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Elite Protectionists

by William Greider

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A man-bites-dog story of momentous implications is unfolding in Washington: The US multinational establishment, having successfully championed free-trade orthodoxy for decades, may now be flirting with protectionist heresy--a stiff tariff against China to stanch America's hemorrhaging trade deficits. Fred Bergsten, the multinationals' leading economic authority, warns that the United States is in "big trouble," taking on foreign debt beyond anything any industrial nation has experienced and comparable to Mexico and Thailand just before they crashed in the 1990s. Bergsten, director of the Institute for International Economics, is lobbying elite circles to demand decisive action by the Bush Administration--an "import surcharge" as high as 50 percent on all Chinese imports--to avert financial meltdown.

Meantime, a bipartisan group of senators--nine Democrats, five Republicans--has introduced Senate Bill 295, which targets China with a 27.5 percent tariff. Charles Schumer, the lead sponsor, calls it "a tough-love effort." The co-sponsors include Democratic minority leader Harry Reid and, more surprising, Hillary Clinton, a longtime free trader close to financial leaders like former Treasury Secretary Robert Rubin, now an executive at Citigroup. The bill lets politicians express solidarity with constituents who lost their jobs, without offending big hitters.

about
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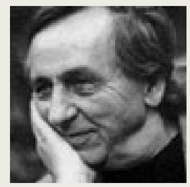

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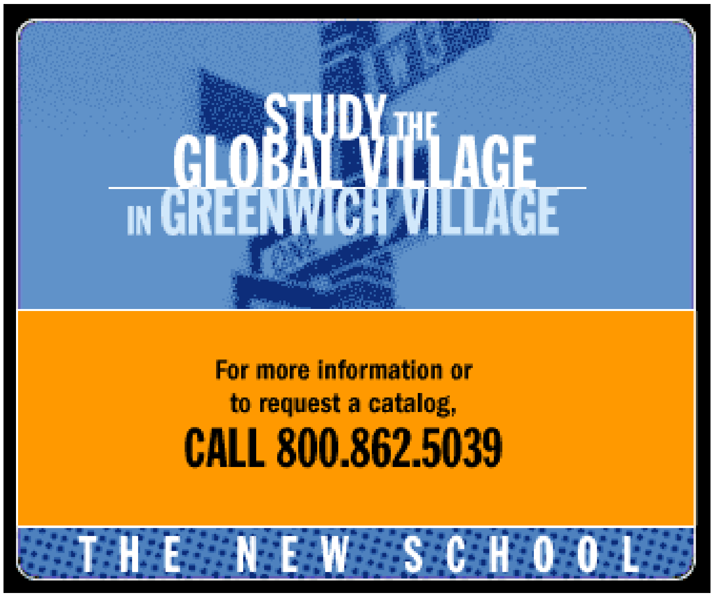

Conceivably, we could be witnessing the start of a break from the era of US-led globalization in which Washington preached unfettered trade to the rest of the world. Now it is America that needs protection, its trade deficits swollen to more than $600 billion a year, its capital borrowing from abroad approaching 7 percent of GDP. Bergsten predicts that, unless there is dramatic action, the deficits will keep rising until something truly awful happens to the US economy and, therefore, the global economy too.

Bergsten, Assistant Treasury Secretary in the Carter Administration, is a high-church free trader offended by the protectionist label. His institute's board of directors includes heavyweights from Citigroup, Morgan, United Technologies, ChevronTexaco and the Carlyle Group, plus former Federal Reserve chairman Paul Volcker, David Rockefeller and Jean-Claude Trichet. Alan Greenspan is listed as an "honorary director." Improbable as it sounds, Bergsten insists he is freelancing this explosive proposition. "The big companies and financial firms are not goosing China," he told me. "They all like the status quo and are very much in disagreement." He does acknowledge, however, heightened anxiety among financiers about America's swollen debt position. The declining dollar has not reversed the US trade deficits, as experts like Bergsten had predicted, and it must fall much further to do so. "Wall Street," Bergsten explains, "faces a risk of precipitous decline--an overshooting free fall that would shatter confidence, drive US interest rates toward double digits and crash equities à la Black Monday in 1987."

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The multinational club does not intend to abandon free-trade dogma. Bergsten's strategy--threatening tariffs--is meant to bluff China and other Asian nations into letting their currencies appreciate and allowing the dollar to fall much further so the US trade deficits will shrink, at least enough to avert a financial crisis. The strategy is also designed to light a fire under George W. Bush. "It is virtually inconceivable," Bergsten wrote in the *Financial Times*, "that the Bush Administration could skate through four more years without addressing these issues decisively." In a sense, Bush is being handed a weapon to use to intimidate the trading partners: Work out a deal with us or protectionist politics may engulf us all.

Schumer's bill provides for a six-month negotiating period-- time enough for Beijing to relent--before the ax would fall (other Asian nations can't move on currencies unless China does because they'd lose their own export sales to Chinese goods). Bergsten has worked out a clever but strained rationale for how his import surcharge defends free trade: China and the others, he says, are manipulating their currencies to gain trading advantage. But all important nations manage their currencies for economic advantage; furthermore, during the 1990s, American experts encouraged developing nations to peg their currency to the dollar, exactly what China's doing now. Bergsten argues that the United States should take his accusation to the IMF and WTO, but the threat seems hollow since such a case would take years. The bleeding is now.

Waving the tariff "stick" to pressure others can be risky, however. When Bergsten presented his case before the Council on Foreign Relations in February, financier and former Commerce Secretary Pete Peterson sounded in agreement but cited the risks. "I don't suggest using sticks lightly," he said. "They're a very dangerous thing to get started because they can result in retaliation and so forth." But they can also work, Bergsten responded. "Absolutely," Peterson said.

These events also pose a large domestic political risk for the multinationals: When "responsible" players break the taboo and talk up tariffs, it could ignite a more honest public debate on globalization. The major news media seem not to have noticed that Democratic leaders and some conservative Republicans are waving the big stick. The establishment probably prefers that this remain an inside-the-Beltway story. Why confuse the public with front-page stories explaining that tariffs are actually useful and legal?

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Organized labor and others should make sure this story becomes big news. People might begin to ask deeper questions. If free-trade agreements are the road to greater US prosperity, how did the United States wind up in this deep hole? If the government is willing to invoke the tariff weapon to protect US financial interests, why can't it use it to protect US workers and jobs? Why does US trade policy serve the multinational interests but not the nation as a whole? The trade crisis is a new opening in politics, but its origins are bipartisan, spawned by Republican and Democratic Presidents adhering to the orthodoxy. Imagine if John Kerry had had the nerve last year to talk about an emergency tariff to protect America. He might have carried Ohio.

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