

Two Cheers for GATT

The hottest issue in national politics is the pending congressional debate over President Clinton's proposed legislation to implement a new General Agreement on Tariffs and Trade (GATT). The sharpest opposition to the treaty comes from those who fear that the new World Trade Organization (WTO) will violate national sovereignty. Their objections are based largely on a misunderstanding of the WTO and on a blindly progovernment conception of sovereignty that should have no place in a free society.

One purpose of the GATT is to limit the power of U.S. politicians over the choices of American consumers. The agreement seeks to protect trade from exploitative politicians and heavy-handed bureaucrats. Since the GATT must be ratified by politicians, it will certainly be far from perfect. Yet the real question is whether people will have more or less freedom with the GATT. The answer is, they will have more.

The Harsh Reality: U.S. Protectionism

Much of the controversy over the GATT presumes that American consumers have little or nothing to gain from the GATT's enactment. In reality, the U.S. has far more trade barriers than most American politicians choose to admit. We cannot understand the potential benefits of the GATT without looking first at the chains that bind American consumers.

American trade negotiators have exerted far more effort to close the U.S. market than to open foreign markets. Since 1980, the U.S. government has negotiated 170 bilateral trade agreements to restrict exports to the United States. If a Third World nation's exports of a clothing item equal 1 percent or more of U.S. production, the U.S. government almost automatically restricts that nation's exports. U.S. trade law has turned incompetence into an entitlement, as any lagging American company has a right to seek relief from foreign competition.¹ Foreign nations are increasingly denounced as unfair unless they take "affirmative action" to force their businesses to buy more American products.

"The U.S. has far more trade barriers than most American politicians choose to admit."

"The Tariff Code carries 8,753 different rates."

Tariffs. The U.S. tariff code is the accumulation of more than a hundred years of political payoffs and kickbacks.

- In 1790, the Tariff Code consisted of a single sheet of rates posted at U.S. Customs Houses.
- Now, it occupies two hefty volumes with 8,753 different rates and a blizzard of arbitrary discriminations against and among products.
- This is equivalent to 8,753 different industrial policies or 8,753 different entitlement programs for protected domestic industries.

In general, the tariff code makes no sense in terms of well-defined economic or social objectives. Instead, it indicates the historical political clout of various Washington lobbies. While the average tariff is around 5 percent, some are in the stratosphere. Low-priced watch parts are hit with a 151.2 percent tariff;² tobacco stems must pay a 458.3 percent tariff;³ and tariffs on some shoe imports are 67 percent.⁴

Overall, the U.S. tariff code looks like a variable value-added tax devised in a lunatic asylum. The tariff on brooms is 42.3 percent, thereby safeguarding dust and dirt; the tariff on flashlights is 25 percent, thereby encouraging people to break their noses in the dark; the tariff on cheap scissors is 23.6 percent, thereby encouraging people to tear things apart with their bare hands.

America's tariff makers perceive vast differences between similar products — which ordinary mortals miss. The tariff on duck liver is 16 times higher than on goose liver. The tariff on wine with low alcoholic content is six times higher than on wine with high alcoholic content.

Quotas. The U.S. now imposes over 3,000 separate quotas on clothing and textile imports from 40 nations.⁵ The U.S. government restricts imports of tampons, typing ribbons, tarps, twine, table linen, tapestries, ties and hundreds of other items. U.S. textile trade policy seems based on the belief that clothes are among the most dangerous objects a nation can import — thus justifying stricter controls on the imports of mittens, socks and hankies than on pistols, rifles and nuclear reactor parts.

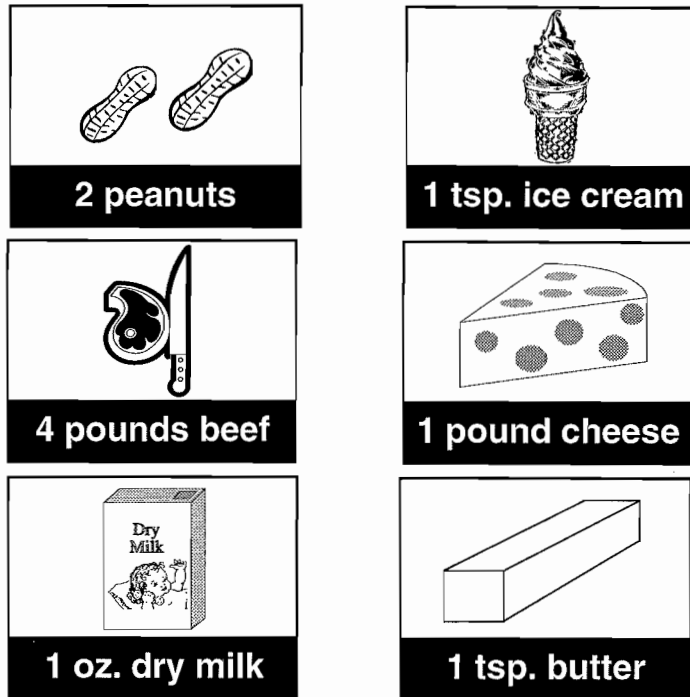
Dairy Products. The United States allows only minuscule imports of most dairy products. [See Figure I.] For example:⁶

- U.S. dairy import quotas permit each American citizen to consume the equivalent of only one teaspoon of foreign ice cream and one pound of foreign cheese per year.
- Nonfat dry milk imports are limited to about one ounce per person per year, and only Canada and Australia are allowed to provide that meager amount.

FIGURE I

Protecting Americans From Foreign Food

Amount of Imports Allowed Per Person Per Year



"Each American is allowed the equivalent of a teaspoon of foreign ice cream a year."

Cost to the American Economy. Every trade barrier undermines the productivity of capital and labor throughout the economy. As a result, the cost of trade restrictions far exceeds any benefits:

- A 1979 Treasury Department study estimated that trade barriers routinely cost American consumers eight to 10 times as much as they benefit American producers.⁷
- A 1984 Federal Trade Commission study estimated that tariffs cost the American economy \$81 for every \$1 saved.⁸
- By one estimate, restrictions on clothing and textile imports cost consumers \$1 for each 1 cent of increased earnings of American textile and clothing workers.⁹
- Overall, trade barriers cost American consumers \$80 billion a year, according to the Institute for International Economics.
- This burden is equal to \$800 a year for every American family.

Special Burdens for Low-Income Families. The harm done to the economy by trade restrictions does not affect all families equally. Instead, the U.S. Tariff Code encourages the poor to raise their standard of living by imposing the highest tariffs on products that low-income families are most likely to buy.¹⁰ As Figure II shows, U.S. tariffs and quotas are much less burdensome for families who buy higher-priced products:

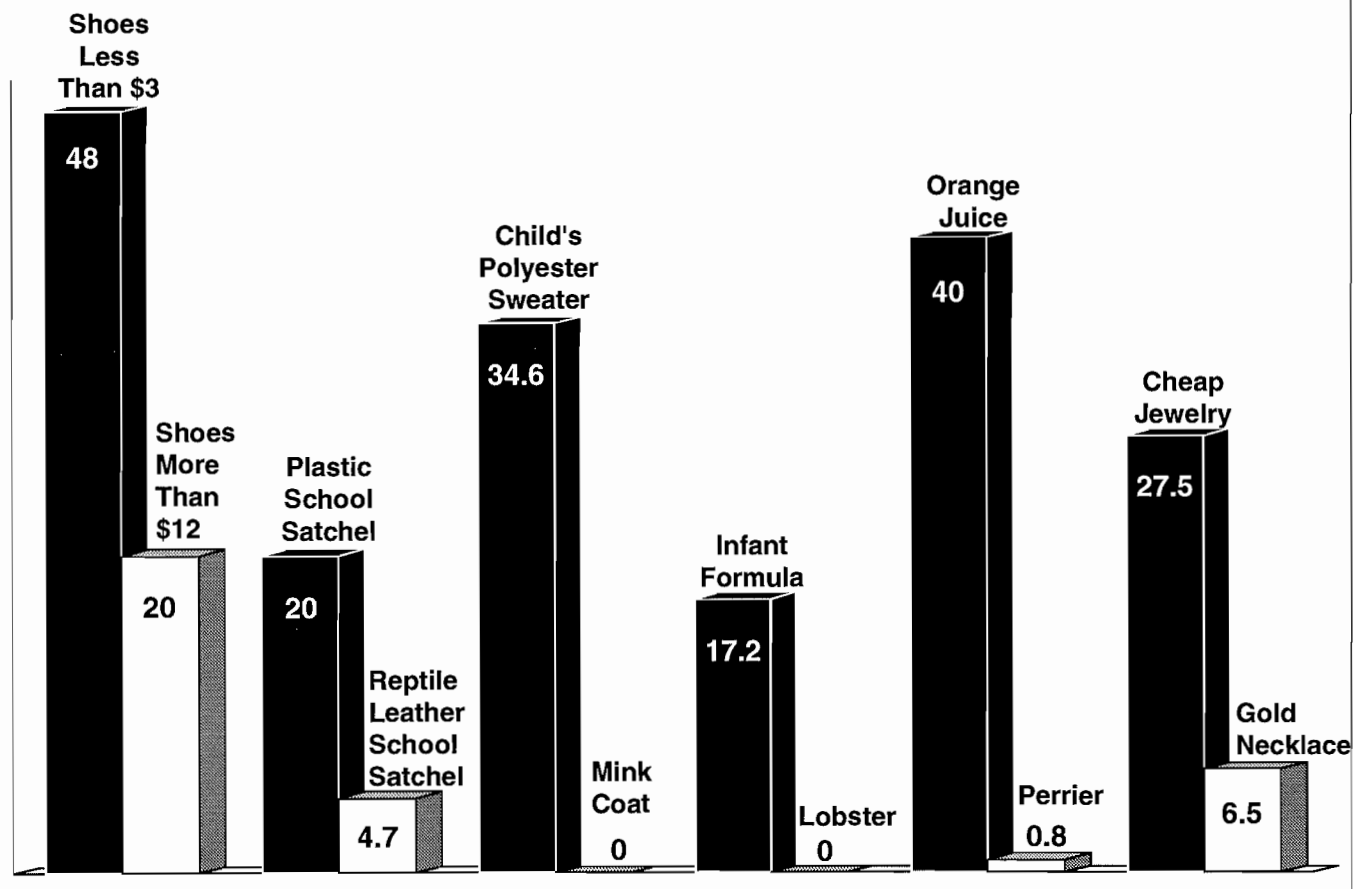
"Taxpayers pay to keep out low-priced foreign food and again to feed low-income Americans hurt by high food prices."

- Families that buy imported plastic school satchels pay a 20 percent duty, but those that buy satchels of reptile leather pay only 4.7 percent.
- Cheap jewelry, imported in lots worth less than \$18 a dozen, is tariffed at 27.5 percent, while the tariff on gold necklaces is only 6.5 percent.
- Mink coats are duty-free, and with the money a mother saves on her mink, she can buy her baby a polyester sweater — which carries a 34.6 percent tariff.
- Lobster is duty-free, and with the saving a struggling parent may be able to afford infant food, which carries a 17.2 percent tariff.

U.S. tariff policy also implicitly assumes that it is better for the poor to go hungry than to buy foreign food. The U.S. imposes more than 500 different tariffs to deter foreign food from invading American stomachs. Ironically, the U.S. government spends over \$28 billion each year on 13 different food assistance programs. Taxpayers are hit twice — once to pay salaries of Customs agents to keep out low-priced foreign food and a second time to feed low-income Americans hurt by high food prices.

FIGURE II

America's Tariff Policy: Encouraging People Not to be Poor



William Cline of the Institute of International Economics, a Washington, D.C., think tank, estimates that the combined consumer costs of tariffs and other restrictions on textiles is \$20.3 billion on the wholesale level and as much as \$40 billion on the retail level.¹¹ These burdens hit poor families far harder than rich families.

- According to a Consumer Expenditure Survey by the Bureau of Labor Statistics, households in the lowest fifth of the income distribution spend almost four times as much of their income on clothing as do households in the highest fifth (15.1 percent versus 3.8 percent).¹²
- Because they spend a higher percentage of their incomes on clothing, the poor are taxed at a higher rate by textile and apparel protection — which costs them 8.8 percent of their disposable income every year.¹³

Comparing Countries. American politicians are prone to declare that the United States is the only free trade nation in the world. True, the United States does have fewer restrictions than most countries. But many nations have lower average tariffs than the United States. [See Figure III.] The U.S. average import-weighted applied tariff is now 5.4 percent.¹⁴ Switzerland's comparable average tariff is 2.2 percent; Sweden's is 3.8 percent; Norway's is 3.6 percent; Japan's is 1.9 percent; Iceland's is 5.1 percent; Finland's is 5.4 percent; Canada's is 4.9 percent; Singapore's is 0.4 percent; and Macao and Hong Kong both have on average tariff of 0.0.¹⁵ While some of these countries have extensive nontariff barriers such as import quotas (as does the U.S.), this list indicates that U.S. trade officials should at least be less self-righteous.

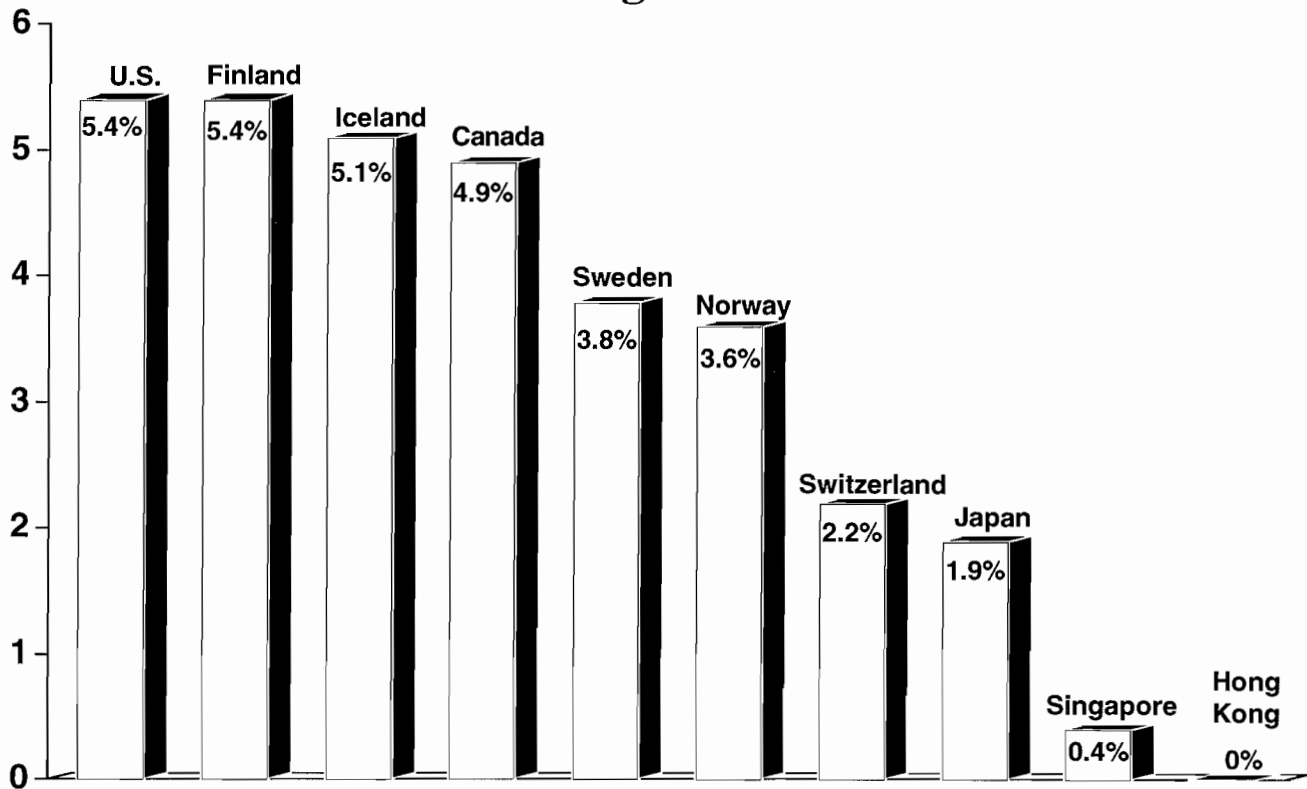
Benefits of the GATT

The GATT represents a nearly \$750 billion worldwide tax cut — by far the largest in history. This also is the broadest, most comprehensive trade agreement in history — equivalent to a one-third cut in tariff levels around the world. And the GATT establishes new rules for trade in services and intellectual property — areas in which the United States has a large comparative advantage. The GATT Secretariat estimates that, as a result of the GATT, world merchandise trade will be \$755 billion higher in the year 2005 than it would have been and worldwide income will be more than \$230 billion higher.¹⁶

The United States would benefit, along with other countries. Trade already is vital to our economy. Last year, the U.S. exported over \$650 billion in goods and services — the equivalent of more than 10 percent of the gross national product. More than 10 million jobs are directly reliant on exports.¹⁷ Under GATT, economic activity would expand.

“GATT represents a worldwide tax cut of nearly \$750 billion.”

FIGURE III
Average Tariff



Source: *International Trade Policies: The Uruguay Round and Beyond*, Vol. II, Background Papers, International Monetary Fund, November 1994, pp. 3, 8.

"Many nations have lower average tariffs than the United States."

- The Institute for International Economics estimates that the GATT would result in a \$30 billion tax cut for American consumers and an overall gain to the U.S. of \$65 billion by the year 2000.¹⁸
- The Institute also estimates that the GATT would produce 10 times more benefits for the U.S. than will the North American Free Trade Agreement (NAFTA).
- The U.S. Department of the Treasury estimates that the GATT will add between \$100 billion and \$200 billion to this nation's annual income, or the equivalent of \$1,700 per family per year.¹⁹
- And the GATT agreement will produce a least 250,000 new American jobs.²⁰

U.S. Trade Representative Mickey Kantor testified in June that the GATT will result in "the elimination of tariffs in major industrial markets and significantly reduced or eliminated tariffs in many developing markets, in the following areas: construction equipment, agricultural equipment, medical equipment, steel, beer, distilled spirits, pharmaceuticals, paper, toys and furniture." Kantor noted that the GATT will also result in "deep cuts ranging

from 50 to 100 percent on important electronics items (semiconductors, computer parts, semiconductor manufacturing equipment) and on scientific equipment by major US trading partners.”²¹ [See Table I.]

Obviously, the potential benefits of the GATT are great. This is why we must seriously consider the main points of the opposition to the agreement.

The WTO and U.S. Sovereignty

The GATT will create a new World Trade Organization as a forum for settling complaints of unfair trade practices among nations. WTO panels will be similar to the GATT panels that existed under prior international agreements. The main differences will be a faster timetable for dispute resolution, the absence of power to veto decisions against one’s policies and the likelihood of penalties against violators of GATT rules. All three changes were explicit goals of the U.S. during GATT negotiations.

Much anti-GATT rhetoric has sounded as if the opponents considered the WTO part of a secret “Protocols of the Elders of GATT.” Senator Fritz

TABLE I

Average Tariff Reduction Among Industrial Countries Under GATT

| <u>Industry</u> | <u>Tariff Reduction</u> |
|-------------------------------------|-------------------------|
| Wood, pulp, furniture, paper | 69% |
| Metals | 62% |
| Nonelectric machinery | 60% |
| Mineral products | 52% |
| Electric machinery | 47% |
| Chemicals and photographic supplies | 45% |
| Transport equipment | 23% |
| Textiles and clothing | 22% |
| Leather, rubber | 18% ¹ |

“The GATT will result in the elimination or reduction of tariffs in established and developing markets.”

¹ *International Trade Policies: The Uruguay Round and Beyond*, Vol. II, Background Papers, International Monetary Fund, November 1994, p. 57.

"The World Trade Organization will only have the power to authorize a victim of an unfair trading practice to retaliate."

Hollings (D-SC) — the U.S. Senate's most prominent protectionist, a warrior whose own raiment is made in South Korea — proclaimed last August that the WTO would subject U.S. law to an "international tribunal" and place the nation "in the hands of the Philistines."²² A Connecticut spokesman for United We Stand, Ross Perot's organization, warns that "The World Trade Organization will have complete power over us."²³ Reality is otherwise.

Powers of the WTO. The rulings of the WTO panels will not automatically bind nations found guilty. The WTO will have no power to force a nation to change its laws; it will have only the right to authorize the victim of an unfair trading practice to retaliate against the exports of the guilty nation. In recent years, the United States and the European Community have received GATT permission to retaliate against each other's trade practices numerous times and yet have retained their sovereignty. As former U.S. trade negotiator Julius Katz observed, "There is nothing in the WTO that is self-executing in terms of U.S. law — none of our trade agreements can by themselves change U.S. law."²⁴

The World Trade Organization is necessary, in part, because national governments routinely violate their international obligations to abstain from protectionist practices. In the United States, companies routinely spend three to five years in litigation — and hundreds of thousands of dollars in legal fees — to challenge absurd dumping decisions by the U.S. Department of Commerce. These are decisions that penalize firms for supposedly selling imported products at "less than fair value." For example, in 1990 the Commerce Department accused Korean and Hong Kong sweater producers of dumping because they sold sweaters more cheaply in the United States than in other countries:²⁵

- One company sold sweaters in the U.S. for only 1.2 percent less than in Mexico.
- Another sold sweaters for 3.2 percent less than in Australia.
- A third sold them for only 0.7 percent less than in Britain.

There are other ways of committing dumping "crimes." Under U.S. law, any foreign company earning less than 8 percent profit on a product is considered guilty of selling at a loss. Moreover, because of the Commerce Department's protectionist actions:²⁶

- At least 40 million fewer sweaters from Hong Kong, Taiwan and Korea were sold in the United States in 1990.
- As a result, more than two-thirds of all Taiwanese acrylic sweater companies closed and thousands of Taiwanese lost their jobs.

Although U.S. judges often find the Commerce Department guilty of violating federal law, the agency routinely refuses to be bound by court rulings. The U.S. also chooses to disregard GATT rulings that have found that its dumping rulings violated its international obligations.

GATT Is Only a Contract. The WTO will have neither an army of soldiers nor a battalion of inspectors. As Heritage Foundation economist Joe Cobb wrote earlier this year, “What is most remarkable about the GATT, during its almost 50 years of existence, is the purely voluntary nature of it. A government’s membership in GATT is like membership in a chess club: if you join, you agree to play by the rules, but nobody can arrest you if you break a rule. The penalty is that others will then refuse to play with you. The essential nature of a ‘trade sanction’ is that it represents the partial withdrawal of the equal rights that member governments in GATT extend to each other’s citizens.”²⁷ As one high-ranking U.S. trade official observed, GATT “is a contract among countries and a dispute settlement simply says that when one side has violated the contract that the other side has the right to also violate the contract. No one wants to get to that point because it is not in their interest to violate the contract.”²⁸ Members of the GATT receive favored treatment from other GATT members, thus providing a strong voluntary incentive for governments to abide by GATT decisions.

“If a trade practice is found to be GATT-illegal, the U.S. has four options — including doing nothing.”

U.S. Options Under GATT. If a U.S. law or trade practice is found to be GATT-illegal, the United States will have four options. First, the United States could change its law or practice to conform with the GATT ruling. Secondly, it could negotiate a settlement of the case so that neither side does anything. (This has happened regarding previous U.S. complaints to GATT about Canadian dairy import barriers.) Third, it could offer the injured nation compensation in some other product area. Finally, the United States could do nothing and let the other country take reciprocal action.

The type of compensation that would be required is key to understanding why GATT would not impact national sovereignty. If the United States “wronged” Taiwan, for example, it would not be asked to surrender Guam, the Midway Islands or a few of the smaller Hawaiian Islands to Taiwan. Instead, the panel would estimate the trade-distorting impact of the GATT-illegal trade practice and authorize the injured nation either to retaliate comparably against United States exports or to seek comparable compensation from the United States. If the United States refused to change its GATT-illegal trade practice, at worst it would face retaliatory tariffs or other trade barriers from the injured nation.

The U.S. government and the offended government could negotiate over a compensation package. The United States could satisfy a foreign government’s complaint not by lifting the specific trade barrier or changing the law at issue but by lifting other trade barriers to provide equivalent compensation. Wrongful U.S. trade barriers on one product could lead to the negotiation of lower U.S. trade barriers on other products. This would be a “win-win” situation for American consumers: the U.S. could either lower the trade barrier the WTO found to be unjustified or could find some other trade barrier to lower.

"If the World Trade Organization became abusive, the U.S. could withdraw."

Despite the litany of U.S. trade barriers recited earlier in this study, the United States is one of the less protectionist nations. While it may lose a few cases before WTO panels, U.S. exporters are likely to win more cases than our government loses. Thus the United States will reap a net gain from the firm international imposition of rules of trade.

The Option to Withdraw. Furthermore, the U.S. government will have no obligation to maintain its membership in the WTO. If the WTO, contrary to reasonable expectations, became abusive, the United States could exit the organization. By withdrawing support, the United States could turn the WTO into an irrelevant Third World debating group. If the WTO fell captive to Third World bureaucrats, the United States would not likely be the only economic superpower abused: the European Community and Japan would probably also take heavy flak. Still, Third World officials have no vested interest in derailing the world trading system. They may fantasize about imposing their wills on larger, richer nations — but they are not likely to act.

Other Safeguards. Many GATT opponents warn that the United States could be outvoted and overwhelmed in GATT decisions. This is an illusory threat. It is true that each member will have one vote to change the rules of GATT. But several key WTO rules will prevent future changes from threatening American sovereignty or American interests. Two-thirds of the members of GATT must approve fundamental rule changes. And, most importantly, *new GATT rules will not bind nations whose governments voted against those rules.* Thus the United States will have a right to ignore rule changes made after the WTO is created.

Trivial Risks. It is certainly possible that a WTO panel could wrongly decide that some specific U.S. government policy violated the GATT. However, in past GATT panel rulings, the average retaliation authorized has been less than \$100 million. Most economists who have analyzed the GATT agreement estimate that it will increase U.S. exports of goods and services \$40 billion to \$100 billion. So while U.S. exporters may occasionally suffer, the United States as a whole will greatly benefit. And, since WTO penalties will most likely be imposed on United States exports, exporters — including America's most competitive corporations — will have a strong incentive to encourage adherence to the GATT commitments.

To understand the WTO's perceived threat to U.S. sovereignty, let's consider the types of trade agreements the U.S. has been found to have violated in the past. In July 1994, the U.S. was found to have violated the MultiFibre Arrangement (MFA), a compact of major textile importing and exporting nations, by imposing import quotas on El Salvador's shirts — even though there was no evidence Salvadoran imports were disrupting the U.S. market. Reportedly, U.S. officials threatened Salvadorans with retaliation if they complained to Geneva. Although an international MFA panel ruled unanimously against the United States, the U.S. refused to abide by the deci-

"U.S. export control regulations have severely hurt many of America's leading technology companies."

sion and maintained our quotas for several months.²⁹ The offending quota was lifted only after the Salvadoran government formally agreed to accept another, higher quota restriction on its shirts.

WTO vs. the U.S. Government. If we look at the likely adverse impact on U.S. exports from potentially negative WTO rulings and compare them to the adverse impacts on U.S. exports from existing U.S. government policies, the trivial impact of WTO adverse rulings becomes stark. The U.S. government has done more to reduce U.S. exports than has any other government and probably more than any international organization could do in the next half-century. U.S. export control regulations — routinely imposed despite the lack of benefits to national security — have severely hurt many of America's leading technology companies. As author George Gilder notes, "By constantly imposing special export controls for nonsensical national security concerns and changing policy from month to month in response to utterly spurious emergencies, the U.S. government has become the chief obstacle to U.S. competitiveness in electronics."³⁰

- The National Academy of Sciences estimated in 1987 that Commerce Department export controls on U.S. technology and products *that pose no national security threat* reduced American exports by \$9 billion.³¹
- A 1994 study by the Center for the Study of American Business estimated that export controls reduced American exports by roughly \$30 billion in 1991, and that many of the restricted products would have no possible military use.³²

There are other ways in which unwise U.S. government policies hurt U.S. exports:

- A study by Purdue professors Thomas W. Hertel, former U.S. Department of Agriculture chief economist Robert L. Thompson and Marinos E. Tsigas concluded that the misallocation of resources caused by the federal government's farm program depressed the productivity of other sectors of the U.S. economy, reducing American manufacturing exports by \$7.5 billion and service exports by \$3.4 billion.³³
- A North Carolina State University study concluded that U.S. tobacco exports would double if the government abolished its tobacco quota and price support system.³⁴
- The USDA currently imposes severe limitations and/or quotas on the *export* of almonds, raisins, peanuts and peanut butter.³⁵
- U.S. telecommunications exports have been decimated because a federal judge prohibited major American telephone companies from product design and development.³⁷

- Overall, a study by Andrew Feltenstein of Kansas State University estimated that unilaterally abolishing farm programs would have reduced the U.S. trade deficit by \$42 billion in 1986.³⁶

U.S. Citizens vs. the U.S. Government

In the 1850s, Southern slaveowners were outraged at Northerners who demanded limits on a master's right to flog his slaves. Some Southerners claimed that such a law would be a gross violation of the slaveowner's natural sovereignty. Today, protectionists are outraged that the proposed World Trade Organization could effectively limit politicians' power to exploit consumers. Once again, sovereignty is invoked to perpetuate abusive powers that never should have existed in a free society.

Listening to complaints about the GATT, one would think that U.S. trade policy is the rational creation of bureaucratic sages and benevolent statesmen. Instead, trade policy is the precarious result of countless bad decisions made on Capitol Hill.

Congress has tended to view "national sovereignty" as an expression of its right to restrict Americans' freedom. Representative Helen Delich Bentley (R-MD), who displayed her trade acumen by sledge-hammering a Japanese TV on the steps of the Capitol in 1987, recently wailed: "Under the new GATT, Congress will have limited power over trade. ...We cannot allow this to happen."³⁸ Thus, because the WTO could potentially strike down protectionist U.S. trade laws, the WTO is a violation of national sovereignty. Similarly, columnist Patrick Buchanan warned, "We give up our freedom — to faceless foreign bureaucrats who will assume authority over America's commerce that the Founding Fathers gave exclusively to the Congress of the United States."³⁹

But the Founding Fathers never intended to give the Congress dictatorial power over what American citizens could buy. In fact, restrictive trade policies were a major cause of the American Revolution. In 1750, Britain prohibited Americans from erecting any mill for rolling or slitting iron; William Pitt exclaimed, "It is forbidden to make even a nail for a horseshoe." The Declaration of Independence denounced King George for "cutting off our trade with all parts of the world."

The United States was born as a low-tariff nation. After 1816, when Congress began raising tariffs, citizen groups denounced the government for violating the basic trust of the U.S. Constitution. For instance, on February 25, 1828, the citizens of Newberry, S.C., denounced high tariffs, petitioning Congress with these words: "The species of legislation of which we complain is an infringement of the federal pact. It violates the eternal principles of justice by robbing one to enrich another. We observe with pain that the de-

"The United States was born as a low-tariff nation."

mands of the manufacturers are never ending. We are treated as colonies.”⁴⁰ The high-tariff policies of the early 1800s helped to sow the seeds for a Civil War that left over half a million Americans dead.

Senator Jesse Helms (R-NC), the presumptive chairman of the Senate Foreign Relations Committee, is working to delay consideration of the GATT. But it is worthwhile to examine Helms’ own philosophy on trade. In 1990, Helms complained that U.S. textile policy “gives our market to foreigners.”⁴¹ Helms apparently believes that the U.S. Congress should have the right and power to give the market to whomever it chooses. To talk of “giving” the market is, in reality, to talk of giving the dollars of anyone who must depend on that market. Politicians who allocate market share are treating consumers as serfs.

Protectionist politicians complaining about the effects of GATT on national sovereignty have as much credibility as muggers complaining about too many street lights. Most trade legislation is based on the idea that a handful of people who are members of Congress have a right to tax or prohibit the purchases of 250 million Americans. Did the 90,000 people in eastern Ohio who voted for the lesser of two evils on a rainy November day know that their elected official would assume the right to raise U.S. oil prices by 40 percent, mangle international textile trade and ban peanut butter imports?

Currently, members of Congress can restrict Americans’ freedom to buy and sell from 96 percent of the world’s population. Trade barriers come down to a question of political legitimacy. What gives one person a right to arbitrarily and forcibly reduce another’s living standard? Should election to office give the elected the right to dictate other people’s food, clothing and cars?

To argue that an agreement that lowers trade barriers around the world is a step towards One World Government misses the key point: *the GATT will reduce the power of governments over their citizens around the world.* Anything that tends to decrease politicians’ arbitrary power over trade will tend to increase individual freedom. The GATT shifts sovereignty from the federal government not to a world government but to individuals, allowing each of us more sovereignty over the paychecks and dollars, yen, D-Marks or zloties in our pockets.

Serious Flaws in Clinton’s GATT Package

Unfortunately, to buy congressional support for the GATT package the Clinton administration has made several protectionist deals. For example, the administration added new rules to the U.S. dumping section of the GATT-implementing legislation so the U.S. government could more easily convict foreign companies of unfair trade practices. The new rules consist largely of

“Current U.S. dumping law has become a protectionist tool against imports.”

making unequal comparisons between U.S. and foreign prices — thereby creating the appearance that foreign companies' prices in the United States are unfairly low. Clinton policymakers added this provision to the GATT legislation despite the stark evidence of the protectionist nature of existing U.S. dumping law. According to the Congressional Budget Office, current U.S. dumping law has become a protectionist tool that discriminates against imports.⁴²

Worst of all, the administration appears ready to seize on fine print in the GATT to deny American consumers the imminent benefits of textile trade liberalization. Clinton administration policymakers have finagled numbers and exploited loopholes so that the U.S. government will continue protecting the domestic textile industry far longer than most experts expected when the GATT was signed. This will force American consumers to pay billions of dollars in higher clothing prices over the 10-year phase-in of the treaty.

In order to throttle textile imports, the Clinton administration has also manipulated the rules of origin. The administration essentially proposes to revoke 10 years of binding rulings by the U.S. Customs Service so as to suppress exports from Hong Kong and China. The new rule is intended to penalize companies that engage in multinational textile production — to make it a crime for nations to capitalize on their advantages. According to Clint Stack, a former U.S. government official and chief of International Development Systems, a Washington, D.C., textile consulting firm, "The new rule could adversely impact up to \$6 billion in clothing imports a year."⁴³

"The administration proposes to revoke 10 years of binding rulings so as to suppress exports from Hong Kong and China."

GATT: The Wrong Way to Free Trade?

Almost everyone who claims that the WTO will become a one world dictatorship favors maintaining or increasing American politicians' dictatorial power over American consumers. Most opponents of the GATT have as much affection for free trade as Bill Clinton has for Newt Gingrich. But a few organizations have raised worthwhile questions about whether GATT is the best mechanism for reducing trade barriers.

Fred Smith, president of the Competitive Enterprise Institute, a Washington, D.C., think tank, argues, "The theory behind GATT's managed trade is that by carefully manipulating domestic trade barriers, we can encourage other countries to reduce their trade barriers — giving us a little less free trade at home in return for more free trade worldwide."⁴⁴ But GATT will do nothing to reduce the amount of free trade the United States currently has. And for every member of Congress who opposes the pact because it does mangle textile rules of origin and make U.S. dumping law more protectionist, there are probably 30 opposed to the GATT because it reduces trade barriers.

Most importantly, there is nothing in the GATT mechanism that prevents nations from unilaterally lowering their own trade barriers. The GATT

imposes a ceiling on protectionist actions but no floor on trade deregulation. Many nations already have tariffs far below their permitted levels. For example:

- Under previous GATTs, Australia was entitled to charge an average tariff of 20 percent; thanks to some courageous politicians, its current tariffs average only 10 percent.⁴⁵
- Iceland was entitled to levy an average tariff of 18.2 percent; its current average tariff is 5.4 percent.⁴⁶
- Japan is entitled to levy an average tariff of 3.9 percent; its actual average tariff is 1.9 percent.⁴⁷

Another concern of free trade GATT critics is the Clinton administration's proposal to add labor and environmental provisions to the WTO's litany of unfair trade practice definitions. On April 14, 1994, Vice President Al Gore spoke to the closing meeting of the Uruguay Round GATT negotiations in Marrakesh, Morocco. Gore stated, "The United States realizes that many countries fear that folding labor standards into the world trade context exposes their exports to potential forms of concealed trade restrictions. The United States will resist any effort to convert the issue of improved labor standards into a form of protectionism."⁴⁸

But any international labor standard would almost certainly be biased against low-income nations, where young teenagers must work or starve. Besides, Gore did not justify trade sanctions against blue jeans sewed by 14-year-old Pakistani girls — at the same time that the U.S. allows 11-year-olds to deliver newspapers at dawn. At a meeting in Geneva a few weeks ago, U.S. government officials who proposed including labor standards in the working agenda of the new WTO were soundly rebuffed. The *Daily Labor Report* recently noted, "The U.S. government and organized labor found themselves effectively isolated when the International Labor Organization governing body debated November 14 the question of embodying international labor standards in the future WTO. Apart from France and to a lesser degree Germany, other governments did not side with the United States in the debate"⁴⁹ Gore's proposal to consider environmental standards in GATT rulings also has been rejected by most other nations.

In looking at the grim realities of American politics, one is reminded of an observation Georgia Governor Lester Maddox made in the 1960s. Maddox, when confronted with evidence of the pathetic living conditions in Georgia prisons, blamed the problem on the low quality of prisoners the state had. Similarly, a big problem with American trade policies is the low intellectual caliber of many American politicians. At present, the only way to dismantle U.S. trade barriers is to sign disingenuous treaties with foreign governments, in which each nation promises to lower its trade barriers. We wish that more politicians were wise enough to support trade liberalization as stark national economic self-interest. Since they are not, such liberalization must come wrapped in international agreements.

"There is concern about the administration's proposal to add labor and environmental provisions to unfair trade practice definitions."

The GATT's passage in the United States is far more likely now that Clinton has dropped his demand for extended fast-track negotiating authority. Such authority can be an asset in the right hands, allowing a president to negotiate future trade liberalization pacts. But Clinton's and trade representative Mickey Kantor's are not the right hands.

Besides, the GATT package is much less of a protectionist danger now that the Republicans have control of both houses of Congress. In a historic reversal, the Republican Party is now far less protectionist than the Democratic Party. Congressional expert Tom Miller, who compiles an annual index of votes on trade for the Competitive Enterprise Institute, notes that:⁵⁰

- Since 1985, Republican senators have been more than twice as likely to vote for free trade or trade liberalization measures as have Democratic senators.
- A similar pattern exists in the House of Representatives.

The Ultimate Goal: Unilateral Trade Disarmament

For too long, American policymakers have hoarded U.S. trade barriers like some philosopher's stone from which national wealth and international competitiveness might emerge. Instead, U.S. trade barriers are fool's gold with just enough glimmer to allow special interests to distract everyone else. Politicians have long spoken of trade barriers as if they were bargaining chips that could entice foreign governments to lower their trade barriers. Once the GATT is enacted, U.S. trade barriers will lose the value they may have had as bargaining chips and their economic irrationality will become much more stark.

After the GATT is enacted, the U.S. Congress can promptly repeal the U.S. dumping law, speed the phase-out of U.S. textile import quotas and abolish or speed up the phase-out of remaining U.S. tariffs.

While many American politicians still demand trade barriers, foreign politicians are unilaterally dismantling their barriers. In Mexico, between 1985 and 1987, the maximum tariff fell from 100 percent to 20 percent and the average tariff from 23 percent to 10 percent.⁵¹ In 1986, Kenya reduced many of its tariffs to 0.0.⁵² New Zealand announced a plan to slash its tariffs, most of which will be 10 percent or lower by 1996.⁵³ The International Monetary Fund recently noted, "Many Latin America countries had very restrictive tariff regimes in the 1980s but were able to modify their regimes rapidly in the late 1980s and early 1990s."⁵⁴ Even Ethiopia is part of the tariff-slashing trend.

Some in the United States claim that unilateral reduction of tariffs is similar to unilateral disarmament. This analogy is misleading. U.S. missiles and the military have helped preserve our national independence; U.S. trade barriers have weakened our competitiveness and lowered our living standards. A better analogy would be to the unilateral defusing of old bombs scattered across our industrial landscape.

"Many foreign politicians are unilaterally dismantling their own trade barriers."

"The best way to fight foreign unfair trade practices is to maximize American productivity."

The best way to fight foreign unfair trade practices is to maximize American productivity. Senator John Taylor wrote in 1822, "The most efficacious mode of defeating foreign restrictions to which we can resort, would be to establish a really free commerce, which would enlist the merchants of all nations to evade and counteract them."⁵⁵ In 1849, Sir Robert Peel declared, "The only way of fighting hostile tariffs is by free imports."⁵⁶ There is not a single existing trade barrier that has done the U.S. economy more good than harm, raised the American standard of living or boosted American productivity.

Of course simultaneous liberalization by the U.S. and our trading partners would be most advantageous. But unilaterally adopting free trade now will benefit us far more than multilaterally adopting it 10, 20 or 30 years from now. It is illogical to say that imports of Japanese semiconductors are beneficial to American computer makers only if Japanese consumers buy more American rice. There is no metaphysical connection between the two. The construct exists only in the political imagination, and it holds our most dynamic industries hostage to our least competitive ones.

The case against unilateral free trade is simply the case against unilateral betterment. The simple act of ending trade warfare would stimulate the self-reliance of American corporations. Once they knew that they could no longer run to Washington for a border-closing bailout, productivity would increase. Former U.S. trade representative Clayton Yeutter commented in a 1986 speech to the Semiconductor Industry Association, "We joked in Washington that many of you were becoming permanent features at [our offices] during the innumerable days and nights of semiconductor talks with the Japanese."⁵⁷ If U.S. semiconductor makers spent more time in Silicon Valley and less in Washington, we would have a stronger chip industry. And if all of our companies hired fewer lawyers and lobbyists and more engineers, scientists and designers, they could produce better products at lower prices.

Protectionists warn that adoption of unilateral free trade would devastate American employment. In reality, it would likely have less impact on employment than a major recession. Agriculture — the most protected U.S. industry — could employ more people if federal farm subsidies were abolished.⁵⁸ And, as economists Leland Yeager and David Tuerck note, "The pains of adjustment would not be due to free trade, as such, but to having adopted protection in the first place."⁵⁹

Every trade barrier seeks to redirect capital and labor from relatively more productive to relatively less productive uses. Early American protectionists realized this principle and justified it by insisting that protection would be only temporary. After 200 years of protection for sugar and textiles and over a century for steel, we should call time.

Protectionism is a form of economic censorship. Protectionism seeks to obscure the fact that certain sectors of the American economy are not

competitive. As analyst Sheldon Richman observes, "Protectionism is an attack on the price system per se and its communications function, since the prices set by the market are overridden, distorted, falsified by bureaucrats with a political agenda."⁶⁰

Conclusion

Every decrease in trade barriers means an increase in individuals' sovereignty over their own lives. We as American citizens will have more sovereignty over our lives if American politicians have less power over our economic choices.

The issue is not the U.S. government versus World Government but more versus less government. By reducing trade barriers, the GATT will decrease the power of politicians and bureaucrats over private citizens. Trade is a symbol of economic opportunity. Though GATT has blemishes, it will result in more economic opportunity for the citizens of the world.

It is understandable that some free traders are skeptical of a trade agreement championed by once-protectionist politicians. Free traders should monitor the agreement and remain poised to force U.S. withdrawal if the WTO becomes a parody of itself. Further, free traders must redouble the effort to convince all Americans that trade barriers are anathema to American energy and freedom.

The great challenge of the 1990s is to limit government power and restore our sovereignty over our own lives. The GATT and the WTO are steps in the right direction.

James Bovard

"The issue is not the U.S. government versus World Government, but more versus less government."

James Bovard is the author of The Fair Trade Fraud (New York: St. Martin's Press, 1991) and Lost Rights: The Destruction of American Liberty (New York: St. Martin's Press, 1994).

NOTE: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any bill before Congress.

Notes

- ¹ For further information, see James Bovard, *The Fair Trade Fraud* (New York: St. Martin's Press, 1991).
- ² Office of the U.S. Trade Representative, "U.S. Proposal for Uruguay Round Market Access Negotiations," March 1990, p. 416 (tariff line 9108.91.20). The official *Harmonized Tariff Schedule of the United States* does not provide the ad valorem percentage for many tariff categories, listing instead only the kilogram or piece rate. The "U.S. Proposal for Uruguay Round Market Access Negotiations" provides ad valorem rates for all tariff categories. This is a confidential document obtained by the author.
- ³ Ibid., p. 88 (tariff line 2401.30.60).
- ⁴ Office of the U.S. Trade Representative, Trade Policy Staff Committee, Hearing on Uruguay Round Tariff Reduction Proposals, November 1, 1989, pp. 2-237.
- ⁵ Interview with U.S. Customs Service spokesman, October 21, 1990.
- ⁶ U.S. Department of Agriculture, "Handbook on Section 22 Dairy Quotas," p. 10.
- ⁷ Dave Larsons, "The Cost of Import Protection in the United States," U.S. Treasury Department, 1979; cited in Michael Finger, H. Keith Hall and Douglas Nelson, "The Political Economy of Administrative Protectionism," *American Economic Review*, Vol. 72, No. 3, June 1982, p. 453.
- ⁸ David Tarr and Morris Morkre, "Aggregate Cost to the United States of Tariffs and Quotas on Imports," Federal Trade Commission, 1984.
- ⁹ Martin Wolf, "Why Voluntary Export Restraints? An Historical Analysis," *The World Economy*, 12, No. 3, September 1989, p. 284. Wolf was citing a 1984 study by the Trade Policy Research Centre.
- ¹⁰ U.S. Customs Service, *Harmonized Tariff Schedule of the United States 1990* (Washington: Government Printing Office, 1990); and other sources.
- ¹¹ William R. Cline, *The Future of World Trade in Textiles* (Washington, DC: International Economics, 1987), p. 193.
- ¹² Brief of the National Retail Merchants Association, "The Economic Effects of Significant U.S. Import Restraints," filed with the U.S. International Trade Commission, Investigation No. 332-262, April 17, 1989, p. 10.
- ¹³ Estimate of the United States Association of Importers of Textile and Apparel. See Office of the U.S. Trade Representative, Trade Policy Staff Committee, "Statement of United States Association of Importers of Textiles and Apparel on Reduction of Duties and Elimination of Nontariff Measures in the Uruguay Round," October 17, 1989, p.13.
- ¹⁴ *International Trade Policies: The Uruguay Round and Beyond*, Vol. II, Background Papers, International Monetary Fund, November 1994, p. 3.
- ¹⁵ Ibid., p. 8.
- ¹⁶ U.S. General Accounting Office, "Uruguay Round Final Act Should Produce Overall U.S. Economic Gains," July 1994, p. 10.
- ¹⁷ Testimony of U.S. Trade Representative Michael Kantor, Senate Commerce Committee, October 5, 1994.
- ¹⁸ Martin Crutsinger, "Economics Research Group Gives GATT a 'B Plus'," Associated Press, November 1, 1994.
- ¹⁹ Remarks by Treasury Secretary Lloyd Bentsen at the North Atlantic Assembly, Washington, DC, Federal News Service, November 18, 1994.
- ²⁰ "Positive Uruguay Round Assessment Calls for Early Congressional Approval," Institute for International Economics, November 1, 1994.
- ²¹ Testimony of U.S. Trade Representative Michael Kantor, Senate Commerce Committee, June 16, 1994.
- ²² "U.S. Law Will Take Precedence Over Trade Agreement, Kantor Says," *BNA International Environment Daily*, June 20, 1994.
- ²³ Dee Segel, "A Salvo in Connecticut Opens a Struggle Over Trade Agreement," *Hartford Courant*, August 2, 1994.
- ²⁴ Interview with Julius Katz, November 14, 1994.

- 25 James Bovard, *Wall Street Journal*, October 15, 1990.
- 26 Ibid.
- 27 Joe Cobb, "The Real Threat to U.S. Sovereignty," Heritage Lecture No. 497, Heritage Foundation, August 1, 1994.
- 28 Interview with trade official who wished to remain anonymous, November 17, 1994.
- 29 James Bovard, "Threats and Pseudo-Threats to Free Trade," *Wall Street Journal Europe*, September 23, 1994.
- 30 George Gilder, "Chip Sense and Nonsense," *Wall Street Journal*, April 2, 1987.
- 31 *Congressional Record*, April 28, 1987, p. H2586.
- 32 "Export Controls," *USA Today*, July 22, 1994.
- 33 Thomas W. Hertel, Robert L. Thompson and Marinos E. Tsigas, "Economy Side-Effects of Unilateral Trade and Policy Liberalization in U.S. Agriculture," paper prepared for the Global Agricultural Trade Study, May 1988, organized by the Center for International Economics, Canberra, Australia, p. 37.
- 34 Daniel A. Sumner and Julian M. Alston, "Effects of the Tobacco Program: An Analysis of Deregulation," American Enterprise Institute, November, 1984, p. iii.
- 35 James Bovard, *The Farm Fiasco* (San Francisco: ICS Press, 1989), pp. 72, 180ff.
- 36 Andrew Feltenstein, "Agricultural Policy and the U.S. Federal Budget and the Trade Deficit," paper prepared for the Global Agricultural Trade Study, May 1988, organized by the Center for International Economics, Canberra, Australia, p. 2.
- 37 Warren Brookes, "Seven Muffled Baby Bells," *Washington Times*, June 5, 1990.
- 38 *Congressional Record*, June 24, 1994, p. H4993.
- 39 Patrick Buchanan, "Derailing the GATT Global Express," *Washington Times*, September 30, 1994.
- 40 Memorial to the U.S. Congress from the Citizens of Newberry District, South Carolina, Against Increase of Duties on Imports, February 25, 1828. Available in the microfiche collection of the Law Library of the U.S. Library of Congress, Washington, D.C.
- 41 Peter Truell, "Textile Makers Demanding More Protection Threaten Hopes for Seamless U.S. Trade Policy," *Wall Street Journal*, May 16, 1990.
- 42 U.S. Congress, Congressional Budget Office, *How the GATT Affects U.S. Antidumping and Countervailing-Duty Policy* (Washington: Government Printing Office, September 1994), p. ix.
- 43 Interview with Clint Stack, September 21, 1994.
- 44 Robert Stein, "Free Trade or World Government?" *Investor's Business Daily*, August 19, 1994.
- 45 *International Trade Policies: The Uruguay Round and Beyond*, Vol. II, Background Papers, International Monetary Fund, November 1994, p. 3.
- 46 Ibid.
- 47 Ibid.
- 48 Alan Riding, "Gore Insists Environment Is a Trade Issue," *New York Times*, April 15, 1994.
- 49 "U.S. Government, Labor Isolated in Backing Worker Standards in World Trade Organization," *Daily Labor Report*, November 16, 1994, p. d7.
- 50 Interview with Tom Miller, November 18, 1994.
- 51 John Whalley, ed., *The Uruguay Round and Beyond, Final Report from the Ford Foundation-Supported Project on Developing Countries and the Global Trading System* (Ann Arbor: University of Michigan, 1989), p. 34.
- 52 Ibid., p. 35.
- 53 *International Trade Reporter*, April 4, 1990, p. 490.
- 54 *International Trade Policies: The Uruguay Round and Beyond*, Vol. II, Background Papers, International Monetary Fund, November 1994, p. 90.

⁵⁵ John Taylor, *Tyranny Unmasked* (Washington, DC: Davis and Force, 1822), p. 192.

⁵⁶ Sir Louis Mallet, "Reciprocity," *The Cobden Club*, 1879, p. 6.

⁵⁷ U.S. Trade Representative Clayton Yeutter, speech to Semiconductor Industry Association, Santa Clara, CA, September 23, 1986.

⁵⁸ As former U.S. State Department agricultural attache Dennis Avery explains, "Federal farm programs have led to an overcapitalized agriculture with less actual employment than it otherwise would have." Quoted in Bovard, *The Farm Fiasco*, p. 305.

⁵⁹ Leland Yeager and David Tuerck, *Foreign Trade and U.S. Policy* (New York: Praeger, 1976), p. 249.

⁶⁰ Sheldon Richman, "There's No Case for Free Trade (No *Special Case*, That Is)," Washington Legal Foundation, November 1986, p. 27.

About the NCPA

The National Center for Policy Analysis is a nonprofit, nonpartisan research institute, funded exclusively by private contributions. The NCPA originated the concept of the Medical IRA (which has bipartisan support in Congress) and merit pay for school districts (adopted in South Carolina and Texas). Many credit NCPA studies of the Medicare surtax as the main factor leading to the 1989 repeal of the Medicare Catastrophic Coverage Act.

NCPA forecasts show that repeal of the Social Security earnings test would cause no loss of federal revenue, that a capital gains tax cut would increase federal revenue and that the federal government gets virtually all the money back from the current child care tax credit. Its forecasts are an alternative to the forecasts of the Congressional Budget Office and the Joint Committee on Taxation and are frequently used by Republicans and Democrats in Congress. The NCPA also has produced a first-of-its-kind, pro-free enterprise health care task force report, written by 40 representatives of think tanks and research institutes, and a first-of-its-kind, pro-free enterprise environmental task force report, written by 76 representatives of think tanks and research institutes.

The NCPA is the source of numerous discoveries that have been reported in the national news. According to NCPA reports:

- Blacks and other minorities are severely disadvantaged under Social Security, Medicare and other age-based entitlement programs;
- Special taxes on the elderly have destroyed the value of tax-deferred savings (IRAs, employee pensions, etc.) for a large portion of young workers; and
- Man-made food additives, pesticides and airborne pollutants are much less of a health risk than carcinogens that exist naturally in our environment.