The Real Enemy for Trump Is Mercantilism, Not Globalism

As in Adam Smith’s day, the state favors some firms through regulations, taxes, subsidies and licenses.

For us non-Americans it is sometimes hard to understand Donald Trump because he speaks and writes in what the British philosopher Bertrand Russell called “little patches of color”—micro-facts that must be pieced together to form a meaningful picture.

For me, an economist from South America who works around the world making capitalism more inclusive and trying to adapt blockchain technology to that purpose, the picture Mr. Trump seems to be painting is that the American people and economy are being held back by elites who obtain privileges in a corrupt government that is mismanaging globalization and immigration, while failing to contain terrorism. These are problems that we outside of North America and Western Europe—90% of the world’s population—also face.
We all have an interest in repairing the noble endeavor of globalization, which, since World War II, has been making it possible for people around the world to become better acquainted with and benefit through free markets. When accepting the Republican nomination for president, Mr. Trump said “Americanism, not globalism, will be our credo.” Perhaps he is unaware that the world outside of the U.S. faces similar challenges. That he is blaming America’s economic competitors for many of those challenges is an abandonment of U.S. global leadership.

away from the world, another leader will emerge. Chinese President Xi Jinping was more than happy to tell attendees at the Asia-Pacific Economic Cooperation meeting in my home city of Lima, Peru, this month that his country would support all those who want to keep global markets open. Delegates from around the world rose to their feet and applauded.

As I’ve pieced together Mr. Trump’s little patches of color, I’ve come to realize that his real enemy is not globalism but mercantilism—the early stage of capitalism that prevailed in Europe from the 16th to 18th centuries also known as “crony” or “noninclusive” capitalism. Adam Smith and other modernizers combated mercantilist governments for granting favored producer and consumer elites with special rights by means of complex regulations, subsidies, bailouts, taxes, licenses and bilateral treaties that allowed them to access large-scale global markets and import cheap labor.

Over time mercantilism was reduced significantly. But it has made a comeback in the 21st century. One way is through the emergence of complex bilateral trade agreements—surely better than no trade at all but riddled with labyrinths through which special interests prowl to capture surplus value and smuggle in low-cost labor.

Mr. Trump’s “100-Day Action Plan to Make America Great Again” calls for “special task forces” to identify and close the loopholes through which privileges are granted in complex trade agreements. This, if done properly, could improve trade while bringing greater benefits to a broader number of people.

Today, in developing countries, these same trade agreements are frequently challenged—not by governments but by the people excluded from their privileges. Why is this coming to the fore now? Because after the defeat of communism 27 years ago, ordinary people expected to be allowed to benefit directly from international trade agreements but most of them received only the kind of sops that mercantilism gave them.

What they didn’t get—and need the most to benefit from globalization—are the rights to form companies that can employ talent and build business hierarchies outside the family or tribal pecking order; to reduce risks with limited liability. They did not get the property and intellectual rights to divide and protect their assets, and pledge them to raise capital and credit. Nor did they get the transferable certificates to combine these rights to generate surplus value to capture, store and monetize it. Now they’re migrating to the U.S. and Europe, flooding cities, cutting corners and feeding the ranks of terrorism.
Columbia University economist Jagdish Bhagwati has lamented that bilateral treaties, which give partners the right to exclude and discriminate against countries not included in the agreement, have replaced multilateral global trade agreements whose benefits were automatically shared by all countries. This, says Mr. Bhagwati, creates a “spaghetti bowl” of regulations, armies of lawyers and new elites organized to cut their way through the morass.

In 18th-century France, six volumes of stifling regulations on the textiles trade led to the execution of 16,000 businessmen who could not comply. Europe’s tortured mercantilist past is reminiscent of the Arab Spring, which was triggered in early 2011 when some 100 entrepreneurs throughout the region self-immolated in protest for not being allowed to do business. The first one to go was Mohamed Bouazizi, a Tunisian fruit vendor who died—wearing Western-style sneakers, jeans, a T-shirt and a zippered jacket—protesting the expropriation of his produce.

Bouazizi, like the frustrated Americans who voted for Mr. Trump, are not victims of globalization but of mercantilism. The question is whether Mr. Trump’s administration can fashion his little patches of color into a meaningful big picture—not only of America but of the world.

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