Policy Analysis

Cato Institute Policy Analysis No. 107: The Reagan Record on Trade: Rhetoric vs. Reality

May 30, 1988

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Executive Summary

When President Reagan imposed a 100 percent tariff on selected Japanese electronics in 1987, he and the press gave the impression that this was an act of desperation. Pictured was a long-forbearing president whose patience was exhausted by the recalcitrant and conniving Japanese. After trying for years to elicit some fairness out of them, went the story, the usually good-natured president had finally had enough.

When newspapers and television networks announced the tariffs, the media reminded the public that such restraints were imposed by a staunch free trader. The less-than-subtle message was that if "Free Trader" Ronald Reagan thought the tariff necessary, then Japan surely deserved it. After more than seven years in office, Ronald Reagan is still widely regarded as a devoted free trader. A typical reference is that of Mark Shields, a Washington Post columnist, to Reagan's "blind devotion to the doctrine of free trade."(1)

If President Reagan has a devotion to free trade, it surely must be blind, because he has been off the mark most of the time. Only short memories and a refusal to believe one's own eyes would account for the view that President Reagan is a free trader. Calling oneself a free trader is not the same thing as being a free trader. Nor does a free- trade position mean that the president, but not Congress, should have the power to impose trade sanctions. Instead, a president deserves the title of free trader only if his efforts demonstrate an attempt to remove trade barriers at home and prevent the imposition of new ones.

By this standard, the Reagan administration has failed to promote free trade. Ronald Reagan by his actions has become the most protectionist president since Herbert Hoover, the heavyweight champion of protectionists.

The Reagan Rhetoric: Supporting Free Trade

Is Ronald Reagan a free trader or a protectionist? First, we must look at what he has said. A selective reading of his statements can support just about any view because his rhetorical record is mixed. For example, he claims among his heroes three of the great free traders of the 19th century: Richard Cobden and John Bright, founders of England's Anti-Corn-Law League, and Frederic Bastiat, prominent French economic publicist.(2) Reagan praised Cobden and Bright specifically for their efforts to abolish tariffs on foreign grain in the 1840s.

Throughout his presidency, Ronald Reagan and his administration have taken free-trade positions. Reagan's July 1981 "Statement on U.S. Trade Policy" pledged to "reduc[e] government barriers to the flow of trade and investment among nations."(3) In 1986 Reagan said, "Our trade policy rests firmly on the foundation of free and open markets. I recognize . . . the inescapable conclusion that all of history has taught: The freer the flow of world trade, the stronger the tides of human progress and peace among nations."(4)

A recent example of Reagan's free-trade rhetoric came in a speech delivered in Cleveland in January 1988, in which he said the American trade deficit was a sign of strength. Other times, usually after some protectionist action by Democrats in Congress, he has affirmed himself as a free trader. For example, he threatened to veto the House trade bill if it contained the restrictive amendment sponsored by Rep. Richard Gephardt (D-Mo.).

Those closest to the president have also made pro-free- trade statements. For example, the late Malcolm Baldrige, Reagan's first secretary of commerce, said,

For 40 years, this country took the leadership for free trade. If we start to go the other way toward protectionism, the political will all over the world [to resist protectionism] would inevitably lessen. We'd see the whole world go backwards, and we would be hurt the worst. That's a difficult point to get across.(5)

In January 1988, U.S. Trade Representative Clayton Yeutter made a similar point: "This is not the time to shift to protectionism. In fact this is the time to encourage trade liberalization around the world, because we're postured to take advantage [of rising exports] in a very significant way."(6) On another occasion he said,

Ultimately, income redistribution is what trade bills are about, merely taking money from consumers and some workers and giving it to others. . . . Take for example Section 201 of the House trade bill. Should we be granting relief to an industry just because it is being whipped fairly and squarely by its competition? Why should we simply redistribute income from consumers to producers who aren't willing to compete?(7)

On yet a third occasion, Yeutter said he opposed legislation requiring the president to retaliate against trade practices regarded as unfair: "Once you retaliate, you lose the opportunity to convince a trading partner to abandon the unfair trading practice. All you accomplish is closing markets in both countries."(8)

This sentiment is echoed in a statement by Sol Mosher, assistant U.S. trade representative for congressional affairs. He said, "Protectionism by and large means cutting down on trade, reducing trade. It doesn't just mean reducing the other guy's trade. From a practical standpoint it means reducing both our trade. We import less, we're going to export less. This is not the path to an expanding economy."(9)

Even when the subject is Japan, one finds remarks surprisingly similar to Cobden's. Before U.S.-Japanese trade talks in April 1987, W. Allen Wallis, undersecretary of state for economic affairs, said, "The trade issue bears no relation to reality; Japan is not America's trade problem."(10) Officials have been blunt about the special pleading involved in requests for protectionism. S. Bruce Smart, former under- secretary of commerce for international trade, said, "It is not the role of Government to shore up losers or shield management and workers--let alone shareholders--from the inevitable risk of change."(11)

Reagan Rhetoric: Protectionist Leanings

Statements in favor of free trade and free markets are offset by others affirming protectionist beliefs of the administration's opponents in Congress. The rhetorical inconsistencies are bewildering. President Reagan got started even before he was elected. During his 1980 campaign he spoke about the problems of the American auto industry, saying, Japan is part of the problem. This is where government can be legitimately involved. That is, to convince the Japanese in one way or another that, in their own interests, that deluge of cars must be slowed while our industry gets back on its feet. . . . If Japan keeps on doing everything that it's doing . . . obviously there's going to be what you call protectionism."(12)

One might chalk this statement up to the pressures of a Detroit campaign stop, but, unfortunately, this kind of remark didn't stop with Reagan's inauguration in 1981.

The administration's first major protectionist move was pressuring Japan into accepting so-called voluntary restraints on the export of autos. The administration was divided into two factions--the "purists," as the opponents of protectionism (mostly economists) were dubbed, and the "pragmatists," namely politicians and former businessmen who supported "voluntary" quotas. The "pragmatists" were led by Secretary Baldrige and Secretary of Transportation Drew Lewis. During infighting over the issue, Baldrige put down the free traders as "academics" and said, "Secretary

Lewis and I are the businessmen in the Cabinet; we known what it's like to trade with the Japanese."(13) How this assertion refuted the arguments of the economists in the administration is not clear.

A few years later Baldrige went to South Korea, where he told the Korean Traders Association that one day the United States would say, "If your markets are closed, I'll close mine. It's not much more complicated than that."(14) He spoke from the classic protectionist premise--that opening one's market is a favor to others, not an act of self- interest--when he said, "Korea has continued to benefit from open markets in the United States."(15)

Trade Representative Yeutter also participated in the antitrade chorus. In defending administration efforts to force Japan to raise the price of computer memory chips, he played to popular ignorance about trade, comparing free trade to "fencing":

Computer firms and other users of semiconductor products have been complaining recently about semiconductor price increases in the aftermath of the U.S.-Japan agreement. But these complaints ring hollow indeed. That is like the merchant buying stolen goods who complains because people can't get away with thievery anymore!(16)

Yeutter boasts that the administration's trade policy is "extremely aggressive." "Some of our trading partners have complained loudly about what they see as high-handed American practices," he said. "But that won't dissuade us from protecting our interests."(17)

Baldrige defended sanctions against Japan in terms that must have given comfort to protectionists everywhere: "We had no choice but to retaliate against Japanese semiconductor products, because Japan refused to open its market and continued to dump semiconductor chips in third-country markets. Retaliation was not the result we wanted. But neither can we tolerate flagrant violations of international agreements and a continuing refusal to open markets."(18)

C. William Verity, who succeeded Baldrige as commerce secretary, has been no improvement when it comes to public statements on trade issues. As the dollar fell against the yen, Americans expected exports to the United States to fall quickly as they became more expensive. That didn't happen, and Verity didn't like it. He lambasted the Japanese for not raising prices. "By failing to price in line with the appreciated yen in order to maintain market share, Japanese firms are impeding the power of currency adjustments to help correct our trade imbalance."(19) This is typical protectionist reasoning. The interests of consumers are sacrificed to a statistical artifact.

President Reagan himself joined the chorus of protectionist statements when a 100 percent tariff was placed on selected Japanese electronics products. "The health and vitality of the U.S. semiconductor industry are essential to America's future competitiveness," he said. "We cannot allow it to be jeopardized by unfair trading practices." Again playing into the hands of the most staunch protectionists in Congress, industry, and organized labor, he claimed he imposed the tariff "to enforce the principles of free and fair trade."(20) White House spokesman Marlin Fitzwater reinforced this presidential use of a bogus distinction when he said the tariff was a signal "that we want to be fair traders as well as free traders."(21)

The tariff was imposed after Japan allegedly violated an agreement to keep microchip prices high--an agreement imposed on the Japanese by the Reagan administration.(22) When Japan first accepted the agreement, Reagan rejoiced. "This agreement," he told the New York Times on August 11, 1986, "represents an important step toward freer and more equitable world trade, and will enhance the ability of our semiconductor manufacturers to compete fairly in the Japanese market."

If President Reagan has been trying to teach the American people that free trade is good, it is hard to imagine what an ideologically protectionist president would have said. One of the many ways Reagan embraced trade restrictions was through imposition of a special 45 percent tariff over a five-year period (on top of the regular 5 percent duty) on Japanese heavy motorcycles as a favor to Harley Davidson. With less than a year to go in the five-year program, Harley Davidson asked that the tariff be removed.(23) Reagan took the occasion to celebrate Harley's comeback with an appearance at the plant. He declared that "American workers don't need to hide from anyone," although that is exactly what they had done for more than four years.(24) It is true that, in his speech at Harley, Reagan criticized parts of the House trade bill. Yet the very occasion conveyed a deeper message--that the Harley case exemplified the creative use of the president's power to regulate trade. In other words, the House bill is undesirable not because it will impede trade, but because it will infringe on presidential authority, which can be used to such good effect, as the Harley case shows.(25) This is hardly a free trader's case against the bill.

Even when Reagan had it right, he didn't have it that way for long. As noted previously, two days before the November 1987 trade statistics were due to come out in January 1988, Reagan said the trade deficit was a sign of strength and noted that the United States had incurred trade deficits during its great period of growth in the 19th century. But when those numbers actually showed a 25 percent drop in the deficit from the month before, Reagan declared this an improvement in the trade picture. If the deficit was a sign of strength, how could a reduction in the deficit be an improvement? Perhaps Reagan didn't really believe his first statement. It is likely that he expected the deficit to grow and was setting up a defense.

At any rate, while Reagan was lauding the trade deficit as a sign of strength, Yeutter was in Australia telling the government there to reduce its trade surplus.(26) Are we to believe that his purpose was to strengthen the Australian economy?

The administration has never been shy about touting its protectionist achievements. In testimony before the Senate Finance Committee on July 17, 1987, Yeutter called Section 201 of the trade law, which permits the president to grant industries relief from imports even without an allegation of "unfair" trade practices, "an important cornerstone of U.S. trade law that should be used vigorously in appropriate cases. This Administration is committed to using Section 201 relief when it is in the national interest and in fact has done so in a majority of cases brought before us." Treasury Secretary James A. Baker III boasted last September that the administration "has granted more import relief to United States industry than any of [its] predecessors in more than half a century."(27) In an April 27, 1987, letter to House Speaker Jim Wright, ten members of the Cabinet, along with budget director James C. Miller and Beryl W. Sprinkel, chairman of the Council of Economic Advisers, bragged about Reagan's initiative in restricting trade:

We must directly confront one fundamental misperception that has impaired constructive debate on trade legislation. That is the charge that President Reagan has made inadequate use of Presidential trade powers. Nothing could be further from the truth. The Reagan record has demonstrated an unprecedented exercise of those trade powers:

-- For the first time, unfair trade practices have been formally investigated on the Administration's own motion, resolved in most cases, and retaliated against when necessary.

-- A record number of market-opening settlements of unfair trade cases has resulted from unprecedented use of Presidential unfairness determinations and threats of retaliation, while counter-retaliation by foreign governments has been minimized.

-- Textile import quotas have been negotiated or imposed in record numbers and with unprecedented degrees of restraint.

-- Of the recommendations presented to the President under Section 201 of the Trade Act, two thirds have resulted in import relief--far higher than the record of prior Administrations.

-- Rigorous enforcement of antidumping and countervailing duty laws--strongly supported by the President--has resulted in a record number of orders for offsetting duties. [Emphasis added throughout.]

To emphasize the point, the letter concludes, "We find it deeply ironic that Congress would respond to this unprecedented use of Presidential discretion by restricting the discretion of future Presidents. We cannot accept the premise that the test of a 'tough' trade bill is the extent to which it removes Presidential discretion. The opposite is true." (Emphasis in original.) This statement clarifies much of what the administration has said on the trade issue. For Reagan, the issue is not government power over trade but which branch of the government should wield the power. The administration seems to have no objection in principle to presidential control over trade or the power to dispense trade restrictions to special-interest groups. Its objection to Congress's arrogation of power is one of turf. As Reagan put it, "It's better policy to allow for Presidents--me or my successors--to have options for dealing with trade problems."(28)

This point is confirmed by the president's position on the omnibus trade bill passed by Congress in the spring. Several provisions would shift America's trade laws significantly further toward a presumption in favor of restriction. But Reagan's objection has been, almost exclusively, about an issue tangential to trade, the provision requiring 60 days' notice on plant closings. (Before it was removed in conference committee, Reagan also criticized the protectionist amendment offered by Rep. Richard Gephardt, D-Mo., which would have diminished the president's discretion in dealing with countries that consistently run trade surpluses with the United States.)

To his credit, Reagan earlier opposed sections of the bill that would set quotas on lamb exports, require that some auto imports be carried in American ships, and force registration of foreign investment here.(29) But he has been silent on and reportedly willing to accept the bill's most restrictive provisions, such as the Republican-sponsored provision that would make it easier to initiate "unfair trade practice" complaints. Claude E. Barfield of the American Enterprise Institute dubbed the provision, known as Super- 301, "Brother of Gephardt." The Congressional Research Service said it is "much broader and in some ways more aggressive than Gephardt."(30) Under this provision the U.S. trade representative would be required to publicly identify countries with a "consistent pattern of trade barriers and market distorting practices." He would then face a deadline by which he would have to negotiate removal of the barriers. If no agreement was reached, unfair-trade-practice complaints would be filed. The president could refuse to retaliate on grounds of national security or for economic considerations, but Congress itself could initiate investigations against the countries if the president did not act. The introduction for the first time of deadlines and mandatory action would likely serve the purposes of those who seek trade restrictions.

Other protectionist provisions of the bill would change Section 201 to make it easier for industries to get import restrictions even without allegations of unfair practices, and make a foreign country's labor conditions and wage levels relevant to determining whether unfair trade practices have occurred.(31)

Despite the deeply protectionist complexion of the bill, the president has made it clear that he would sign it if only the plant-closing section is removed. The "strategy" regarding the bill is typical of the administration's conduct on trade since it took office.(32)

Presidential Deeds

Words are not deeds. Unfortunately, a look at the record leads to the question: With free traders like this, who needs protectionists?

Consider that the administration has done the following:

-- Forced Japan to accept restraints on auto exports. The agreement set total Japanese auto exports at 1.68 million vehicles in 1981-82, 8 percent below 1980 exports. Two years later the level was permitted to rise to 1.85 million.(33) Clifford Winston of the Brookings Institution found that the import limits have actually cost jobs in the U.S. auto industry by making it possible for the sheltered American automakers to raise prices and limit production. In 1984, Winston writes in Blind Intersection? Policy and the Automobile Industry, 32,000 jobs were lost, U.S. production fell by 300,000 units, and profits for U.S. firms increased $8.9 billion. The quotas have also made the Japanese firms potentially more formidable rivals because they have begun building assembly plants in the United States.(34) They also shifted production to larger cars, introducing to American firms competition they did not have before the quotas were created. In 1984, it was estimated that higher prices for domestic and imported cars cost consumers $2.2 billion a year.(35) At the height of the dollar's exchange rate with the yen in 1984-85, the quotas were costing American consumers the equivalent of $11 billion a year.(36)

-- Tightened up considerably the quotas on imported sugar. Imports fell from an annual average of 4.85 million tons in 1979-81 to an annual average of 2.86 million tons in 1982-86. Not only did this continued practice force Americans to spend more than other consumers for sugar, but it created hardships for Latin American countries and the Philippines, which depend on sugar exports for economic development. The quota program undermined President Reagan's Caribbean Basin Initiative and intensified the international debt crisis.(37)

-- Negotiated to increase restrictiveness of the Multifiber Arrangement and extended restrictions to previously unrestricted textiles. The administration unilaterally changed the rule of origin in order to restrict textile and apparel imports further and imposed a special ceiling on textiles from the People's Republic of China.(38) Finally, it pressured Hong Kong, Taiwan, and South Korea, the largest exporters of textiles and apparel to the United States, into highly restrictive bilateral agreements. All told, textile and apparel restrictions cost Americans more than $20 billion a year.(39) The Reagan administration has stated several times that textile and apparel imports should grow no faster than the domestic market.(40)

-- Required 18 countries--including Brazil, Spain, South Korea, Japan, Mexico, South Africa, Finland, and Australia, as well as the European Community--to accept "voluntary restraint agreements" to reduce steel imports, guaranteeing domestic producers a share of the American market. When 3 countries not included in the 18--Canada, Sweden, and Taiwan-- increased steel exports to the United States, the administration demanded talks to check the increase. The administration also imposed tariffs and quotas on specialty steel. These policies, with their resulting shortages, have severely squeezed American steel-using firms, making them less competitive in world markets and eliminating more than 52,000 jobs.(41)

-- Imposed a five-year duty, beginning at 45 percent, on Japanese motorcycles for the benefit of Harley Davidson, which admitted that superior Japanese management was the cause of its problems.(42)

-- Raised tariffs on Canadian lumber and cedar shingles.

-- Forced the Japanese into an agreement to control the price of computer memory-chip exports and increase Japanese purchases of American-made chips. When the agreement was allegedly broken, the administration imposed a 100 percent tariff on $300 million worth of electronics goods. This episode teaches a classic lesson in how protectionism comes back to haunt a country's producers. The quotas established as a result of the agreement have created a severe shortage of memory chips and higher prices for American computer makers, putting them at a disadvantage with foreign competitors. Only two American firms are still making these chips, accounting for a small percentage of the world market.(43)

-- Removed Third World countries from the duty-free import program for developing nations on several occasions.

-- Pressed Japan to force its automakers to buy more American-made parts.(44)

-- Demanded that Taiwan, West Germany, Japan, and Switzerland restrain their exports of machine tools, with some market shares rolled back to 1981 levels. Other countries were warned not to increase their shares of the U.S. market.

-- Accused the Japanese of dumping roller bearings, because the price did not rise to cover a fall in the value of the yen. The U.S. Customs Service was ordered to collect duties equal to the so-called dumping margins.(45)

-- Accused the Japanese of dumping forklift trucks and color picture tubes.(46)

-- Failed to ask Congress to end the ban on the export of Alaskan oil and of timber cut from federal lands, a measure that could substantially increase U.S. exports to Japan.

-- Redefined "dumping" in order "to make it easier to bring charges of unfair trade practices against certain competitors."(47)

-- Beefed up the Export-Import Bank, an institution dedicated to promoting the exports of a handful of large companies at the expense of everyone else.(48)

-- Extended quotas on imported clothespins.

This abominable record has moved many former trade specialists in the Reagan administration to criticize the administration they once worked for. Gerald Marks, former director of the Chicago office of the Commerce Department's U.S. and Foreign Commercial Service, called the policy toward Japan "myopic at best, dangerous to the world trading structure at worst."(49) Harald Malmgren, a former trade negotiator, said the administration has been "resorting to vigilante-style unilateral retaliation."(50)

This record also prompted Milton Friedman to write that the Reagan administration has been "making Smoot-Hawley look positively benign."(51) Of course, the administration sometimes claims that it adopted mild restrictions to head off a rabidly protectionist Congress. But, as Friedman put it,

Poor excuse. The president retains his veto power. While Congress might have overridden some of his vetoes, it would have been clear where the blame lay. As it is, the administration has given members of Congress--of both parties--a free ride. They enjoy the luxury of supporting special interests always eager for restraints on their competitors while avoiding the responsibility for imposing higher costs on consumers. The result has been an escalation of protectionist rhetoric.(52)

Protectionists in and out of Congress, to be sure, have urged the president toward an even more protectionist program on grounds that the U.S. trade position has become perilous. They cite the trade deficit, which reached $171.2 billion in 1987 and has only just begun to decline, and the apparent transformation of the United States from the world's largest creditor nation to the world's largest debtor nation, "owing" foreigners some $400 billion at the end of 1987.(53) Neither of these grounds justifies protectionism. First, the trade deficit is merely the result of selective accounting: Dollars obtained by foreign exporters and not spent on American goods and services are either invested in the U.S. economy or used to buy government debt. The American people benefit in both cases. The trade deficit "is a pure statistical aggregate," writes Herbert Stein.(54)

Second, if investment opportunities in the United States are superior to those elsewhere, one might expect the dollar value of foreign investments here to be greater than the dollar value of American investments abroad. There is nothing shameful or harmful about this. It means that foreigners see a brighter future here than in other countries. Moreover, since the value of Americans' assets abroad is listed by book value, or historical cost, they are actually undervalued. An American-owned factory built 15 years ago in Japan will have lower book value than a similar Japanese-owned factory in the United States built last year. But the American-owned factory has appreciated, even though its current market value is not reflected in the accounting. The foreign assets of Americans tend to be older than the American-based assets of foreigners. Thus, much of what people find so gloomy is an accounting fiction. In fact, until the third quarter of 1987, Americans had a net inflow of investment income.(55)

Many people would be surprised to learn that under Ronald Reagan the American economy is more closed than it was before he came to Washington. But it is true. As Milton Friedman, usually a Reagan defender, wrote:

Congress and the administration are fond of describing the U.S. as an oasis of free trade, beleaguered by the protectionist measures of Japan and others. All we ask for, they say, is a level playing field. This is fiction. True, Japan erects many barriers to imports. In doing so they harm themselves and the U.S. But the U.S. is far from blameless. U.S. restraints on trade are every bit as egregious as Japan's.(56)

Today close to one-quarter of the products imported by the United States enter under restriction; in 1980 the portion was one-eighth. William A. Niskanen, former acting chairman of President Reagan's Council of Economic Advisers, writes that in the Reagan administration "for the first time since World War II, the United States added more trade restraints than it removed."(57)

Moreover, Japan's market, despite its restrictions, has been at least as open as that of the United States. According to a study by the Institute for International Economics, Japan is no more protectionist than the United States.(58) Its tariffs on average are lower than those in the United States and Europe.(59)

Even when Japan practices protectionism, one can find similar policies in the United States. Much is made of the difficulty American construction firms have in winning contracts in Japan. Indeed, the administration is considering more trade sanctions.(60) However, only rarely is it pointed out that federal procurement statutes favor American producers in a variety of ways. Seventeen states have "Buy American" laws and other measures that benefit American firms at the expense of foreigners. Federal agencies must choose domestic suppliers even if their bids exceed foreign bids by up to 6 percent; the differential for the military is 50 percent. According to Murray L. Weidenbaum, the Surface Transportation Assistance Act of 1978 requires that "for most purchases over $500,000 under the program of aid to mass transit systems, American materials and products be used. Also, American flag vessels must be used to ship at least 50 percent of the gross tonnage of all commodities financed with U.S. foreign aid funds."(61) And, of course, the Jones Act outlaws competition from foreign carriers in shipping goods between American ports. It is more than hypocritical for the administration to charge that Japan is uniquely incorrigible. Curiously, Yeutter recognizes this when it comes to South Korea. Criticizing Gephardt's campaign ad directed at Korean tariffs on American autos, Yeutter said, "There's nothing unfair about the imposition of those tariffs because we impose tariffs too."(62)

The Reagan administration talks about exporting free enterprise but in fact exports economic intervention. When the United States imposes import quotas or pressures a foreign government to "voluntarily" do so, a compulsory cartel must arise in the exporting country, since that government will have to assign quotas among private firms and administer the system. Thus, nations that export textiles, apparel, sugar, steel, and other products have been forced to turn their industries into cartels. The administration did not begin this practice, but it has accelerated it.

For example, in three respects the Japanese economy became more closed because of the Reagan administration's intervention. The Japanese auto, memory-chip, and steel industries have been cartelized by the "voluntary" agreements Reagan forced on Japan. Under the auto agreement, the Japanese Ministry of International Trade and Industry (MITI) allocated quotas based on historical performance of Japanese auto exporters. Even after the president formally asked the Japanese government to remove the quotas, MITI--having long wanted to control this industry--maintained them.(63) According to Arthur Denzau of the Center for the Study of American Business,

The auto cartel . . . primarily benefits the stockholders of the various auto assembly firms in Japan. . . . Although it may originally have been designed as an olive branch offered to avoid protectionist legislation by the U.S. Congress, the VER [voluntary export restraints] also served to enhance the profitability of the Japanese auto industry. The Japanese auto industry was quite happy to continue the good times.(64)

Thus, Ronald Reagan almost single-handedly created an OPEC of the auto world.

Likewise, the chip agreement gave MITI "dictatorial powers" to set quotas for its chip manufacturers.(65) Like the automakers, the chip makers had no cause to complain. They "cried all the way to the bank as reduced competition and higher prices restored to profitability operations that had been awash in red ink."(66) Dynamic random access memory chip (DRAM) prices, which had fallen to $2.50 in early 1986, jumped to $5.50 in March 1988 and were still climbing.(67) It is remarkable that a president so strongly identified with free enterprise would work so hard to export government intervention to other countries.

Have Reagan's policies rolled back foreign trade restrictions? The administration says yes: Japan agreed to suspend its 28 percent tariff on cigarette imports; Taiwan agreed to open its market to beer, wine, and cigarettes after the president threatened retaliation; Japan agreed to buy American semiconductors; the European Community agreed to give U.S. citrus producers easier access; Japan eliminated tariffs on 137 leather items and reduced tariffs on aluminum products; South Korea reduced its barriers to U.S. motion pictures and television programs; and so on.(68)

This liberalization may well be attributable to the administration's threats of protectionism. It is possible for the United States to "persuade" other countries to open markets by threatening to close ours. The flaw in such a policy (the same policy embodied in the Gephardt amendment) is not that it can never open a foreign market. But increasing a government's power to regulate trade is more likely to produce conflict that harms American consumers and exporters. This policy also teaches the American people the wrong lesson about trade.

On its own terms the policy is worthless, unless the government really means to impose restrictions and disrupt the peaceful commercial activities of American citizens. If we threaten to impose a tariff on leather goods unless Japan opens its market to American shoes, can we be sure that Japan will yield? Japan's shoemakers may be politically stronger than its leather exporters and may block any liberalization. If the United States proceeds to restrict Japanese leather goods, the liberty and standard of living of Americans are sacrificed. If the Japanese resist and retaliate against American retaliation by restricting, say, a class of agricultural products, another group of Americans, farmers newly subject to Japanese restrictions, will be hurt. Why should this group suffer? Even if the retaliatory measures persuade Japan to liberalize, they may be hard to remove because Americans with a vested interest in their continuation will fight to keep them. For example, the United States could impose new limits on Japanese autos in order to force Japan to accept beef exports from Iowa. But as syndicated columnist Stephen Chapman asks, "Does anyone believe that when Japan starts buying Iowa beef, Ford and Chrysler will stop trying to keep out Japanese cars?"(69)

In other words, a policy of retaliation or "reciprocity," even if intended to open foreign markets, is politically naive and can end up closing down trade. Restriction begets restriction as the policy takes on a life of its own. The specific intentions of policymakers are not controlling.

Considering our own web of trade restrictions, it is inappropriate for the U.S. government to embark on a crusade to open the markets of other nations. We might be in a better position to make demands if we first strip our economy of those restrictions. Wouldn't we be giving up bargaining chips? Yes. However, the objective is not to negotiate; it is to enjoy the benefits of productivity and the international division of labor. Why settle for the tedium and small payoff of long trade negotiations when we can improve our position immediately through the unconditional removal of trade restrictions? The bonanza would be so great that U.S. policy would set a good example for the rest of the world.(70)

The administration's acceptance of the free-trade/fair- trade distinction betrays a common, fundamental misunderstanding. It is widely believed that there cannot be free trade without a "level playing field." But trade is not athletics. Ronald Reagan says that one of his heroes is Frederic Bastiat. Reagan ought to reread Bastiat:

The protectionists compare the field of industry to a race track. But at the race track, the race is at once means and end. The public takes no interest in the contest aside from the contest itself. When you spur horses on with the single end of learning which is the faster runner, I agree that you should equalize their weights. But if your end were getting an important and urgent piece of news to the winning post, would it be consistent for you to put obstacles in the way of the horse that had the best chance of getting there first? Yet that is what you protectionists do with respect to industry. You forget its desired result, which is man's well-being; by dint of begging the question, you disregard the result and even go so far as to sacrifice it. [Emphasis in original.](71)

Thus, the major premise of the Reagan policy must be challenged: Opening foreign markets is not a proper use of government power. Why does an advocate of limited government, as Ronald Reagan portrays himself, believe that government power may rightly be extended to foreign countries so that American firms can sell there? Almost no one would question the desirability of American exporters' having the freedom to sell anywhere in the world. But what justifies U.S. government action to bring it about?

The belief that government should exercise this power is so widely held that questioning it may sound odd. But it is hardly self-evident. We have already seen that policies based on that belief harm most Americans.

Among policymakers in the Reagan administration and in Congress, being a free trader apparently means favoring minimal restrictions only so long as the trade balance is to our liking and other nations are sufficiently obeisant to American products. As soon as one of those conditions fails, the pseudo free traders begin to say, "I'm all for free trade, but . . ." and the trade barriers begin to go up.

In fact, free trade is not a good policy only if it leads to open markets abroad. The basic purpose of an economic system is not to create jobs or to sell products abroad. Those are the means. The end is the satisfaction of our material wants. Free trade is good because our standard of living is directly related to how easily we can get the products and services we want, no matter where they come from. Contrary to what most policymakers think, if the choice in a protectionist world is between being the only free-trade nation and just one more protectionist nation, we should unhesitatingly choose to be the only free traders. Free trade is always good for the nation that practices it, regardless of what others do. As William Graham Sumner put it in the last century, "So the nation which has free trade when the others do not have it gains the most by comparison with them. It gains while they impoverish themselves."(72)

The Reagan policy has harmed the United States in several ways. The most obvious harm is to the day-to-day economy. Consumers pay more for products when quotas make imports artificially scarce and when tariffs make them artificially expensive. This has happened with the auto, textile, and sugar industries, where consumers have been made to pay tens of billions of dollars for the benefit of a relative few. The World Bank estimates that import restrictions in 1984 had the same effect as a 66 percent income tax surcharge on America's poorest citizens.(73)

Less obvious is the harm to American producers, who lose exports and pay more for capital goods because of protectionism. Everyone, including the beleaguered American auto industry, has to pay more for steel because of Reagan administration restrictions on imports. Demand for steel is now high, in part as a result of the surge in American exports, but U.S. mills cannot meet the demand and imports are restricted under quota. Naturally, the price has risen. For example, Davis Walker Corp., the West Coast's major steelwire manufacturer, pays 10 to 15 percent more than the world price for steel. Its competitors in Canada pay $30 to $50 a ton less and thus have a competitive advantage.(74)

Steel protectionism has not even helped the steel industry. "Trade policy has not, therefore, had as pronounced an effect on the domestic steel industry as is commonly supposed," wrote the Congressional Budget Office.

The primary reason why protective programs fail is that they do little to increase the profitability of cost-reducing investments. If new plant and equipment could reduce the average cost of making steel by 10 percent, it would do so whether or not the industry was protected. Neither can protection be expected to produce new technologies that overcome the sources of the industry's cost disadvantage. Moreover, by limiting competition, protection may reduce firms' incentives to make new and potentially risky capital expenditures.(75)

True, U.S. steel firms are making profits after a $12 billion loss over five years, but they have laid off about 50 percent of their workers and have cut capacity by one-third.(76) And the future is clouded. As long as steel is artificially expensive, there is great incentive to find and produce alternative products.

Protectionism generally has failed to help its intended beneficiaries, as the Congressional Budget Office points out: "[P]rotection has not substantially improved the ability of domestic firms to compete with foreign producers."(77)

What's Been Done Right?

From the standpoint of free trade, we have seen only a few bright days in the last eight years. The administration refused to renew the quota system on shoes from South Korea and Taiwan. It vetoed a textile bill in 1985 and opposed domestic content for autos. It rejected quotas on casein, copper, and peanuts.

The administration also pushed for a new round of multilateral negotiations under GATT (General Agreement on Tariffs and Trade). In the so-called Uruguay Round launched in 1986, the administration proposed a ten-year phase-out of all direct and indirect agricultural subsidies that distort trade and of barriers to farm exports.(78) Administration negotiators also helped raise such issues as barriers to trade in services and restrictions on foreign investment. (Unfortunately, it joined the effort to make intellectual property rights a protectionist device.)

Reagan also worked hard to sign bilateral free-trade agreements with selected countries. One with Israel has been in effect since 1985. A "framework understanding" with Mexico could lead to a future agreement. The Reagan administration recently signed a free-trade agreement with Canada that would liberalize trade for the world's busiest trading partnership.(79) But is the agreement as good as the administration says it is? This agreement would significantly reduce or eliminate barriers to trade in agriculture, investment, energy, and other products and services over ten years. It would eliminate all tariffs on U.S.-Canadian trade within ten years, with some ending in five years and others immediately. Canada's tariffs are higher than America's, but it should be noted that some 70 percent of American exports already enter Canada duty-free and 85 percent of Canada's exports enter the United States duty-free. Other nontariff barriers, such as quotas, would also disappear under the agreement.

Unfortunately, many of the more subtle barriers, such as regulations and subsidies, would be left in place. American companies would still be able to ask the government for shelter from Canadian imports that "contribute importantly to th[eir] serious injury or threat thereof."(80) If a dynamic Canadian company "harms" an American industry by attracting consumers, the industry can still appeal to the government for a duty or quota. One would think that a free-trade agreement would call for an end to Section 201 petitions, but unfortunately, this is not the case.

The agreement also leaves the Jones Act in place, under which only American ships may carry cargo between American ports. The agreement won't promote free trade in beer or sugar either. American beer was not included in provisions easing trade restrictions on liquor exports because the United States would not exempt Canada from American sugar quotas.

Not only does the agreement not allow for complete free trade between the parties, it shows ominous signs that the United States and Canada together could become more protectionist toward the rest of the world. For example, under the agreement the North American auto market will become less open to cars made of Asian parts. A 1965 U.S.-Canada duty-free auto pact currently includes autos manufactured elsewhere, such as in Japan and South Korea, but assembled in Canada. The new agreement would impose a 50 percent North American "rule of origin" for autos built in plants constructed after the agreement takes effect--a blow to Japanese and Korean automakers, for whose products Americans show a distinct preference. Moreover, only current participants in the existing auto pact--namely, Chrysler, Ford, and General Motors-- can receive benefits, such as duty-free access to parts or vehicles from third countries.

Despite its problems, the agreement would allow increased trade; thus its passage would be beneficial. In another way the agreement is symbolic of the entire Reagan trade policy. The question is, If free trade is so good, why must we wait for agreements to be negotiated? Why not just open our markets and invite others to do the same? It is true, of course, that most members of Congress would refuse to repeal trade restrictions without reciprocity from other countries. Nevertheless, trade agreements teach the public bad lessons about trade. Negotiation necessarily implies that one opens one's own market only as a concession to get the other country to open its market. Trade agreements are judged by the number of concessions our side pried from the other country, a mercantilist fallacy that imports unmatched by exports are bad. This, in turn, leads to all the fallacies about the harm of trade deficits.

The Reagan administration has been teaching these mercantilist lessons to the American people. People tend to be implicit free traders and explicit protectionists. When they shop, they buy what best satisfies them in quality and price without regard to national origin or to their merchandise account with the seller. For example, almost everyone has "unreciprocated" trade with his grocer, druggist, and dry cleaner, who buy nothing from most of their customers. Most of us would find this fact uninteresting and irrelevant. Consumers would be likewise unconcerned about the trade balance between Massachusetts and Wyoming or any other pair of states. But when people talk about world trade, they become protectionists. Suddenly it becomes important for trade to balance between aggregates such as "The United States" and "Japan."

A president truly committed to free trade would have exerted his influence to show why the implicit free traders are right and the explicit protectionists are wrong. He would have used consistent public statements and his veto power to reinforce people's good instincts about trade. This is where the president has failed badly. Although he has made some free-trade statements, he has nearly always contradicted them with other statements and then acted like a protectionist. It would have been impossible for the people to draw free-trade conclusions under these circumstances. Reagan's free-trade statements appeared confused at best and looked like rationalizations in the service of special interests at worst.

Ronald Reagan has done free trade a double disservice. First, the president most closely identified with the free-enterprise system in years has associated free enterprise with protectionism. Second, he has debased free-trade rhetoric by linking it with the view that trade restrictions are the province of the president not the Congress. He has debased the English language, since the multitude of "voluntary restraint agreements" demanded by the administration were hardly voluntary, backed as they are by the threat of legislation.

President Reagan missed a unique opportunity to begin freeing the American economy from the shackles of trade restrictions. He need not have given the American people a lecture in technical economics. He simply could have talked about values. He could have told them that free trade requires no special justification because, as Sumner put it, free trade is not a doctrine but a "mode of liberty."(81) The error many people make is looking at international trade out of its proper context. As economist Joseph Schumpeter warned,

Free-trade policy means much more than a particular way of dealing with questions of foreign trade. . . . It is easy to see . . . that free-trade policy is related to other economic policies in such a manner that, for political as well as economic reasons, these other policies are difficult to pursue without free-trade policy, and vice versa. In other words, free trade is but an element of a comprehensive system of economic policy and should never be discussed in isolation. Nor is this all. The really important point to make is that this system of economic policy conditions, and is conditioned by, something that is more comprehensive still, namely, a general political and moral attitude or vision that asserts itself in all departments of national and international life.(82)

The vision Schumpeter was referring to--of a free, humane, and prosperous society--is one that Ronald Reagan often invokes. But his vision must be impaired because it surely has failed to assert itself "in all departments of national and international life."

FOOTNOTES

(1) Mark Shields, "Deserted by the Press: Gephardt Deserves Better," Washington Post, March 13, 1988, p. C7.

(2) Rowland Evans and Robert Novak, The Reagan Revolution (New York: Dutton, 1981).

(3) Quoted in Murray L. Weidenbaum, "The Reagan Administration and Free Trade" (paper presented at the Cato Institute conference "Assessing the Reagan Years," Washington, October 2, 1987), p. 2.

(4) Don McLeod, "U.S. Trade Deficit Raises Hue and Cry for Higher Tariffs," Washington Times, June 30, 1986, p. 10C.

(5) Hobart Rowen, "Keeping Fingers Crossed on the Trade Front," Washington Post, July 19, 1987, p. H1.

(6) Karen Riley, "Yeutter Upbeat on U.S.-Japan Trade," Washington Times, January 21, 1988, p. C1.

(7) Warren Brookes, "Redistribution by Another Name?" Washington Times, June 5, 1987, p. 2D.

(8) McLeod, p. 9C.

(9) Ibid., p. 10C.

(10) Leonard Silk, "Painful Japan-U.S. Shift in Economic Relations," New York Times, April 27, 1987, p. D5.

(11) Jonathan P. Hicks, "Aid Asked for Steel Industry," New York Times, May 24, 1987, p. D1.

(12) Sheldon L. Richman, "Examining Reagan's Record on Free Trade," Wall Street Journal, May 10, 1982.

(13) Ibid.

(14) "Baldrige Warns on Trade," Washington Post, April 21, 1987, p. D2.

(15) Edward Neilan, "Baldrige Warns Koreans on Trade," Washington Times, April 21, 1987.

(16) Clayton Yeutter, Letter to the Editor, Washington Post, October 11, 1986.

(17) Robert Reich, "The Trade Gap: Myths and Crocodile Tears," New York Times, February 12, 1988, p. 35.

(18) Neilan.

(19) Doug Bandow, "Protectionists in the White House Outdone Only by Those in Congress," Register (Orange County), December 2, 1987, p. B7.

(20) Stuart Auerbach, "Sanctions Imposed on Japan," Washington Post, April 18, 1987, p. 11.

(21) Ibid.

(22) The Japanese were allegedly dumping chips in the United States, when in fact their export prices were higher than their domestic prices. The Japanese conduct is fully explain- able in terms that have nothing to do with "unfair" trade practices. See Michael Becker, "Semiconductor Protectionism: Goodbye Mr. Chips," Issue Alert, no. 9, August 27, 1986 (Washington: Citizens for a Sound Economy, 1986).

(23) The tariff, which had fallen to 10 percent in 1987, was removed a few months early.

(24) Steven V. Roberts, "At Harley Plant, Reagan Defends Trade Policy," New York Times, May 7, 1987, p. D9.

(25) "All sides agree that so far this case represents a suc- cessful use of section 201 for adjustment of international competition," said Yeutter in testimony before the Senate Finance Committee on July 17, 1987, p. 4.

(26) "Inside the Trade Tower," Wall Street Journal, January 13, 1988, p. 20.

(27) Hobart Rowen, "Reagan's Trade Problem," Washington Post, October 4, 1987, p. H1.

(28) "President Criticizes Trade Plan," New York Times, April 26, 1987, p. D1.

(29) "President Cautions Hill on Trade," Washington Post, March 12, 1988, p. D10.

(30) Quoted in Claude E. Barfield, "'Brother of Gephardt,'" Washington Post, March 9, 1988, p. A25. The 1988 Annual Report of the Council of Economic Advisers does include Super- 301 in a section of "harmful features" of the omnibus trade bills. But the Washington Post reported that Super-301 is "more acceptable to the administration" than the Gephardt amendment ("Gephardt Renews Trade Interest," Washington Post, February 14, 1988, p. A28).

(31) "Congress Wrestles a Monster in Quest for Trade Reform," Insight, December 14, 1987, p. 21; and Mary Alexander, "Anti- dumping Bill Carries a High Cost," Register (Orange County), December 21, 1987.

(32) Jagdish Bhagwati, "Veto Trade Bill, But for Right Rea- sons," Wall Street Journal, April 22, 1988.

(33) Congressional Budget Office (CBO), Has Trade Protection Revitalized Domestic Industries? November 1986, p. 82. For details on the harmful effects of this auto-import policy, see Arthur Denzau, Made in America: The 1981 Japanese Auto Cartel (St. Louis: Center for the Study of American Business, 1986).

(34) "Study Charges Import Quotas Cost U.S. Jobs," Washington Post, March 17, 1987; see Clifford Winston, Blind Intersec- tion? Policy and the Automobile Industry (Washington: Brookings Institution, 1987).

(35) Robert W. Crandall, "Import Quotas and the Automobile Industry: The Cost of Protectionism," Brookings Review, Summer 1984, p. 13. Cited in Denzau, p. 1.

(36) Robert W. Crandall, personal interview, March 17, 1988.

(37) See Daniel Klein, "The U.S. Sugar Program: A Sour Deal for Consumers," Issue Analysis, no. 5, September 23, 1985 (Washington: Citizens for a Sound Economy, 1985).

(38) The restrictions on China led to specific retaliation against American cotton, synthetic fibers, and soybeans. Murray L. Weidenbaum, "Freeing Trade," in Beyond the Status Quo: Policy Proposals for America, ed. David Boaz and Edward H. Crane (Washington: Cato Institute, 1985), p. 101.

(39) "The Great Textile Robbery," New York Times, October 26, 1987, p. A18. The estimate was made by William Cline in a study for the Institute for International Economics.

(40) The Politics of U.S. Textile Trade Policy: Two Centuries of Temporary Protection (Washington: Retail Industry Trade Action Coalition, 1986), p. 12.

(41) "Robbing Peter to Pay Paul: Steel Quotas Hurt U.S. Firms," Insight, March 14, 1988, p. 40.

(42) Roberts, p. D9.

(43) Kenneth Flamm, "U.S. Memory Chip Makers: In a Fix," Washington Post, March 1, 1988, p. A19. Japanese electronics manufacturers make their own chips and so have not been hurt. The lessons of this sorry episode keep

coming. The company whose complaints led to the U.S.-Japan agreement, Micron Technology, Inc., is being sued by Atari Corp. for allegedly breaking an agreement to sell memory chips and then later offering to sell them at much higher prices. "No doubt, the chip agreement has presented tiny Micron with a grand oppor- tunity," wrote the Wall Street Journal ("Micron Technology Is Illegally Profiting from U.S.-Japan Chip Pact, Atari Alleges," Wall Street Journal, March 16, 1988, p. 6).

(44) Thomas J. DiLorenzo, "Foreign Manufacturers in the United States: Should They Be Told to Buy American?" Cato Institute Policy Analysis no. 83, February 24, 1987.

(45) "Japanese Firms Accused of Dumping," Washington Post, August 13, 1987, p. E1.

(46) "Japanese Companies Violated Trade Laws, Commerce Says," Washington Post, November 20, 1987, p. D1.

(47) Rowen, "Reagan's Trade Problem," pp. H1, H4.

(48) "Export-Import Bank Survives on Making Credit, Not Prof- it," Insight, January 18, 1988, pp. 42-43. According to the article, "In 1981 the Congressional Budget Office tried to measure the benefits created by the bank in jobs and ex- ports. It could not find any."

(49) "Trade Official Quits, Raps Policy," Washington Post, April 21, 1987.

(50) Rowen, "Reagan's Trade Problem," p. H1. Not all ex- administration employees are critical in this way. Clyde V. Prestowitz, former deputy assistant secretary of commerce, thinks the administration has not been protectionist enough. In his new book, Trading Places, he writes that Reagan and his associates were "unconcerned" abut trade problems with Japan. He writes, "Never once did I hear an economist or a representative of any economic agency speak in favor of grant- ing relief or of taking action to aid a U.S. industry. The administration sometimes bowed to political necessity, but never willingly" ("Ex-Aide Hits U.S. Trade Stance," Washington Post, March 18, 1988, p. B4).

(51) Milton Friedman, "Outdoing Smoot-Hawley," Wall Street Journal, April 20, 1987.

(52) Ibid.

(53) "Ex-Aide Hits U.S. Trade Stance," pp. B1, B4.

(54) Herbert Stein, "Leave the Trade Deficit Alone," Wall Street Journal, March 11, 1987; and Paul Heyne, "Do Trade Deficits Matter?" Cato Journal 3, no. 3 (Winter 1983/84): 705-16.

(55) Warren Brookes, "Misled by Data on U.S. Debt," Washington Times, January 6, 1988; and personal interview, March 18, 1988.

(56) Friedman.

(57) Michael Kinsley, "Talking Tough," Washington Post, March 25, 1987. William A. Niskanen, Reaganomics: An Insider's Account of the Policies and the People (New York: Oxford University Press, 1988), p. 154.

(58) Rowen, "Reagan's Trade Problem," pp. H1, H4.

(59) Murray L. Weidenbaum, "The High Cost of Protectionism," Cato Journal 3, no. 3 (Winter 1983/84): 782.

(60) "Yeutter Raps Japan"; and "Japan Hopes to Halt U.S. Embargo," Washington Times, March 2, 1988, p. C3.

(61) Weidenbaum, "The High Cost of Protectionism," p. 780. See also Steve H. Hanke, "U.S.-Japanese Trade: Myths and Realities," and Gary Hufbauer, "'U.S.-Japanese Trade': A Comment," Cato Journal 3, no. 3 (Winter 1983/84): 757-69, 771-75.

(62) "Gephardt Renews Trade Interest," p. A28.

(63) Susan Chira, "Japan Is Said to Retain Its Auto Export Quotas," New York Times, January 27, 1988, p. D1.

(64) Denzau, pp. 2, 7, 10. Denzau notes that the common- stock valuations of all the Japanese automakers "jumped sub- stantially" when MITI announced the VER in April 1981.

(65) The quoted phrase is from Sam Nakagama, chairman of Nakagama and Wallace, Inc., "Turning Japan into an Importing Nation," New York Times, April 19, 1987, business section, p. 2.

(66) Flamm, p. A19.

(67) Ibid.

(68) Office of the United States Trade Representative, "The President's Trade Policy: An Update," April 7, 1987.

(69) Stephen Chapman, "Gephardt's Twin Towers of Fraud," Register (Orange County), March 1, 1988, p. B7.

(70) See Hufbauer.

(71) Frederic Bastiat, Economic Sophisms (Princeton, N.J.: Van Nostrand, 1964), p. 29. Rep. Byron L. Dorgan (D-N.D.) should win an award for confusing athletics with economics. He recently criticized the Washington Post for labeling pro- tectionist a provision in the House trade bill that would require disclosure by foreign investors. "Far from being anticompetitive," he wrote, "the disclosure requirements in the House-passed bill would simply provide a scorecard to make it possible for the American public and government policy- makers to tell 'who's on first.' It's hard to have a competi- tion or judge the results when you don't know who the players are or what team they're on." (Byron L. Dorgan, Letter to the Editor, Washington Post, March 19, 1988, p. A21.) Perhaps the government should require all participants in the economy to wear uniforms that would indicate nationality.

(72) William Graham Sumner, "Protectionism: The -Ism Which Teaches That Waste Makes Wealth," Essays of William Graham Sumner, vol. 2, ed. Albert Galloway Keller and Maurice R. Davie (Hamden, Conn.: Archon Books, 1969), p. 451. See also Paul Krugman, "Gephardtnomics," New Republic, March 28, 1988, pp. 22-25.

(73) On the richest, the equivalent surcharge would be 5 percent. "Tradeamok," New Republic, April 27, 1987, p. 8.

(74) "Robbing Peter to Pay Paul: Steel Quotas Hurt U.S. Firms," p. 40.

(75) Congressional Budget Office, How Federal Policies Affect the Steel Industry, February 1987, p. 36. The study adds, "[P]rotective measures in the 1960s and 1970s did little to restore the industry's competitiveness, and the current volun- tary restraints negotiated with foreign producers seem unlikely to be more effective." Also see Sheldon L. Richman, "The Crisis of the Pennsylvania Steel Industry," Pennsylvania Outlook 1, no. 4 (Fall 1985): 36-46.

(76) "Robbing Peter to Pay Paul: Steel Quotas Hurt U.S. Firms," p. 40.

(77) CBO, Has Trade Protection Revitalized Domestic Indus- tries? p. 97. The report also notes that "the effectiveness of the restraints in reducing imports was limited" (p. 97).

(78) Economic Report of the President/Annual Report of the Council of Economic Advisers (Washington: Government Printing Office, 1988), p. 145. The CEA report adds the qualifier "that distorts trade," implying that some subsidies do not distort trade. Whether this is a grammatical oversight or a hint that some subsidies are to be continued is not known.

(79) The agreement is awaiting ratification by the U.S. Con- gress and the Canadian Parliament. See Sheldon L. Richman, "Is the U.S.-Canadian Trade Agreement Pro-Consumer?" The World and I, January 1988, pp. 118-25, including a sidebar on the Israeli and Mexican agreements.

(80) Office of the United States Trade Representative, "U.S.- Canada Free Trade Agreement: Elements of the

Agreement," October 3, 1987, p. 20. See also William A. Niskanen, "Stum- bling toward a U.S.-Canada Free Trade Agreement," Cato Insti- tute Policy Analysis no. 88, June 18, 1987, and Michael I. Krauss, "The Canada-U.S. Free Trade Agreement: Now or Never," Cato Institute Policy Analysis no. 105, May 3, 1988.

(81) For an elaboration of this point, see "There's No Case for Free Trade (No Special Case, That Is)," Critical Legal Issues Working Paper Series, no. 8 (Washington: Washington Legal Foundation, November 1986).

(82) Joseph Schumpeter, History of Economic Analysis (New York: Oxford University Press, 1954), p. 398.