

one might have gained the impression that he dozed through Econ 101. Obama not only ran against George W. Bush – he also ran against Adam Smith and David Ricardo.

Of course, all presidents and wannabes have at times felt the need to pander to the protectionist lobbies du jour. Richard Nixon supported textile quotas; Ronald Reagan made war on Japanese cars and semiconductors; George W. Bush imposed tariffs on steel imports before the 2002 Congressional elections. But in the battle to win the hearts and votes of blue-collar males, candidate Obama made so many pledges to so many lobbies that President Obama will be saddled with more protectionist promises than any White House resident in memory.

To be sure, there is no way to know how many of these promises Obama intends to keep. During the campaign, Austan Goolsbee, a senior Obama economic adviser with solid credentials from the University of Chicago, was embarrassed that his off-the-record reminder to Canadian diplomats about the difference between campaign rhetoric on the North American Free Trade Agreement and government policymaking had leaked out.

There’s precedent, moreover, for Democrats to forsake their base once they hear *Hail*

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to the Chief. After all, Bill Clinton broke with organized labor to champion Nafta and to support the creation of the World Trade Organization to replace the weaker General Agreement on Tariffs and Trade.

But since Clinton's days in the 1990s, organized support for trade has significantly weakened and Obama will find it much more difficult to move back to the economic center – if he does, in fact, try. In Washington, the once-potent bipartisan free-trade coalition that was forged by Franklin D. Roosevelt and Cordell Hull in the 1940s is now cracked

deeply, if not totally shattered. And, with the world plummeting into recession, the auguries are troubling.

IF IT'S THURSDAY, THIS MUST BE SPARTANBURG

One of the strangest aspects of the 2008 campaign was the disconnect between the political rhetoric and the reality of ever-increasing globalization. For example, the South Carolina textile magnate and political bully Roger Milliken long vowed that his company would never – *never!* – make stuff overseas for sale in

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America. But these days, Milliken & Co. makes fabric in the United Kingdom for tennis balls that manufacturers including Wilson (headquarters, Barack Obama's Chicago) make in China for sale in the good ole' USA. Milliken also weaves fabric for clothing that is produced in China and makes its way back home via Wal-Mart.

It gets stranger. South Carolina's business story of the day, just before the state's Democratic primary, was the news that a China-based company named American Yuncheng Plate Making would invest \$10 million to produce packaging materials and engraving cylinders to manufacture textiles. The company chose South Carolina, American Yuncheng's spokeswoman, Irene Quiao, said, "because of its low tax rates and access to key markets." The Chinese-backed plant will be based in Roger Milliken's hometown, Spartanburg, where it expects to create 120 jobs. Indeed, the economic times are changing wherever Americans still toil over textile machinery.

PLEASING THE PROTECTIONIST BASE

This last election cycle got off on the protectionist foot from the start. On Aug. 7, 2007, seven Democratic aspirants to the presidency presented their views on trade during a debate sponsored by the AFL-CIO at Chicago's Soldier Field. Make that pander-fest: every one of the seven demonized trade as the enemy of the American worker.

Hillary Clinton called for "a trade prosecutor" who would "enforce the agreements we have" with U.S. trading partners. John Edwards observed that Nafta "was negotiated by Washington insiders, not by anybody in this stadium tonight." Bill Richardson allowed that "we've got to be tougher on China." Declared Joe Biden: "Hey, look, a president's job is to create jobs, not to export jobs," and vowed he

would "change" Nafta. Dennis Kucinich drew the most cheers of the evening when he promised that "in my first week in office, I will notify Mexico and Canada that the United States is withdrawing from Nafta. I will notify the WTO we're withdrawing from the WTO."

Obama joined the crowd, though without his usual felicitous use of the language. "I would immediately call the president of Mexico, the president [*sic*] of Canada, to try to amend Nafta because I think we can get labor agreements in that agreement right now," he said. Obama asserted that Nafta and other U.S. trade pacts had been negotiated by "corporate lobbyists," not by the AFL-CIO. As a result, "ordinary working people have not been involved" in crafting deals that brought the benefits of trade to them.

Obama did acknowledge in passing that "we should be trading around the world." But just why was never revealed. Indeed, he allowed that people "would rather have the job and pay a little bit more for a T-shirt. And I think that's something that all Americans could agree to."

PROMISES, PROMISES

When it comes to kissing the right protectionist rings, four lobbies matter most: steel, autos, textiles and farms. Candidate Obama had no qualms about courting them all.

He of course promised that he would subsidize the troubled American auto industry, which regularly complains about having to compete with cars from Korea and Japan on grounds that they are "unfairly" subsidized by their governments. (Nobody seemed to notice the contradiction.) And he paid obeisance to the United Steelworkers of America, emphasizing that he would beef up the U.S. anti-dumping regime, which slaps tariffs on foreign goods that are priced too cheaply.

The dumping issue deserves a digression.



While the rhetoric of antidumping is appealing to Americans' innate sense of fairness, economists rightly regard antidumping laws with disdain.

Ford is perfectly free to compete with, say, General Motors (or Nissan), by offering trucks in Louisiana at a lower price than in Michigan. Ford can (and probably does) sell some trucks at a loss in order to keep production lines and workers busy. Economists call this practice price discrimination, and as long as the goal is not to put competitors out of business it is legal – as well as a sign of healthy competition. But when foreigners take the same approach to price discrimination while crossing national borders, watch out. If Nissan makes a car in Japan and sells it in Los Angeles at a lower price than back home in

Tokyo, Nissan is breaking American law. Worse, it is subject to penalties lovingly crafted by bureaucrats at the Commerce Department who see their job as protecting American producers – not American consumers.

FARMERS COUNT TOO (MUCH)

“Our farmers are among the most efficient in the world and, if given a level playing field, can compete effectively with anyone in the world,” the urbane senator from Chicago told the American Farm Bureau Federation. So far, so good. But he then went on to praise the U.S. farm program for “helping many family farmers.”

The reality is that America's lavish system of crop subsidies and agricultural trade barriers serves mainly to increase the income of

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large-scale farmers – and even, on occasion, to generate all of their net income. Arguably much worse, this tender loving care reduces the market price of globally traded crops, undermining the hopes for agriculture-based economic development from Uganda to Vietnam to Colombia.

Candidate McCain stood up to the protectionists. And when you go down the list of enemies he made in the process, you see just how brave that was.

Probably no other protectionist lobby gets so much from Washington and delivers so little to the American economy as the textile lobby. Five days before the election, Obama wrote a letter to the National Council of Textile Organizations – a coalition that includes both manufacturers and unions – promising them their hearts’ desire. In his letter to Cass Johnson, the council’s top Washington lobbyist, he demonstrated a solid grasp of the arcane specifics that most Americans have never heard of, vowing support for the “yarn-forward rule” in U.S. trade agreements – which allows duty-free entry of foreign-made apparel only for clothes that are made from American yarn.

With Nafta, that rule (included at Washington’s insistence) helps the cotton lobby sell American fiber to Mexico, which can then export clothes duty-free to the yanquis north of the border. The idea is to put the Chinese and other Asian clothingmakers who don’t import American yarn at a disadvantage by exposing their exports to tariffs that range from 18 percent to more than 30 percent.

Obama also supported buy-American laws that require the Pentagon to “procure only textiles made in the United States.” (So much for making every defense dollar count.) He further promised to “monitor” imports of Chinese clothing, with an eye to slapping renewed quotas on some categories – like cotton trousers and blue jeans – that otherwise were scheduled to expire at the end of 2008.

Wait, there’s more. Obama promised Johnson that his administration would beef up “enforcement of our trade-remedy laws,” referring to antidumping laws and similar policies that give the president discretion to roll back imports. And he vowed to use “all diplomatic means” to make China stop “its manipulation of its currency’s value” – the idea being to press the Chinese to raise the exchange value of the yuan so that Chinese exports would become more expensive for Americans to buy. “A fair trading system requires fairness in each country’s foreign exchange practices,” the candidate declared.

The protectionist beat went on elsewhere, too. During his campaign, Obama criticized pending preferential trade deals that George W. Bush negotiated with South Korea, Colombia and Panama. Seems they should all be renegotiated to protect U.S. jobs. Obama even shrugged that getting the stalled World Trade Organization’s multilateral negotiations known as the Doha Round – the best hope for sustaining the lagging drive for open global trade – would not be a priority in his White House.

The incoming president has also repeatedly promised that he would withdraw from Nafta if the Canadians and Mexicans won’t agree to provide more labor and environmental protections. As the *Washington Post* editorialized, just the threat to tear up Nafta – an international trade deal that was negotiated by the first President Bush and signed by



President Bill Clinton – “is a more breathtaking case of U.S. ‘unilateralism’ than anything [President George W.] Bush has done.”

MCCAIN’S MISSED OPPORTUNITIES

Candidate McCain stood up to the protectionists. And when you go down the list of enemies he made in the process, you see just how brave that was. He refused to sign on to the textile lobby’s agenda – a lobby with real muscle in North Carolina. He said he was no friend of buy-American laws, particularly those that would prevent the Pentagon from

buying critical high-tech components from whomever made them best. McCain even told the truth to auto workers in Michigan (which was briefly a swing state, too).

Instead of backing farm subsidies, McCain said that he would work to support “market-driven” agricultural economics. He also spoke of the importance of bilateral trade deals with Colombia, South Korea and Panama, and told voters that successfully concluding the Doha Round was vital.

But McCain never got credit for his stand, perhaps because he never explained why

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open trade was in the interest of the vast majority of American workers as well as American consumers. For example, during the campaign, Obama got points for conspicuously wearing suits made in Chicago by Hart Schaffner Marx. McCain never thought to remind us that, were it not for imported wool from Italy, those American workers at Hart Schaffner couldn't make all those fine suits. Indeed, McCain might have added that much of the American suit industry has been driven north of the border in the past decade because American makers must pay a 30-plus percent tariff on imported wool, while their Canadian competitors pay nothing at all.

HAMMERING AMERICAN JOBS

When Obama vowed that he would use the tax code to punish American multinationals for their international operations, McCain might have pointed out that one of Senator Obama's constituent companies in Illinois has already been given an incentive to move offshore, thanks to the same antidumping tariffs that he regularly touted as good for American jobs.

In 2002, U.S. antidumping officials slapped stiff tariffs on imported wire rod, a raw material that is very important to Chicago-based Illinois Tool Works. It manufactures thousands of industrial products used in some 800 businesses in more than 50 countries, and is the largest domestic manufacturer of nails. As a result of the aforementioned antidumping tariffs, ITW's nail division was forced to shift some of its production to China.

If there is any American who would be expected to understand why domestic workers have a stake in keeping international borders open to trade, it should be Samuel J. Wurzelbacher – yeah, him, again. McCain used Joe

the Plumber to make the point that ordinary Americans don't much like high taxes – even, apparently, when they don't have to pay them. But McCain didn't seem to realize that while the tax issue was only a symbol for Joe, international trade was very real. Plumbers get their pipes from factories all over the world, including China. So McCain could have told voters: if you think plumbing is expensive, wait until you find out that you have been paying more for plumbing supplies, thanks to the pipe and tube lobby with its antidumping tariffs.

DÉJÀ VU (I HOPE)

Perhaps President Obama, like other presidents before him, will find ways to balance the political imperative to reward his supporters against the powerful lesson of history that a rising tide of trade raises most boats. But I'm not optimistic.

Just one day after Obama was elected, the World Trade Organization reported that trade growth faltered in 2007 after many years of rapid expansion. Nobody doubts that in the wake of the global recession the numbers for 2008 will be even gloomier. Meanwhile, the WTO's Doha Round is barely showing a pulse. And the key issues standing in the way of its revival happen to involve the protectionist lobbies that Obama chose to embrace: textiles, steel, autos and farmers.

How much would it matter were the United States to forsake its six-decade-long role as the leader of the open-trade movement? More, ironically, than it probably did before the trauma of globalization was first recognized as such by American workers. The enduring strengths of the American economy are its flexibility and its capacity for innovation. Americans thus have a lot to lose in a world in which interest groups wedded to the status quo call the shots. **M**