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Free Trade, Protectionism, NAFTA, and GATT

Myths and Realities about Free Trade

Where does free trade exist?

Absolute free trade between countries does not exist. While some pay lip service to free trade, all countries (except perhaps the United States) manage their trade to serve their own national interests.

Free trade does exist among the 50 states of the United States. The U.S. Constitution forbids tariffs between the states (Art. I, Sec. 10). This provision has proved to be a tremendous success and deserves a large share of the credit for our nation's amazing growth and prosperity.

Does it follow that free trade would be good between the United States and other countries?

Absolutely not! That is a non-sequitur! Free trade is successful among our 50 states because: (1) all our 50 states are under one Congress; the U.S. Constitution empowers Congress to regulate interstate commerce (Art. I, Sec. 8), (2) all our 50 states are under one Supreme Court, which is the final arbiter of disputes, (3) all our 50 states are subject to the same federal laws about banking, labor, and the environment, (4) all our 50 states use the U.S. dollar as the legal medium of exchange and none of the 50 states can issue worthless money to pay for imported products, or devalue its currency against the other states, (5) all 50 states are constitutionally forbidden to impair the obligation of contracts (Art. I, Sec. 10) or confiscate property without due process (Amendment V).

Foreign countries can and do engage in all sorts of dishonest tactics that interfere with fair trade, such as devaluation or other manipulation of the value of their money, confiscation (or nationalization) of U.S. property, refusing to live up to the contracts and agreements they sign, stealing our patents and copyrights, and counterfeiting our money. For example:

(1) When Mexico devalued the peso by 40%, that destroyed the Mexican market for U.S. exports that was expected under NAFTA.

(2) The Chinese government is engaging in massive

piracy of American intellectual property, *i.e.*, patented, copyrighted and trademarked materials. The U.S. property stolen by the Chinese includes a wide array of products including computer programs, pharmaceuticals, agricultural chemicals, musical recordings, videos, and automotive designs. Collectively, these products are one of the greatest strengths of the U.S. economy and are the envy of the world. The United States exports many billions of dollars worth of these products each year.

China finds it easier to illegally copy these products than to buy them from us or build competitive products, so China steals them on a gigantic scale. Some 30 Chinese factories daily turn out thousands of illegal compact discs and sell them all over the world. Illegally copied recordings, films and computer programs are widely available all over China.

The *Washington Post* (February 15, 1996) estimates that China's piracy in intellectual property amounts to \$1 billion per year in lost U.S. exports. According to the Commerce Department's rule-of-thumb, this means that 20,000 American jobs have been displaced by the \$1 billion in lost U.S. exports.

Just a year ago, U.S. and Chinese negotiators signed a second agreement to end this piracy of intellectual property, but these agreements have had no effect on the Chinese. China has failed to comply with every major trade agreement it has signed with the United States in recent years. The United States has threatened China with trade sanctions a half-dozen times, but such threats have no effect on China's stealing.

We are fools to seek "free trade" with countries that steal from us.

(3) The General Accounting Office told Congress on February 27, 1996 that Middle East counterfeiters are flooding overseas markets with "the highest quality of counterfeit \$100 U.S. bills Treasury officials have ever seen." Our government is sure that a foreign government supports the printers.

This situation is not new. The House Republican Research Committee's Task Force on Terrorism and

Unconventional Warfare declared four years ago that billions of "superdollars" are being produced on "high-tech, state-owned presses with paper only acquired by governments."

We are fools to seek "free trade" with countries that counterfeit our money.

(4) Japan refuses to live up to its agreements. On March 2, 1996, U.S. negotiator Ira Shapiro said that Japan has failed to carry out an agreement it signed in October 1994 to open up its insurance market to us. Shapiro said that other areas where Japan remains unwilling to open its markets are semiconductors, photographic film, and civil aviation.

(5) Foreign countries impose all kinds of tariffs as well as an endless variety of tariff-alternatives, such as limiting the number and kinds of U.S. products that may enter their country and forcing U.S. products to meet unreasonable requirements. Just ask any of the many companies that have tried to sell their products in Japan and have run into one bureaucratic or regulatory roadblock after another.

(6) Many foreign countries, such as Mexico, have governments that are totally corrupt. Corruption and bribery are accepted ways of doing business in many foreign countries.

It is dishonest to eliminate U.S. tariffs and call it "free trade" when any or all of the above tactics are used against us. To prohibit the use of tariffs as one of America's means of dealing with these dishonest trade tactics is ridiculous.

Did NAFTA and GATT give us free trade?

Absolutely not! "Free trade" was the slogan used to get Congress to pass NAFTA (North American Free Trade Agreement) in November 1993, and GATT (General Agreement on Tariffs and Trade) on December 1, 1994, but it was dishonest to use the term "free trade" in connection with those treaties. The proper term for NAFTA and GATT is "Managed Trade," because it put U.S. trade under the control of new and powerful international bureaucracies. GATT created the World Trade Organization, which has a legislature, an executive branch and a judicial system to control global trade. It is dishonest to call something "free trade" when it is managed by a huge international bureaucracy. If the goal is the elimination or reduction of tariffs, it is completely unnecessary to set up a new bureaucracy. Tariffs had been steadily coming down for many years.

GATT is also loaded with 22,000 pages of exotic, special-interest, interlacing tariffs written to the prescription of the politically powerful.

Almost every week, we discover new disadvantages of NAFTA or GATT. For example, a little-noticed provision of NAFTA allows Mexico, Canada and the United States to scrutinize enforcement of each other's labor laws. This has opened up a new legal channel for the unions to go after U.S. employers. After Sprint closed a telemarketing plant in San Francisco because it was losing money, it not only

faced a challenge from the union, but on February 27, 1996 was subjected to a NAFTA challenge from tri-national representatives of Mexico, Canada and the United States. Daniel Mitchell, an economist at the University of California Los Angeles, said, "I don't think anybody foresaw that NAFTA procedures would get used this way."

Are the "free trade" advocates honest when they say their goal is "free trade"?

No. The kind of "free trade" they seek is based on a huge international bureaucracy called the World Trade Organization (WTO). This is a supra-national organization in Geneva created by GATT to set, administer and enforce global rules for world trade. It has a legislative body (in which 110 nations each have one vote), a multi-national bureaucracy, and a supreme court to decide trade disputes (whose rulings cannot be vetoed by any nation). Its charter is contained in 14 pages surreptitiously added to the 22,000-page GATT treaty just before it was signed.

The kind of "free trade" the GATT supporters seek is also based on U.S. taxpayer subsidies of foreign industries and governments through U.S. foreign aid, the World Bank, the International Monetary Fund, the Export-Import Bank, the Overseas Private Investment Corporation, and a long list of other international lending and handout mechanisms. The American taxpayers have been ripped off ever since the end of World War II by taxpayer subsidies of exports disguised as foreign aid and by tax preferences and guarantees for foreign investments.

The NAFTA "free trade" fraud with Mexico included requiring U.S. taxpayers to spend \$20 billion for "environmental cleanup" along the Mexican border, as well as billions of handouts through the World Bank.

The NAFTA and GATT promoters are all protectionists, anyway. They use the power of government to protect their friends. They didn't care about protecting American workers, but they used U.S. taxpayer dollars to protect the New York investment bankers (Chase Manhattan, Citicorp, and Goldman Sachs) from the consequences of their bad investments in Mexico. This Mexican bailout of January 1995 took taxpayers' money from a fund set aside many years ago for the sole purpose of protecting the U.S. dollar and used it to tie our dollar to the Mexican peso. Unfortunately, the Senate and House Democratic and Republican leadership conspired with Bill Clinton to avoid a vote in Congress to stop this illegal use of the U.S. taxpayers' money.

When the Clinton Administration calls NAFTA and GATT "free trade," we should remember that those were the same people who called taxes "contributions," and who called government social spending "investments."

The GATT treaty was filled with hidden handouts and perks to special interests that had been loudly reciting the mantra "free trade" without disclosing how they would financially benefit, such as the \$2 billion subsidy to the *Washington Post*, the *Atlanta Constitution*, and a consortium of other insiders. Other special-interest

provisions in GATT included changes in our pension law, patent law, and interest paid on U.S. savings bonds — all of which had nothing to do with “free trade.”

The entire NAFTA-GATT-WTO process was born in constitutional chicanery. The Democratic and Republican leadership in Congress allowed both agreements to circumvent the treaty provision in the U.S. Constitution, which requires a two-thirds vote in the Senate (Art. II, Sec. 2), and also allowed a “fast track” procedure (which limited debate to only a few hours and prohibited amendments).

Myths and Realities about Protectionism

Who backs protectionism?

America’s Founding Fathers were all protectionists. The great Americans carved on Mount Rushmore — George Washington, Thomas Jefferson, Abraham Lincoln, and Teddy Roosevelt — were all strong protectionists. They all believed that protection of American workers and industries from cheap foreign imports is essential to our prosperity, our independence, and our sovereignty. The first act passed by our first Congress established tariffs on foreign goods. This changed our young nation from a colony (a country that exports raw materials and imports finished goods) to an independent nation that can act in its own self-interest.

What is the Republican Party’s traditional position on protectionism versus free trade?

Alfred E. Eckes, professor of history at Ohio University, former chairman of the United States International Trade Commission, and author of the tariff history *Opening America’s Markets*, explained in the *New York Times* of February 27, 1996 that protectionism is the traditional Republican policy. He wrote:

“From Abraham Lincoln in 1860 to Alf Landon in 1936, every Republican Presidential candidate ran on a platform endorsing high protective tariffs — averaging more than 40 percent ad valorem on dutiable goods. . . . Protectionism was associated with prosperity and independence. Preaching class harmony, 19th-century Republican economic nationalists justified the protective tariff as essential for protecting domestic workers from imports made by cheap European labor. They considered the tariff a fee on foreign manufacturers for participating in the American market. . . . Theodore Roosevelt wrote: “Thank God I am not a free-trader.”

“From 1860 to 1932 the high-tariff card worked well for Republican candidates. Their position appealed to business, agriculture and working people. Republicans won 14 of 18 [presidential] elections. . . .

“Do elements of traditional economic nationalism offer a road map for the 21st century? The record appears to show that it has served the Republican Party and the country well. In the generation after 1870, America protected its market and experienced economic growth more than double that of free-trade England. Exports soared and paradoxically consumer prices fell. On trade,

Pat Buchanan’s views are consistent with those of a long line of Republican leaders. He deserves credit for reopening this debate and for challenging conventional economic nostrums.”

Eckes concluded that Britain went into decline when it unilaterally pushed free trade policies.

“Free trade” has traditionally been Democratic Party policy and is the chief reason the Democrats lost so many presidential elections during the period of America’s great growth and expansion.

Didn’t the high-tariff law called Smoot-Hawley cause the Great Depression?

Absolutely not! This is “Goronomics,” *i.e.*, it was Vice President Al Gore who injected this falsehood into public consciousness. In the famous televised debate about NAFTA between Al Gore and Ross Perot, Gore handed Perot a framed photo of Smoot and Hawley and said, “They raised tariffs and it was one of the principal causes of the Great Depression.” This was a cheap shot presented without a shred of evidence.

The *Wall Street Journal* admitted on February 22, 1996 that the weight of academic evidence is against Gore’s opinion. The *Journal* quoted Massachusetts Institute of Technology economic historian Peter Temin, who said, “Alas, alas, Gore was wrong” and Buchanan was “right.” Tariffs were already high when Smoot-Hawley was passed in 1930, and its effect could not have been significant. The consensus of respected economists is that the tight-money policies of the bankers caused and prolonged the Great Depression.

Wasn’t Ronald Reagan, the model conservative, for free trade?

Ronald Reagan’s free trade was an aberration in traditional Republican and conservative trade policy.

However, Ronald Reagan’s purpose was not to pursue free trade as an end in itself — it was part of his national grand strategy to win the Cold War and bring down the Evil Empire. He unilaterally opened our rich market to Japan, Taiwan, South Korea and others in order that their economic success and independence would keep them out of the Soviet orbit. We won the Cold War, and that objective is now obsolete.

Aren’t low-tariffs or no-tariffs a good thing?

That depends — on the industry, on the source country, on the timing, on the reciprocity. Tariffs should be individually determined, and all tariff-alternatives and other government restrictions used by other countries (notably Japan) should be “on the table” during the negotiations. The guiding principle should be the overall best interests of the American people — **not** the opinions of foreign bureaucrats.

Don’t tariffs increase the cost of imported goods?

Yes, but so does any tax. There is nothing inherently

worse about a tax on imported goods (which is a consumption tax, like a sales tax) than a tax on incomes (through the Internal Revenue Service). In fact, many conservatives today favor raising all federal revenue from consumption taxes rather than income taxes.

When Mexico devalued the peso by 40% (as Ross Perot predicted), the U.S. dollar promptly fell 10% against the world's strong currencies, thereby causing the cost of imports from those countries to rise. There is no difference to the U.S. consumer between paying a 10% tariff on Japanese goods — and buying Japanese goods with a dollar that has fallen 10% in value.

It would do a lot of good for the U.S. economy and family income to replace the present oppressive high taxes on small businesses and farms with a 10% tariff on Japanese and Chinese imports.

It makes more sense to have a tax on imported products than to pay taxpayer subsidies to keep our agricultural products artificially high-priced.

When some tariffs were reduced by the GATT treaty, thus causing a \$31 billion shortfall in revenue, Congress secretly made this up by increasing other taxes.

Who makes U.S. trade policy?

For the last 25 years, practically the only voice in making U.S. trade policy has been the lobbying apparatus and political contributions of the biggest corporations, whose self-interest is in producing products in foreign countries with low labor costs, and then having open access to American markets. Congressmen and executive-branch officials have discovered that laws and regulations favorable to these big corporations can assure lucrative jobs after their government service ends.

What happened to all those optimistic promises about the benefits of NAFTA?

All those pie-in-the-sky promises have been disproved. We were told that NAFTA would make Mexico a vast new market for U.S. products, but the 40% devaluation of the peso made Mexicans too poor to buy U.S. products. Before NAFTA, we had a trade surplus with Mexico of \$1.35 billion. Today, the United States has a \$15 billion trade deficit with Mexico. With the U.S. Commerce Department's rule of thumb that \$1 billion equals 20,000 American jobs, that amounts to a lot of plant closings and hundreds of thousands of laid-off Americans.

We were told that NAFTA would stop or slow illegal immigration, and we were told that NAFTA would stop or slow the traffic across the border in illegal drugs. Just the opposite has happened, as NAFTA's opponents predicted.

There are some winners under NAFTA and GATT, but there are many times more losers. Last year's trade deficit set a new record of \$174 billion. Using the U.S. Commerce Department's rule that \$1 billion translates into 20,000 jobs, that means America has lost three and a half-million jobs. One-third of American households have a family member who has lost a job. The United States now

has more people employed for government than in manufacturing.

The disadvantageous effects of GATT are already starting. The World Trade Organization ruled against the United States in the first case brought against us, when Venezuela challenged our environmental laws about gasoline.

Aren't all respectable economists for free trade and against protectionism?

No. For example, Sir James Goldsmith, prominent member of the European Parliament and one of the world's most successful billionaire investors, wrote in his recent book, *The Trap*: Free trade "will impoverish and destabilize the industrialized world while at the same time cruelly ravaging the Third World."

Goldsmith predicts that free trade will bring about the total destruction of the balance between capital and labor because capital will be able to squeeze labor costs lower and lower. This will not help consumers by making products cheaper because consumers "are also the same people who earn a living by working. People will lose their jobs, while some get paid less for their work and have to face higher taxes to cover the social cost of increased unemployment."

Goldsmith says that GATT "makes it almost imperative for enterprises in the developed world to close down their production, eliminate their employees and move their factories to low-cost labor areas." That's because there are hundreds of millions of unemployed and under-employed adults and children elsewhere in the world who can be hired for a wage of 25 cents an hour, and where employers don't have to provide clean air, pure water, safe working conditions, or overtime pay.

The honest libertarians who seek free trade as an ultimate goal do not and cannot support the phony "free trade" which is based on turning control of our trade over to global bureaucrats, and on giving taxpayer subsidies to foreign investors and foreign customers. Countries are not made great by the quantity of goods they consume, but by the quantity of goods they produce.

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