Policy Analysis

Cato Institute Policy Analysis No. 143: Why Trade Retaliation Closes Markets and Impoverishes People

November 20, 1990

Jim Powell

Jim Powell is the author of *The Gnomes of Tokyo: Why Foreign Investment Is Good for Us* (Amacom Books, 1989). He has written for the *New York Times*, the *Wall Street Journal, Barron's, Money,* and other publications.

Executive Summary

This analysis challenges the prevailing fashion in U.S. trade policy, the so-called crowbar theory that predicts that foreign markets will open if we close our markets, or at least threaten to. The crowbar theory is enshrined in the "super-301" section of the 1988 trade law.

The primary target now, of course, is Japan. James Fallows, *Atlantic* Washington editor, attracted international attention with a May 1989 article contending that the United States must "contain Japan."[1] Fallows's cold war language, of course, suggested that Japanese companies pose a threat comparable to that of Soviet weapons. He made it clear that Japanese containment called for "outside pressure" from a nation "unchallengeably strong," such as the United States was when it occupied postwar Japan.

In *The Enigma of Japanese Power*, Dutch journalist Karel Van Wolferen insisted that the Japanese play by fundamentally different rules than we do. He concluded that only "therapeutic economic sanctions" are likely to bring significant changes in Japanese trade policy.[2] In *Tradinq Places*, former Commerce Department trade negotiator Clyde V. Prestowitz promoted the idea of "managed" trade: the United States should close its market if Japan does not give us a satisfactory share of its market.[3]

Yet despite frequently repeated claims, it is hard to find a single significant case in which trade retaliation or retaliatory threats have forced open a foreign market. Examination of a large number of recent and historical cases of trade retaliation reveals that when retaliation-related market openings did occur, they were small. In many cases, countries responded to retaliation by further closing their markets--surely the opposite of what crowbar theorists intend. Consequently, the history of trade retaliation looks like a bad investment portfolio: small gains dwarfed by huge losses.

The crowbar theory has backfired so many times that a study of it, like the study of warfare, inevitably becomes a study of failure. Trade retaliation has failed to produce significant market openings for five principal reasons.

First, retaliation tends to inspire nationalism and xenophobia in the target country. "The theory of economic sanctions is that they will cause a split within the leadership and the masses of people," says political scientist Robert Gilpin of Princeton University. "But in almost all cases, it's been the opposite. What you have is really a rally-around-the-flag response in these countries."[4]

Second, retaliation forces a country to reorient its economy toward alternative suppliers and markets. Sometimes that means expanding business with previously unimportant trading partners. The target country may develop brand-new trading partners. It may raise crops or produce goods that other countries want so much that they will disregard retaliatory sanctions. The target country may pay premiums for its imports. One way or another, it is almost sure to get along.

Third, retaliation commonly expands the role of government in the target country, much as warfare does. The target government may increase its use of price controls, import quotas, exchange controls, "administrative guidance," and other restrictions, which become very hard to get rid of because they are defended by local lobbyists. That is why, in more than one case, retaliation has had the presumably unintended consequence of promoting fascism. Thus, retaliation may indeed hurt the people in the target country without helping the country that imposed the sanctions.

Fourth, the "tougher" the sanctions, the more they harm people in the retaliating country. Import restrictions trigger shortages and higher prices for consumers, and export restrictions wipe out business for exporters. Sanctions probably inflict as much harm at home as they do on the target country. That is why tough sanctions are seldom adopted, despite continuing objectionable practices in a target country. When such measures are adopted, they lead to losses, black markets, and corruption.

Fifth, retaliation cannot do anything about the worst cases, nations whose economies are already closed. Since there is little trade with such countries, threats to cut off trade are meaningless.

To be sure, retaliation may inflict considerable harm on a target country with whom a lot of trade is taking place, but such retaliation rarely causes the target country to change its policies. In many cases, people have patriotically endured hardship rather than do the bidding of a hostile foreign government. If Washington prevented American consumers from buying any Japanese products, Japanese companies as well as American consumers would lose, but past experience suggests that it is unlikely that the Japanese government would respond with a significant market opening.

Since the crowbar theory has failed in practice, we should not be surprised to discover that its underlying premises are false. Crowbar theorists assume that it is somehow easier for Washington to get other governments, thousands of miles away, to make significant policy changes than it is to achieve changes, such as abolishing agricultural import restrictions, here at home. Also false is the premise that markets open only when subjected to external pressure such as trade retaliation. That is as false as the ancient delusion that genuine reforms can be imposed by conquest.

As is shown below, significant market openings tend to occur for domestic, not external, reasons, and the precondition is almost always an economic crisis. When enough people in a stagnant, closed society fear falling behind prosperous open-market economies, it becomes politically possible to overcome entrenched interests and abolish border restrictions. Equally important, there must be prosperous open-market economies in the world--standard-bearers if you will--so people in closed societies can see for themselves that they will really be better off after they go through the short-term pain of allowing long-protected, backward enterprises to close and make their resources available to new entrepreneurs.

The most dramatic way we can promote more open markets abroad is to unilaterally repeal our own border restrictions. Although that is a formidable task, it is far more likely to succeed than is a policy of bludgeoning foreigners thousands of miles away. By repealing our border restrictions, we will make it possible for our people to get what they need more easily and cheaply. Companies will become more competitive, and living standards will go up. We will provide a much-needed affirmation that peaceful contact with the outside world is perhaps the most powerful, persistent stimulus for human progress.

Recent Failures of the Crowbar Theory

Despite President Ronald Reagan's free-trade speeches, the portion of U.S. trade subject to U.S. nontariff barriers is estimated to have increased more than 50 percent since 1980.[5] Import quotas were applied to more kinds of textiles and steel. The United States pressured trading partners to impose "voluntary" export restraints on automobiles, machine tools, and semiconductor memories. The number of anti-dumping orders more than doubled.[6] Washington maintained traditionally high tariffs on many products and continued to enforce marketing orders on a wide range of agricultural commodities.

According to the crowbar theory, such market closings should have harmed trading partners enough to cause them to "get serious" with U.S. trade negotiators and agree to liberalize their policies. But that has not happened. Many major countries have either maintained their trade barriers or added new ones.

Closing the U.S. market certainly has not forced open the world's most closed markets, such as China's. Since September 1988, China has expanded governmental control of the distribution of industrials and the allocation of credit, foreign investment, and trade. China maintains a maze of tariffs that go as high as 200 percent. It has expanded the use of licensing schemes to restrict imports. Banned outright is importation of about 80 categories of products including computers, television sets, video cassette recorders, and fiber optic cables.[7]

Similarly, many large noncommunist countries remain substantially closed. For example, the average Indian tariff is 118 percent; a modest liberalization begun by Prime Minister Rajiv Gandhi ground to a halt in 1986.[8] In Africa, brutal dictators continue to enforce autarky. Nigeria, for example, maintains 200 percent tariffs on some products and import bans on agricultural commodities such as wheat, corn, barley, and rice.[9] Taxes, regulations, corruption, and murderous rulers have virtually cut the continent off from the outside world.[10]

The European Community has imposed at least as many new trade restrictions as has the United States. According to economist Patrick A. Messerlin of the World Bank, EC members, too, have resorted to voluntary export agreements. They have increased their use of local content laws. Import quotas, outright bans, and discriminatory taxes remain in place.[11] The United States and the European Community are waging a trade war over agricultural subsidies that cost taxpayers on both sides of the Atlantic about $50 billion annually, and there is no end in sight.[12]

Moreover, the European Community has responded to U.S. pressure by expanding its own retaliatory measures. In September 1984 it adopted Council Regulation 264184 "on the strengthening of the common commercial policy in particular to protection against illicit commercial practices."[13] Just as the U.S. trade representative now issues an annual National Trade Estimate Report on Foreign Trade Barriers, the European Community issues an annual list of complaints against U.S. trade barriers as a basis for retaliation. Its 1989 list runs 41 pages and covers the gamut from customs procedures to import quotas, testing standards, "buy American" laws, export subsidies, investment restrictions, and tax policies.[14] That report is the basis for possible future action against the United States.

A particularly conspicuous failure of the crowbar theory has involved anti-dumping duties, import penalties aimed at preventing importers from discounting, whether intentionally or because of fluctuating foreign exchange rates. A decade ago, anti-dumping duties were resorted to primarily by the United States, the European Community, Australia, and Canada. U.S. anti-dumping regulations explicitly instruct administrators to protect domestic producers, which means in practice that a decision cannot be based on the interests of industrial users or individual consumers. Duties are often high enough--as much as 259 percent[15]--to wipe out all import volume of the targeted products. The European Community has demonstrated the great resourcefulness with which anti-dumping duties can be deployed, striking not only at products made in Japan but also at products made by Americans at Japanese subsidiaries.

Having been hit many times with anti-dumping duties, other countries retaliated by enacting their own anti-dumping laws. Now 25 countries in addition to the 12 members of the European Community have anti-dumping laws, and they can be even more arbitrary than the laws of the industrialized nations.[16] For example, importers may be subject to anti-dumping duties without due process or even any formal notice.[17]

All that seems to have surprised Western policymakers, because anti-dumping penalties were conceived as a more or less exclusive deal for their producers. Instead, those penalties have backfired by victimizing their exporters. U.S. officials are complaining bitterly about the unintended consequences.

Section 301 Cases

When a U.S. company or trade association or the U.S. trade representative wishes to take action against restrictions in a foreign market, he can initiate a case under section 301 of the U.S. trade law. Some cases have been resolved through negotiation. Others have resulted in 100 percent retaliatory tariffs being slapped on imports from the offending country. The 1988 amendments, which include the so-called super-301 provision, have resulted in more cases being filed and increased the likelihood of retaliation.

Past cases have done little to force open foreign markets. And the results are not likely to get much better, because most section 301 cases involve very few U.S. exporters.

From 1975 through March 1990 there were 79 section 301 cases filed. The most striking thing is how small and narrow such cases tend to be. They involve, for example, subsidies to European malt exporters,[18] Canadian egg import quotas,[19] and Swiss standards for measuring the amount of gold in eyeglass frames.[20] Individual section 301 disputes do not involve a significant portion of U.S. trade with any country.

There are only 13 cases of an apparently clear-cut market opening in response to U.S. action under section 301. [21] For example, in 1976 the European Community agreed to drop a requirement that cattle feed be mixed with its surplus non-fat dry milk; that move was intended to help U.S. soybean processors. The same year, after the United States retaliated against pasta from the European Community, it agreed to lower its tariffs on citrus products, peanuts, and some other agricultural products. In 1986 Taiwan agreed to end restrictions on the sale of U.S. beer. In 1987 the California Almond Growers Exchange filed a 301 petition against India, and India agreed to create a separate import quota for almonds, supposedly to yield improved market access.

The biggest success of retaliatory threats has been in the Japanese cigarette market. After 14 years of negotiations, the Japanese government abolished the remaining cigarette tariffs in 1987, and the U.S. market share tripled, but gains in the Japanese cigarette market are less than 2 percent of U.S. exports to Japan. Even that figure overstates the gains, because the Japanese cigarette market is flat. The more U.S. cigarettes sold in Japan, the less U.S. leaf tobacco the Japanese need for their own cigarette-manufacturing operations.[22] Meanwhile, many Americans wince at the thought that U.S. trade policy promotes overseas sale of carcinogenic substances that are increasingly restricted at home--by, among other things, import duties higher than those in Japan.[23]

In 1988, addressing what then-U.S. trade representative Clayton Yeutter described as "one of our most controversial bilateral disputes,"[24] Japan agreed to liberalize its beef import restrictions, which consisted of stringent quotas plus 25 percent tariffs. The quotas have been expanded since then, and in April 1991 they are scheduled to be converted to 70 percent tariffs that will be reduced to 50 percent by 1993; the Japanese have agreed to discuss subsequent tariff reductions. Since the agreement was signed, U.S. beef exports have increased almost 20 percent to more than $1 billion in 1989. But Australian beef is about a third cheaper than U.S. beef, so there has been a surge of Australian orders. McDonald's of Japan, for example, buys its beef from Australia. Moreover, Japanese beef is fed primarily on U.S. grain, with the result that increased exports of U.S. beef have cut into U.S. exports of grain--in which, ironically, American farmers have a greater comparative advantage.[25]

Other section 301 cases have yielded smaller gains. For example, in 1988 there was a well-publicized trade dispute about citrus fruits. Japan agreed to liberalize citrus import restrictions. Import quotas on fresh oranges were expanded and should be abolished in 1991, though the 20 percent (in-season) to 40 percent (out-of-season) tariffs will remain. While U.S. exports of fresh oranges to Japan have increased 6.5 percent since the agreement was signed in 1988, they are up less than 1 percent compared with the previous year, 1987. By 1989 U. S . growers were shipping only about $83 million in fresh oranges to Japan. The volumes of frozen concentrated orange juice are even smaller.[26]

Sometimes the U.S. trade representative has helped negotiate a market opening in Japan, only to see U.S. companies serve a smaller share of the market. For example, in December 1985, Japanese officials relaxed restrictions in their nonrubber footwear market; the U.S. share fell from 6. 5 percent to 4.5 percent by 1987.[27] After NTT, the telecommunications giant, began buying some components from foreign suppliers in 1983, the U.S. share again declined.[28]

The nine section 301 cases against South Korea have yielded similarly modest results.[29] They have involved thrown silk, insurance, nonrubber footwear, steel wire, beef, wine, and intellectual property rights--a small portion of total trade between the two countries. It is unclear, however, to what extent those issues have been resolved. There has been a tendency for Korean officials to proceed with liberalization, only to report later that they encountered formidable opposition from domestic interests that stalled the process.[30]

On occasion, South Korean market openings for U.S. exports have been offset by new restrictions on imports from other countries, especially Japan. The rationale has been that such restrictions would reduce Korea's trade surpluses with the United States and trade deficits with Japan. Thus, slight gains achieved by the U.S. trade representative do not mean that the Korean market is more open overall.[31]

Since retaliation ultimately means high tariffs, the consequence is higher prices for American consumers. For example, in 1981 the National Tanners' Council filed a petition charging that Argentina imposed unreasonable restrictions on the hide trade; Argentina apparently refused to change its policies, and the case was closed when President Reagan ordered that U.S. tariffs on leather imports be increased.[32] Responding to a 1982 petition from the Footwear Industries of America, Reagan increased tariffs on Japanese leather and leather goods.[33] In 1985 the United States negotiated the Canned Fruit Agreement that specified that European subsidies would be reduced for canned peaches, pears, and other fruit, which means higher prices for American consumers.[34] After the Pharmaceutical Manufacturers Association filed a section 301 petition in 1988, alleging that Brazil provided inadequate protection for pharmaceutical patents, Reagan imposed 100 percent tariffs on Brazilian paper products, pharmaceuticals, and consumer electronics.[35] After the European Community banned U.S. hormone-fed beef, Reagan slapped 100 percent retaliatory tariffs on European tomatoes, tomato sauce, instant coffee, boneless beef, fruit juices, and pet food, effective January 1, 1989.[36]

Sometimes the U.S. trade representative harms American companies. In 1978 U.S. broadcasters complained that Canada disallowed tax deductions for advertising on U.S.-owned stations. The United States retaliated by disallowing tax deductions for advertising on Canadian-owned stations, thus making it more difficult for U.S. companies to advertise in the Canadian market.[37] In 1982 the Tool and Stainless Steel Industry Committee filed a petition against European steel subsidies; President Reagan ordered higher steel tariffs and more restrictive import quotas, thereby harming American manufacturers that needed competitively priced steel to make their products.[38] In 1986 the U.S. trade representative pressured Canada to start charging a 15 percent tax on softwood lumber exported to the United States, offsetting Canadian subsidies that had benefited U.S. companies that use lumber.[39]

The widely publicized Japanese semiconductor case back-fired. In September 1986 the United States pressured the Japanese government to sign an agreement intended to stop Japanese "dumping" of dynamic random-access semiconductor memories. The U.S. Department of Commerce and the Japanese Ministry of International Trade and Industry (MITI) demanded that Japanese companies charge higher prices for DRAMs in the United States than in Japan. Those policies contributed to the subsequent quadrupling of DRAM prices, which helped the two U.S. DRAM suppliers (Micron Technology and Texas Instruments), enriched the Japanese semiconductor producers, and dealt a serious blow to American computer companies whose feature-rich, memory-intensive products are their best hope for competing with overseas "clones".[40]

Kenichi Ohmae, managing director of McKinsey & Company's Tokyo office, observed that U.S. retaliatory policy has had the paradoxical effect of encouraging Japanese companies to continue the very practices that led to the semiconductor case.

Each of the major Japanese semiconductor producers made three to four times the investment in new capacity warranted by growth in demand during the early 1980s. Each reasoned that if anyone got hurt, it would be the other guy. When orders failed to keep pace, each naturally cut prices to keep its own factories going. The rapid erosion of prices knocked many American and European producers out of the industry entirely. Negotiations with the Ministry of International Trade and Industry then set a floor under prices, which effectively saved Japanese semiconductor producers from their own folly. In effect, the two governments created a cartel that guaranteed Japanese producers an adequate price no matter how destructive their investment decisions had been.[41]

In 1989 McKinsey & Company estimated that during the previous year there had been $2 billion in worldwide profits in the DRAM market; only about 5 percent of those profits were earned by U.S. producers, whereas about 50 percent were paid by U.S. DRAM users.[42]

As a market opener, the semiconductor agreement has been a flop. According to the Semiconductor Industry Association, the U.S. DRAM market share in Japan hardly changed at all. In April 1987 President Reagan imposed 100 percent retaliatory tariffs on about $300 million in Japanese power tools, laptop computers, and other imports. Yet by May 1990 the U.S. share of the Japanese market had inched up to only 12.6 percent, compared with 9 percent when the agreement was signed and 14 percent a decade ago.[43]

During the first three months of 1990 the Tokyo stock market and the yen plunged about 30 percent, and alarmed Japanese policymakers hastened to avoid further crisis by reaching a series of trade agreements with the United States. But none of the agreements, announced in April, appeared to be significant.

- An agreement for the Japanese to buy U.S. satellites could benefit only three companies that produce satellites, Hughes, Ford, and General Electric. It is quite possible that any sales of U.S. satellites to Japan may be offset by Japanese sales of satellites to the United States.[44]

- An agreement to promote Japanese government purchases of U.S. supercomputers would benefit only one company, Cray. At the same time, it would be difficult for the U.S. government, with a straight face, to continue its policy of refusing to buy Japanese supercomputers. So any U.S. supercomputer sales in Japan may be offset by Japanese supercomputer sales in the United States.[45]

- An agreement to open the Japanese construction market may mean more business for U.S. construction design firms, but Japanese buildings will continue to be built by workers who speak Japanese and understand Japanese ways, just as U.S. workers predominate on U.S. construction sites where Japanese firms have a presence.[46] At least one U.S. construction engineering firm, Houston-based Brown & Root, gave up its construction license because it was not satisfied with profit margins on Japanese projects.[47]

- An agreement to lower Japanese tariffs on value-added U.S. wood products will have little effect. During 1989, for example, U.S. producers sold only about $4 million in plywood to Japanese customers; increase that 100-fold, and sales would still be a small part of total U.S. exports to Japan. A related agreement to lower tariffs on other wood products will be more significant, but it is to be implemented through the General Agreements on Tariffs and Trade, probably over many years.[48]

To avert a possible action under section 301, Japanese prime minister Toshiki Kaifu agreed at the July 1990 Houston economic summit that his government would discuss phasing out import restrictions on rice. But here again, the stakes for the United States are relatively small. The Agriculture Department estimated the total U.S. rice crop at a little over $1 billion in 1988, ranking it behind beef, pork, milk, corn, soybeans, hay, poultry, wheat, cotton, eggs, tobacco, potatoes, sorghum, grapes, tomatoes, oranges, apples, and lettuce. U.S. farmers accounted for 1.3 percent of world rice production, compared with 41 percent of wheat, 72 percent of soy-beans, and 78 percent of corn.[49]

Only about 28 percent of U.S. rice production--400,000 metric tons--are the medium- and short-grained, fully milled, Grade 1 Japonica variety preferred in Japan. Most comes from California. Now about half is sold in Turkey, but if every last grain went to Japan, the annual sales volume would be only about $130 million. It would be a tiny part of the market, considering that Japanese farmers annually produce over 1O million metric tons of rice.[50]

As do Japanese farmers, U.S. rice farmers enjoy a variety of government subsidies. Among the most important subsidies are price supports and payments for taking crop land out of production. So much for any moral claims against Japan.

Structural Impediments Initiative

In July 1989, frustrated by the meager results of industry-by-industry negotiations, the U.S. trade representative proposed what came to be called the Structural Impediments Initiative. That initiative was aimed at changing some of Japan's basic economic policies and ultimately reducing the U.S. trade deficit with Japan. By July 1990 negotiations had resulted in the Joint Report of the U.S.-Japan Workinq Group on the Structural Impediments Initiative. It contained what were billed as significant "concessions" by the Japanese, but as in the past, they appear to be small.

- An agreement was reached to review tax policies that favor agriculture over new construction, especially housing, in urban areas. It is unrealistic to expect any rapid changes, since the consequences of eliminating agricultural tax breaks would be to significantly increase the amount of land available for new construction, to depress the value of existing properties, and to adversely affect banks and securities firms that have extended loans secured by real estate.[51]

- An agreement to liberalize Japan's large retail store law will benefit mainly Japanese department stores and other aggressive retailers by making it easier for them to open new outlets. Although those stores would be in a better position to stock imported products, most imports would probably come from South Korea, Hong Kong, and other Pacific Basin suppliers, rather than more distant U.S. companies. The agreement does not prevent local governments--that are responsible for a third of retail regulations--from enacting their equivalent of the large retail store law.[52]

- An agreement was made to reduce the time it takes to get a Japanese patent from an average of 37 to 24 months during the next five years. But that is not the only problem U.S. firms have with the Japanese patent process.[53]

- An agreement was reached to spend 430 trillion yen ($2.7 trillion at current exchange rates) on roads, bridges, and other infrastructure projects during the next 10 years. However, it is difficult to see how the Japanese will do that, because of their severe labor shortage. There are an estimated 125 jobs for every 100 applicants in Japan. Some employers are so desperate for help that they offer a wide variety of bonuses, including free trips to Hawaii. Meanwhile, Japanese companies are funding high levels of investment in automation, so they can conduct their business with a minimum number of people.[54]

- An agreement to step up enforcement of Japanese antitrust laws would restrict collusion believed to exclude foreign suppliers. Ironically though, when in June 1990 the Fair Trade Commission, Japan's antitrust enforcement agency, began cracking down, targets included subsidiaries of U.S. companies such as Mars Inc. and Apple Computer.[55]

If those measures were carried out and helped Japan become more competitive and efficient, more American lobbyists would descend on Washington to demand protection, which surely was not the point of the whole exercise.

The odds, however, are that the Structural Impediments Initiative will have little impact. Implementing it will require legislation, but the Liberal Democratic party, with whose leaders the United States reached the agreements, does not control the upper house of the Japanese Diet. Even if the agreements gain approval, most changes will occur over many years.

Moreover, while the Structural Impediments Initiative purported to be a two-way deal, the United States did not really promise anything. The Joint Report stated that "top budget priorities are to eliminate the Federal budget deficit," but there was no real promise. Of course, any promise would have invited skepticism, since presidential candidates have promised to eliminate the budget deficit many times before, only to see it worsen. The administration pledged its "best efforts" to achieve such budget reforms as a stronger Gramm-Rudman-Hollings budget law, a line-item veto, biennial budgeting, and restrictions on supplementary appropriations--all of which have encountered formidable resistance in Congress.[56]

In similar fashion, the Joint Report listed a number of other objectives without U.S. commitment--a controversial cut in the capital gains tax, for example. The Joint Report talked about the federal government's spending more money on education, though the United States already spends more than any other country in the world, with deplorable results. The Joint Report mentioned steel and machine tool import restrictions due to expire within the next two years but did not promise that they would end; in the past, after political wrangling, they have been extended. More to the point, the Joint Report did not mention the hundreds of other U.S. import restrictions.[57] The United States has not promised to do anything, so it is hard to see how politicians can maintain a straight face and demand that the Japanese be held to the fire if, as seems probable, the Structural Impediments Iniative proves disappointing.

In any case, since the point of the Structural Impediments Initiative is to reduce the U.S. trade deficit, it is a mirage. Trade balances, after all, reveal little about economic health. The United States and Britain had trade deficits throughout the 19th century, when both became economic powerhouses.[58] The United States had a trade surplus during the Great Depression.[59] After World War II, the biggest trade deficits were registered by Japan and West Germany when they were rebuilding.[60] In the 1980s the United States racked up enormous trade deficits and created more jobs than Japan and Europe combined.[61] These days, trade surpluses are reported by basket-case economies such as those of many Latin American nations.[62]

Moreover, there are those who believe that the United States does not really have a trade deficit. For example, DeAnne Julius, chief economist at Royal Dutch Shell, analyzed imports and exports according to who actually did the buying and selling. She discovered that a third of U.S. exports were purchased by foreign subsidiaries of U.S. companies and a fifth of U.S. imports came from those subsidiaries. Overall, she estimated that worldwide in 1986 U.S. companies sold $57 billion more to non-U.S. companies than non-U.S. companies sold to U.S. companies. But by conventional measures, in 1986 the United States had a $144 billion trade deficit.[63]

McKinsey & Company's Kenichi Ohmae came to similar conclusions after comparing exports by U.S. companies to Japanese customers plus sales by U.S. subsidiaries in Japan with exports by Japanese companies to U.S. customers plus sales by Japanese subsidiaries in the United States.[64]

Finally, it is hardly in keeping with America principles to have Washington promote bigger government anywhere, including Japan, by advocating increased public works spending.

Cartels or Retaliation?

Abundant experience suggests that the most likely outcome of continued U.S. high-pressure tactics will not be significant market openings. On the contrary, the best bet is market closings via cartels or counterretaliation.

Recent U.S. trade restrictions have had the perverse effect of promoting cartels in many countries. Third World economies, for example, are targeted by U.S.-engineered voluntary textile export restrictions. "Every government subject to U.S. pressure," reported Jimmy Wheeler, an economist with the Hudson Institute, "has had to establish a complex export licensing system which requires a bureaucracy to administer. This includes free-trade Hong Kong. The bureaucracies decide who gets which licenses. As you might expect, such schemes tend to breed a lot of corruption. The restrictions lock in established producers and make it difficult for new entrepreneurs, foreign as well as domestic, to enter the market."[65]

In 1980 when U.S. officials started demanding that the Japanese government adopt voluntary export restrictions in

1981, its influence on business was diminishing. Traditionally, the Japanese government had provided companies with cheap capital. As long as Japanese companies were heavily in debt, they were obliged to follow the government's administrative guidance. But by the 1980s, many Japanese companies were cash rich. Toyota amassed so much money that it became known as the "Bank of Toyota." More and more companies went their own way.

It is ironic that the United States wanted voluntary export restrictions on automobiles, because the Japanese government had had little to do with that industry since its embarrassing failure to drive small producers like Honda out of business during the 1960s. When, in 1980, the United States pressured Japan to restrict automobile exports, there was no official mechanism for doing so. A mechanism had to be set up by MITI, which was criticized in the United States for its industrial policies. MITI monitored Japanese automobile production and by administrative guidance allocated export quotas to the United States among the nine producers. Thus, ironically, MITI expanded at the request of the United States. As is the case with most government bureaucracies, it has gained more power over the years.[66]

Meanwhile, the more Japanese officials give in to U.S. demands, the greater the risk of a backlash. Even though liberalizing Japanese trade restrictions would benefit mainly Japanese consumers, the policy becomes identified with U.S. pressure. Many Japanese resent it, just as many Americans resent Japanese officials who scold American politicians for their profligacy.

Outraged at U.S. pressure to open agricultural markets, Japanese farmers--who, like U.S. farmers, are politically powerful--revolted against the Liberal Democratic party and supported the Socialist party, long a promoter of protectionist policies; now the Socialist party controls the upper house of Japan's Diet, and because of Japan's electoral system, it is almost sure to maintain control for at least another six years. Right-wing politicians are promoting a more aggressive brand of nationalism. Witness the popularity of Shintaro Ishihara and Akio Morita's incendiary polemic, A Japan That Can Say No, that talks about going it alone on national defense and defying what it asserts is a racist U.S. trade policy.[67]

Japan might counterretaliate by shifting purchases of agricultural commodities to other suppliers. "There is not a single American-grown product," wrote management consultant Peter Drucker, "that Japan could not get elsewhere at the same, or lower, price. So far, it has been buying from the U.S. in order to protect its exports to America. But in the next few years Japan will be sorely tempted to use the bait of farm purchases in bargaining with the European Community--and the EC is desperate to find markets for its growing farm surpluses and more than willing to subsidize farm exports."[68]

Japanese investors could also divert capital flows from the United States to other markets. While they prefer the United States, it is not their only alternative. Japanese investors have poured over $70 billion into more than 30 countries. Japanese investment is growing fastest in East Asia. It is not difficult to imagine more Japanese capital being invested at home.[69]

U.S. pressure could very well backfire in other ways. An example is the FSX deal under which Japan is to build military aircraft and supposedly give General Dynamics and other U.S. firms about 40 percent of the work. Relentless U.S. pressure to renegotiate the already favorable terms has provoked anger. There is widespread support for kokusan--making defense systems in Japan. It is quite possible that future military contracts will cut out U.S. firms altogether.[70]

Biggest Losers

Impatient with endless trade negotiations, crowbar theorists relentlessly urge tough retaliation against Japan and other trading partners. But as the previously discussed cases suggest, the tougher the retaliation, the more harm done to Americans. That is undoubtedly the major reason U.S. officials are reluctant to retaliate.

U.S. restrictions prevent Americans from taking advantage of lower costs, better quality, greater convenience, and other benefits that may be available from overseas suppliers. Consequently, foreigners gain important advantages, because they are not hampered by our restrictions that undermine the competitiveness of our companies and destroy our jobs. U.S. trade restrictions make it more difficult for foreigners to earn the revenues they need to buy American exports, which is why restrictions lower both exports and imports.

When the U.S. trade representative has solicited comments about proposed retaliatory targets, plenty of witnesses have stepped forward to testify that they would be harmed. Such witnesses deserve at least as much consideration as those who expect to benefit from trade retaliation.

Take, for example, the semiconductor case. On April 3, 1987, Gerber Products vice president J. Marvin Piziali wrote a key supplier, Roger Souba of Douglas International:

I was amazed, as you must be, to learn that the 100% duties recently announced on several imported Japanese products included the small D.C. motors you supply to Gerber Products Company's Hankscraft Division. This is terribly alarming, because the duties are supposed to protect domestic industries that compete with the Japanese firms, and as you fully realize, there are no domestic U.S. companies that manufacture this type of motor. With no competitive motor available, a 100% increase in the cost of the Japanese motor will result in a drastic curtailment of the motion display business. This curtailment will eventually lead to the loss of 80-100 jobs at the Hankscraft Division's Reedsburg, Wisconsin, plant.[71]

Data General of Westboro, Massachusetts, reported that it would be hurt by retaliation against Japanese laptop computers. The company owned an 85 percent interest in Nippon-Data General Corporation, which manufactured the Data General One laptop. "To impose duties on this product," the company noted in its statement to the U.S. trade representative, would effectively eliminate it from the U.S. and other markets and cause loss of revenues and jobs in the U.S. and in Japan. Layoffs in Japan, as you know, are culturally unacceptable. Data General has worked for almost 15 years to build a presence in Japan as a good citizen. For us to lay off Japanese workers would destroy much of what we have accomplished. Our only alternative in this case would be to transfer the manufacture of larger computer systems to Japan to take up the slack of lost work caused by the proposed duties. This action is clearly not in the best interests of the United States.[72]

Those views are typical. The U.S. trade representative received more than 500 written replies to its list of proposed retaliatory targets, of which about 470 were opposed to one or more items. At hearings on April 13, 1987, 63 of 68 witnesses explained how they would be harmed by retaliation against proposed targets.[73]

Responses were similar after the U.S. trade representative announced a list of proposed retaliatory targets in the case Motorola initiated against Japan, because of restrictions in its cellular telephone market. One of the proposed targets was a Japanese-made 5990 arithmetic and logical unit for computers. At the May 24, 1989, hearings, Jack Lewis, chairman of Amdahl Corporation, testified, "If the 5990 sub-assemblies for these multiprocessors are swept into the retaliation process, our 5990 line would be endangered."[74] Brian Merriman, executive vice president of Savin Corporation, said: "Savin has invested millions in research and development dollars in developing technology which is utilized by many in the photocopy industry. The proposed restrictions and duties will make it impossible for Savin to recoup its investment by selling the machines containing its technology, because the machines are manufactured in Japan; the proposed restrictions and duties will sharply increase consumer prices and severely impact Savin's dealer distribution network through loss of jobs."[75] Edwin B. Spievack, president of the North American Telecommunications Association, noted that with retaliation, "the American consumer and American businesses--many of them small businesses--will be forced to bear penalties greater than those Japan may experience."[76]

Texas Instruments is among many companies that attempt to play the trade retaliation game both ways. The company supports trade retaliation when it expects to benefit, but in the Motorola case, the company opposed retaliation against imports that it needed.[77] Vice President Elmer L. Elkins wrote the U.S. trade representative:

Equipment for the "projection of circuit patterns on sensitized semiconductor materials" (known in the industry as "steppers") is essential to the manufacture of DRAMs as well as other advanced semiconductor ICs [integrated circuits]. Although U.S. suppliers of steppers exist, their steppers lack certain precision features and other advanced technical characteristics of Japanese steppers--features and characteristics we need to remain competitive in state-of-the-art and next-generation ICs.[78]

Executives at Texas Instruments do not want to be hurt by the very same retaliatory process they exploit to hurt others.

U.S. retaliation would put human lives at risk, as Robert A. Fay, president of Police Emergency Radio Services, Framingham, Massachusetts, reported: "One of the largest ambulance services in the Northeast uses a unique Japan-produced UHF mobile transceiver to provide over 80 vehicles with ambulance-to-hospital communications. Currently there is no domestic unit which has the features this user requires, irrespective of price."[79] Don Corcoran, vice-chancellor for university relations, Vanderbilt University, protested that proposed retaliatory tariffs against the NEC NEAX 2400 UMB PBX communications system would jeopardize the services of Vanderbilt University Hospital and Medical Center, which provide emergency services in middle Tennessee. He reported that suitable systems and parts were hard to get from U.S. suppliers.[80]

As the testimony suggests, politicians may point their fingers at Japan, but they harm Americans and undermine American living standards. The noted American economist Henry George put it this way in his most famous passage:

Protective tariffs are as much applications of force as are blockading squadrons, and their object is the same--to prevent trade. The difference between the two is that blockading squadrons are a means whereby nations seek to prevent their enemies from trading; protective tariffs are a means whereby nations attempt to prevent their own people from trading. What protection teaches us is to do to ourselves in time of peace what enemies seek to do to us in time of war.[81]

U.S. Trade Representative's Primary Business: Restrictinq Trade

That may perhaps seem a harsh indictment of the U.S. trade representative, considering the generally good press that Carla Hills has enjoyed for her efforts to promote freer trade, especially through the GATT. But not everyone in her office of about 140 people shares her beliefs.

Quite apart from the inability of trade retaliation to force open significant foreign markets, one should be concerned about the enormous destructive potential of having retaliatory power in the hands of officials whose avowed purpose is closing markets. That has happened before, and it can happen again. The U.S. trade representative is a political animal who must do the bidding of the president and Congress.

In 1984, for example, Republicans became intent on winning all 50 states in the presidential election, so they made some deals. Among other things, Republican political strategists succumbed to pressure from the steel industry--a bunch of domestic producers that exported little. They did not care about the interests of users, consumers, or exporters. Their top priority was restricting imports. They could not do it on the basis of anti-dumping, because the dollar was strong, and foreign steel was priced lower in home countries than in the United States; to win an anti-dumping case, they would have probably had to show that pricing was the other way around. Nor did a countervailing duty case offer much hope, since major producing countries such as Japan and Australia did not subsidize their steel industries.[82] Finally, Bethlehem Steel had already tried a section 201 "escape clause" case, which offers the prospect of restrictions even if trade is perfectly "fair," but the International Trade Commission ruled against Bethlehem on four of nine product categories involved.[83] So steel industry lobbyists set their sights on some kind of quotas. In effect, the steel industry wanted to profit from restrictions without having to prove the alleged merits of their case.

Accordingly, U.S. Trade Representative William Brock and Deputy Trade Representative Robert Lighthizer started promoting voluntary export restraints for steel. They threatened to file section 301 cases against countries that resisted, even though there was no question of dumping, subsidies, or "unfair" trade practices. In the end, they negotiated voluntary export restraints on steel with 16 countries besides the European Community, which had already adopted them in 1982.[84]

In recent years, U.S. lobbyists have stepped up their efforts to manipulate the section 301 process. For example, in November 1987, the U.S. trade representative invited public comment on Brazilian imports being considered as targets for 100 percent retaliatory tariffs in a case involving computer software piracy. Typically, most targets had nothing to do with computers. They included utterly unrelated products such as leather shoes, cheap dinner dishes, and ferroalloys.

Lobbyists for U.S. producers were quick to promote retaliation against their competitors, even though they were not a party to the software dispute. In December 1987, Robert H. Slosberg, chairman of the National Affairs Committee of the Footwear Industries of America and president of Ripley Industries, a manufacturer of shoe heels, told the Section 301 Committee, "Our sole purpose is to urge you to include nonrubber footwear on the list of products subject to retaliation in response to Brazil's unfair trade practices in the computer or informatics industry." Specifically, Slosberg wanted retaliation against shoes worn by American men and children, including athletic footwear, shoes with pigskin uppers, work shoes, moccasins, and shoes with vulcanized soles. American consumers already were forced to pay unreasonably high prices for those shoes, because of an 8.5 percent tariff, so bumping the tariff to 100 percent would be a significant hit.[85]

Domenic Diapaola, general president of the International Leather Goods, Plastics, and Novelty Workers' Union, AFL-CIO, added his voice to the chorus for protection. He was mostly interested in restricting competition among producers of leather handbags, especially cheap ones costing under $20, which were preferred by lower income American consumers. He enthusiastically endorsed a tariff hike from the current 10 percent to a retaliatory 100 percent, even though that would obviously make lower income Americans worse off.[86]

There were others who hoped to profit at the expense of American consumers. For instance, Susan G. Esserman, an attorney with Steptoe & Johnson, represented the American Restaurant China Council in its quest for retaliatory tariffs to help suppress price competition. "Import restrictions on all commercial chinaware imports from Brazil would constitute appropriate retaliation against the Government of Brazil," she claimed. Her strategy was to harm tens of thousands of restaurants across America, especially those serving lower income people. Such restaurants, which offer entry-level jobs for unskilled Americans, are under intense pressure to cut costs. Esserman admitted that "Brazilian prices for commercial chinaware are by far the lowest of any market economy exporting commercial chinaware to the United States."[87] Customs statistics revealed that the average price for Brazilian chinaware was $3.98 per dozen, so we are not talking about chinaware for fancy restaurants patronized by well-paid Washington lobbyists.

George A. Watson, president of the Ferroalloy Association, declared that his industry, too, could benefit by suppressing competition. "The inclusion of ferrosilicon and silicon metal in the list of articles being considered for increased duties is most appropriate for several reasons," he testified. He complained that "Brazil also enjoys a major unfair advantage over the U.S. in that their very lax pollution and safety regulations give them a ten percent cost advantage and a 25% investment advantage." He acknowledged that "the proposed penalty of a 100 percent duty will stop Brazilian imports."[88]

Not to be left out of the Brazilian Informatics proceedings, Roger M. Golden, a lobbyist for Shenango, Inc., a Pittsburgh producer of cold pig iron, pleaded with the U.S. trade representative to retaliate against its competitors. The company blamed its plight on Brazil's subsidies to its pig iron producers, although since 1980 Brazilian pig iron imports had borne a 6.07 percent countervailing duty to compensate for the alleged subsidy. Golden reported that Shenango's prices were below what was needed to "recover all costs and a small profit." If that were the case, then Shenango itself would be guilty of dumping. Golden sanctimoniously claimed that imposing a 50 percent retaliatory tariff on Brazilian pig iron would eventually help American consumers.[89]

In some cases, U.S. companies want retaliatory threats to help open foreign markets just enough so they can join a cartel. For example, U.S. investment banks complained that they were excluded from the Tokyo Stock Exchange where commissions are fixed at high levels. But after the major U.S. and European firms became members, they opposed further opening, which would mean authentic competition. As the New York Times reported, "One of the ironies of the modest opening of Japan's markets is that it has given the foreign firms that have gained entry a taste of how nice the cartel-like arrangements and fixed commissions here can be for those on the inside--a privilege they do not want to give up so quickly."[90]

Altogether, the U.S. trade representative has negotiated restrictions that affect more than $80 billion in imports annually (21 percent of total U.S. imports), including machine tools ($774 million), semiconductors ($1.1 billion), steel ($7 billion), textiles and apparel ($27.5 billion), and automobiles ($44.1 billion).[91] Consequently, the U.S. trade representative has done far more to restrict markets than to open them. In terms of actual results, one would have to say that the principal business of the U.S. trade representative is to throttle trade; the small market openings have been a sideshow. If we did not have any government trade deals at all--good as well as bad--we would be net ahead, with more open markets.

A Century of Protectionist Failure

While the section 301 process goes back only to the 1974 trade law, its principal weapons--high tariffs--have been used many times. Again and again they have backfired, often with disastrous consequences.

Economic Nationalism, Monopoly, and War

The United States substantially raised tariffs during the Civil War. "The extreme protective system," wrote Harvard economist Frank W. Taussig, in Tariff History of the United States,

> which had been at the first a temporary expedient for aiding in the struggle for the Union, adopted hastily and without any thought of deliberation, gradually became accepted as a permanent institution. From this it was a short step, in order to explain and justify the existing state of things, to set up high protection as a theory and a dogma. The restraint of trade with foreign countries, by means of import duties of forty, fifty, sixty, even a hundred percent, came to be advocated as a good thing in itself by many who, under normal circumstances, would have thought such a policy preposterous. . . . The result was that the tariff gradually became exclusively and distinctly a protective measure; it included almost all the protective duties put on during the war, added many more to them, and no longer contained the purely revenue duties of the war.[92]

Those tariffs did considerable harm to U.S. companies. As the noted American economist Henry George wrote, every tariff

> that raises prices for the encouragement of one industry must operate to discourage all other industries into which the products of that industry enter. Thus a duty that raises the price of lumber necessarily discourages the industries which make use of lumber, from those connected with the building of houses and ships to those engaged in the making of matches and wooden toothpicks; a duty that raises the price of iron discourages the innumerable industries into which iron enters; a duty that raises the price of salt discourages the dairyman and the fisherman; a duty that raises the price of sugar discourages the fruit-preserver, the maker of syrups and cordials, and so on.[93]

The U.S. high-tariff policy was not followed by more open markets anywhere. On the contrary, it backfired. Washington abandoned its 12-year-old free-trade agreement with the Canadians in 1866, and the following year they formed the Canadian Federation, which subsequently dispatched warships to keep American fishermen out of Canadian waters.[94] When their efforts to revive free trade proved fruitless, the Canadians enacted high tariffs, which became the hallmark of their trade policy for more than a century.

Increasing competition from U.S. grain exports, combined with ever-higher barriers to the growing U.S. market, helped spur economic nationalism in Europe. On June 12, 1879, prodded by Chancellor Otto von Bismarck, the German Reichstag approved high tariffs on grain, meat, textiles, and iron. "To him," wrote biographer Emil Ludwig, "protection was only a means for increasing the power of the state."[95]

One consequence was that tariffs escalated throughout Europe. Angry at German tariffs, French industrialists successfully pressured their government to retaliate with high tariffs against manufactured goods. European farmers resented having to pay more for manufactured goods, and they felt threatened by imports of American grain, so they promoted tariffs in their sector. Germany introduced high agricultural tariffs in 1885. France restricted trade in sugar beets, rye, barley, oats, wheat, and flour. Italy, Sweden, and Switzerland adopted similar restrictions. Since tariffs forced industrialists to pay higher prices for their raw materials, they demanded and got still higher tariffs against imported manufactured goods.[96]

The United States responded with the McKinley tariff of 1890. It raised tariffs and gave the president authority to impose retaliatory tariffs against countries that refused to reduce their tariffs.[97] That is the idea underlying the current super-301 section of the trade law.

Instead of forcing open foreign markets, higher U.S. tariffs once again backfired. France, for example, enacted the Meline tariff in 1892. It imposed duties on previously duty-free imports such as coal, timber, and manganese. More important, it promoted retaliation by establishing a minimum tariff level for "friends" and a maximum for others. In subsequent years, both levels were raised. "In the nineties," wrote economic historian Sir John H. Clapham, "the protectionist movement in Western Europe was stimulated by the passing of the McKinley tariff in the U.S.A."[98]

Americans were not the only ones whose tough trade policy backfired in the 1890s. "Germany's attempt to force down the exorbitant Russian rates by raising her own had the opposite effect of drawing Russia and France together," Barnes, Flugel, and Knight wrote in their Economic History of Europe. "These two adopted a mutual policy favoring each other's goods at Germany's expense."[99] Russia and France were to become military allies in World War I.

Although trade restrictions failed to open markets, they benefited powerful interest groups, such as large German farmers, who made sure the restrictions were maintained. "Their private gains," wrote historian Gordon A. Craig, "were paid for by the ordinary German citizen and were made at the cost of technical progress. What happened in effect was that land remained in grain production (as late as 1902, 60 per cent of cultivated land was used for this purpose) that might more profitably have been converted to cattle raising, dairy farming, and specialized production."[100]

By keeping out foreign competitors, trade restrictions made it vastly easier to promote cartels. They developed dramatically behind German trade barriers. Many of the cartels were inspired by the trusts that flourished behind high U.S. trade barriers. For instance, after visiting the United States, Carl Duisberg proceeded to establish the giant German chemical company I.G. Farbenindustrie. German classical liberals denounced proliferating cartels as "the American danger."[101]

In contrast, trusts did not become established in Britain, which maintained virtually complete free trade. Trusts were attempted, but since people were free to import whatever they wanted, the trusts lost business if their prices were above world market levels.[102]

British free-traders recognized that it was in the interest of their people to keep their markets open, even though other countries closed theirs. As Winston Churchill declared in a 1904 speech at Manchester:

There is a feeling that England has only to retaliate, and foreign tariff walls will immediately collapse. Well, but all the great nations of the world are Protectionist; they have been for 100 years past, and perhaps for many years before that, endeavouring by every dodge of reciprocity or negotiation to force each other to reduce their tariffs in each other's respective interests. Where have they come to? Have they reached Free Trade? On the contrary, their tariffs have risen higher and higher, and at this moment Free-trade England, which does nothing, Free-trade England, with masterly inactivity, occupies in regard to the nations of the world so far as tariffs are concerned, a position of advantage to which few of the Protectionist countries have attained and which none of them have surpassed.[103]

Once again, trade restrictions and retaliation did not force open foreign markets. People embraced economic nationalism, seeking revenge against foreigners who closed their markets. The British businessman Norman Angell warned in his 1908 bestseller The Great Illusion:

Economic nationalism--that its method is to secure the advantage for one country by killing the prosperity of some other through the exclusion of that other's products; to cure unemployment on one side of the frontier by increasing it on the other. .

> According to that doctrine, it is economic wickedness to buy of the foreigner, but virtue to sell to him. But the foreigner cannot buy from us unless he sells to us. We want to be sure that he does not sell more than he buys. To ensure the result there must be regulated quotas, state barter: Socialism in the field of international trade.[104]

In the name of economic nationalism and socialism, European governments expanded their powers relentlessly after 1900. They spent more money on weapons. They subsidized some industries and asserted authority over others. International relations worsened as countries closed their markets.

"The outstanding method of modern nationalism is discrimination against foreigners in the economic sphere," wrote the Austrian economist Ludwig von Mises.

Foreign goods are excluded from the domestic market or admitted only after payment of an import duty. Foreign labor is barred from competition in the domestic labor market. Foreign capital is liable to confiscation. This economic nationalism must result in war whenever those injured believe that they are strong enough to brush away by armed violent action the measures detrimental to their own welfare.[105]

Indeed, economic nationalism and war went hand in hand. During World War I, government bureaucrats everywhere mobilized labor, controlled the allocation of resources, expropriated private property, and monopolized foreign trade. Belligerents hit each other with trade blockades. Entrepreneurs could not start businesses without government licenses, nor could they shut down unprofitable businesses unless bureaucrats approved. Money-losing "national" industries got subsidies. "Profit" became a bad word. World War I vastly expanded government power over economic life, ushering in a dark age of "planned" economies based on subsidized industries protected from competition. That legacy was every bit as important as the human casualties, 10 million dead and 20 million wounded.[106]

Economic Nationalism and Fascism

Although people welcomed peace, they did not want to be weaned from their wartime subsidies and protection. In the United States, for example, farmers as well as manufacturers, who had expanded artificially behind war era barriers, faced declining prices when peacetime trade resumed with Europe. Those so-called war babies clamored for protection. During January 1921, 416 lobbyists generated 4,466 pages of testimony before the House Ways and Means Committee, almost all of it demanding higher tariffs.[107] They got protection first in a 1921 "emergency" tariff for major agricultural commodities, then in the 1922 Fordney-McCumber tariff that raised tariffs as much as 400 percent and gave the president retaliatory authority similar to that of the 1890 tariff.[108]

Did that closing of the U.S. market force open foreign markets? Hardly. Many European governments applied a multiplier--as much as eight--to their prewar tariff schedules.[109] Many countries enacted laws to protect "war baby" industries that had flourished during the war. In 1921, for example, Britain passed the Safeguarding of Industries Act. Intended to protect "strategic" industries, it set many tariffs around 33 percent.[110]

Germany retreated behind border restrictions and promoted cartels, as it had under Bismarck. By the mid-1920s the German government had enacted trade restrictions responsible for some 2,500 cartels. In 1926 Germany promoted the International Steel Cartel, which was joined by Austria, Belgium, Czechoslovakia, France, Hungary, and Luxembourg. Those countries accounted for 30 percent of world steel production.[111]

In fascist Italy, Mussolini launched la battaglia del grano--"the battle of wheat." He restricted wheat imports and promoted the idea of self-sufficiency. The battle of wheat made the Italian economy worse off, because Italian farmers neglected more profitable crops, especially fruits and vegetables, and livestock breeding.[112]

War and revolution wiped out the Russian market--imports as well as exports plunged more than 85 percent from prewar levels.[113] Lenin declared: "There are two ways to fight hunger, a capitalist one and a socialist one. The first consists of free trade. . . . Our path is that of the grain monopoly."[114] The Bolsheviks banned private trade and declared that traders were lishenets--disenfranchised people without rights. The result was terror, famine, and cannibalism.[115]

World War I destroyed the Hapsburg Empire, which had been substantially a free-trade area. The successor states--Austria, Hungary, Czechoslovakia, and Yugoslavia--enacted steep tariffs. There were tariffs on imported agricultural commodities, because the world was awash with agricultural surpluses and most people in Central Europe were peasants. In addition, each country pursued economic nationalism, which required that domestic manufacturing industries, because they were not competitive, be protected behind tariff walls. Peasants were harmed by having to pay needlessly high prices for manufactured goods such as farm equipment.[116]

Economic nationalism provoked incessant trade wars that exacerbated already severe nationalist conflicts. Germany and Poland retaliated against each other for nine years.[117] To protect its farmers, Czechoslovakia banned agricultural imports from Romania and Yugoslavia; Czechoslovak manufacturers wanted minerals from those countries, but they refused to sell to Czechoslovakia because their peasants were outraged.[118] Although Czechoslovakia had better developed manufacturing industries than did other Hapsburg successor states, it never realized its potential, since its neighbors closed their borders to manufactured goods.[119]

World War I had substantially cut off the flow of European manufactured goods to Latin American countries, and they reacted by developing their own capability. The new producers became a powerful protectionist lobby resisting European competition in peacetime. Moreover, European and American trade restrictions limited the possibilities for Latin American exports. For example, U.S. tariffs further curtailed imports of Argentine wool, grain, and beef, provoking a clamor for retaliation against U.S. interests, especially Standard Oil.[120] A popular slogan was Comprar a quien nos compra--"Buy from those who buy from us." In addition, there were demands to promote "infant industries" with higher tariffs. The trend in Latin America through the 1920s was to create more obstacles to trade.[121]

Thus, once again, closing markets in one country did not force open markets elsewhere. In his 1927 manifesto Liberalism, Ludwig von Mises recognized what was happening perhaps better than anyone else.

The program of antiliberalism unleashed the forces that gave rise to the great World War and, by virtue of import and export quotas, tariffs, migration barriers, and similar measures, has brought the nations of the world to the point of mutual isolation. . . . Whoever does not deliberately close his eyes to the facts must recognize everywhere the signs of an approaching catastrophe in world economy. Antiliberalism is heading toward a general collapse of civilization.[122]

Protection and Depression

In 1929 President Herbert Hoover issued a clarion call for American economic nationalists, and they responded with an unprecedented 10,684 pages of testimony before the House Ways and Means Committee.[123] In June 1930, he signed the Smoot-Hawley tariff that "got tough" with foreigners by virtually closing U.S. borders. Smoot-Hawley raised import duties an average of 59 percent[124] on more than 25,000 agricultural commodities and manufactured goods.[125] Far from forcing open foreign markets, Smoot-Hawley infuriated people, and more than 60 countries retaliated.[126] Many were long-time friends such as Canada, Britain, France, and Switzerland.

Because the United States was the world's largest creditor, Smoot-Hawley was particularly destructive. While demanding that debtors make their payments, the United States prevented them from earning the wherewithal to do so. Thus began the catastrophic downward spiral of business nearly everywhere. "The Smoot-Hawley Tariff Act, after taking retaliation into account," wrote MIT economist Charles P. Kindelberger, "was a deflationary force."[127]

Infinitely worse than the loss of export sales were the political consequences of U.S. economic nationalism. By spreading misery abroad, higher U.S. trade barriers provoked mass xenophobia and set the stage for brutal dictators. "The high tariff," recalled President Franklin D. Roosevelt's undersecretary of state Sumner Welles, "rolled up unemployment in Great Britain and in Western Europe. [It] encouraged the German government to adopt its autarchic economic policy, which in turn was a contributing factor in bringing about the second World War."[128]

Import quotas--the linchpin of what Clyde Prestowitz and others call managed trade--became a prelude to primitive barter. Initially, countries adopted global quotas: officials determined the maximum number of units that could be imported during the year, and then shipments were admitted from anywhere until the limit was reached. But faraway countries complained that they were at a disadvantage compared with neighboring countries that could rush their goods into a country before the global quotas were filled. So global quotas led to country-by-country quotas. Increasingly, officials tried to balance trade and secure market shares with country quotas.

The Nazis developed the most elaborate scheme for managed trade. It was balanced bilaterally. Nazi trade negotiators worked out agreements that guaranteed countries in southeastern Europe, for example, a certain share of the German market for raw materials, and the Germans were guaranteed a corresponding share of the market in those countries for manufactured goods. To help manage trade, Hitler established 27 Import Control Boards (Uberwachungstellen). Proposed transactions were reviewed, one by one. Imports were forbidden unless essential for national security. Approved transactions required an official exchange certificate (Devisenbescheinigung). Nazi managed trade was enforced through blocked accounts held at the Reichsbank. Foreign sales to Germany earned credits that were "cleared" only for German goods.[129]

Smoot-Hawley's section 338, another predecessor of super-301, gave the president authority to raise our tariffs as much as 50 percent in retaliation against countries that maintained unfair trade restrictions. But since U.S. and other restrictions had already closed so many markets, such retaliation became an idle threat. It was not used.[130]

Britain, still a relatively open market, succumbed to claims that it should slam the doors shut in the name of opening foreign markets. In a May 28, 1930, speech to Parliament, Conservative leader Stanley Baldwin made an argument similar to the ones heard in Congress now. "You cannot get these tariffs reduced so long as you leave this market the only dumping ground of the world. . . . I believe that only those who can speak on an equality regarding tariffs can do business."[131] Britain established steep tariffs as a bargaining chip, supposedly to inflict penalties on foreign protectionists until they agreed to lower their tariffs.

As that theory caught on, many countries adopted what they called a "bargaining tariff." That meant raising tariffs sharply, so a country could theoretically gain "concessions" from other countries without lowering its own tariffs below what they had been. But since everybody did just that, bargaining tariffs tended to cancel each other. Baldwin's theory backfired, and Britain was stuck with high tariffs for more than three decades.[132]

In a similar effort to help reopen foreign markets, President Roosevelt sought passage of the Reciprocal Trade Agreements bill that would give him authority to negotiate bilateral agreements lowering tariffs as much as 50 percent, provided other countries made comparable tariff reductions. The idea was to promote U.S. exports by reopening foreign markets--but definitely not to reopen the American market to imports.

The bill was enacted in 1934, and Secretary of State Cordell Hull proceeded to negotiate bilateral agreements. By 1939 there were 20.[133] Half were with Latin American countries that sent raw materials to the United States. Agreements with Sweden and Finland involved little direct competition for U.S. companies. The only significant agreements were with Canada and Britain. Hull, however, could not persuade the British to abandon their "Sterling Bloc," which discriminated against outsiders.

As Congress had intended, the bilateral agreements opened U.S. markets as little as possible. For example, the United States was nominally committed to the most-favored-nation principle, which meant it would pass on to trading partners the best tariff deal it made with anyone else--without the trading partner's having to make a reciprocal concession. Powerful lobbyists attacked that as an unwarranted giveaway, so Hull drafted bilateral agreements with technicalities that minimized the benefits most-favored-nation trading partners would get. In his 1948 memoirs, Hull conceded:

The flood of imports from trade agreement countries, which opponents of our program vociferously feared, did not occur. We continued, however, to receive bitter protests from industrial or agricultural interests, which believed we were threatening them with financial death. Investigation usually disclosed that the imports of the products they feared amounted to a small percentage, sometimes even less than 1 percent, of our domestic production.[134]

Beyond the refusal of the United States to open its market, there were inherent limits to what any bilateral agreement could accomplish. Although a substantial portion of U.S. trade may have been bilateral before the onset of the Great Depression, it was made possible by more complex, multilateral trading and financial relationships that bilateral agreements could not address.[135] Moreover, bilateral agreements could not do much about situations in which valuable goods were simply purchased rather than exchanged for other goods.

The agreements failed to achieve significant market openings. In 1935 and 1936 tariff levels did not change much. More tariffs were reduced than raised in 1937. Tariffs headed up in 1938, as both farmers and manufacturers stepped up their lobbying campaigns. Meanwhile, very few import quotas or exchange controls were phased out. To the extent the bilateral agreements had any effect, it was to divert rather than expand trade.[136]

All Kinds of Economic Sanctions Backfire

It should not be surprising that trade retaliation has failed to achieve significant market openings abroad, because tough economic sanctions generally have failed to produce significant policy changes for the better. Since World War I, there have been more than a hundred cases in which countries used economic sanctions--including tariffs, import bans, export controls, and cutoffs of capital flows. No matter who imposed the sanctions, which countries were targets, or what the aims were, the toughest sanctions seldom did what they were supposed to.

As is the case with economic sanctions intended to force open foreign markets, it is very hard to find significant successes, but it is easy to name failures. Although politically motivated economic sanctions, like trade retaliation, can inflict harm on a target country, experience suggests that a target country is unlikely to buckle under and make significant policy changes. Typically, a target country does what is necessary to reorient its economy toward new markets. Even the most outcast countries find trade partners, which undermines the impact of sanctions.

Recall some classic cases. Although there was plenty of guilt to go around after World War I, the victorious Allies blamed Germany for everything. In December 1918, Britain's prime minister Lloyd George became the first leader to demand that the Germans pay all war costs. At the Paris peace conference, French premier Georges Clemenceau pushed hardest for retaliation against Germany, and he got his wish in the form of huge reparations and other penalties written into the infamous Versailles treaty. At the same time, the Allies kept their borders virtually closed to German exports, thereby guaranteeing German default.

As everyone knows, the Versailles treaty generated a horrifying backlash. Already discredited by the way it handled the surrender, Germany's struggling democratic government lost more support by signing the treaty that included the war-guilt clause (Article 231). Burdened with bills for war relief, war pensions, and reconstruction as well as reparations, the German Reichsbank printed massive volumes of paper money. The resulting runaway inflation, which reached a peak in 1923, impoverished and embittered millions of Germans. The fiery national socialist Adolph Hitler first emerged as a public figure during that period of inflation; he appealed to the "starving billionaires" whose savings were wiped out by inflation. Thus, an unintended consequence of retaliation was to further undermine democracy in Germany.[137]

World War II might have been avoided, and 50 million lives saved, if the Allies had resisted the urge to retaliate. "Suppose that in 1919 the winners had arranged a generous settlement, levied small or zero indemnities, and wisely refused to tar the infant German democratic government with the humiliation of confession to sole guilt for the war," ventured economist Robert Lekachman. "Would Hitler and the Nazis never have come to power? Such a benign prospect would have been even more plausible if during the 1920s the winners had promoted free trade and international cooperation. Neither the wild inflation of 1923 and 1924 which severely damaged the German middle class nor the depression of 1929 which completed its demoralization [was] inevitable, any more than the second world war itself and the millions slaughtered in the Nazi death camps were."[138] Because it set the stage for World War II, Allied reparations policy must rank as the most catastrophic case of retaliation in human history.

After Mussolini invaded Abyssinia (Ethiopia) in 1935, the League of Nations imposed economic sanctions that cut off shipments of weapons, rubber, iron ore, aluminum, nickel, and tin to Italy and largely closed Italy's export markets; exports plunged 50 percent during the eight months the sanctions lasted. Mussolini was able to defy the sanctions since he had previously stockpiled strategic goods. Besides, Italy was largely self-sufficient in food and weapons, and alternative suppliers were available--Germany, Austria, and the United States.[139]

Would tougher sanctions, such as an oil boycott, have worked? As John Foster Dulles, later secretary of state under President Dwight D. Eisenhower, anticipated in 1932: "Penalties which are excessively severe, or which are excessively costly to those who are asked to apply them, generally are ignored. This fact quickly becomes apparent with the result that wrong-doers proceed with impunity."[140]

More interesting, economic sanctions unintentionally promoted full-scale fascism in Italy. "Sanctions did result in an intensification of government intervention in the economy," noted Robin Renwick of Harvard's Center for International Studies.

Import and foreign exchange controls were already in force. The Italian government had been trying for several years to control the price of basic foodstuffs. Wages were also subject to partial government control. Italy, therefore, already had in place much of the governmental apparatus required to help withstand an economic siege. In response to sanctions, the Italian authorities intensified import and foreign exchange controls, took additional steps to control food prices and prohibited the export of strategic materials. By the end of the sanctions period the state had assumed complete control over external trade and major credit facilities.[141]

Mussolini seemed to have popular support--10 million Italians reportedly answered his appeal to help the state by donating their gold wedding rings.[142]

Some of the most disastrous economic sanctions were directed against Japan. By shutting the U.S. market to Japanese companies,[143] the Smoot-Hawley tariff helped give credibility to claims of Japanese militarists that only through force of arms could the Japanese secure overseas markets, and the Japanese military expanded rapidly into China. President Franklin D. Roosevelt maintained that China should be an European-American enclave. As Japanese forces threatened French Indochina and the Dutch East Indies, the pressure for U.S. sanctions intensified. In June 1940 Congress passed the National Defense Act that gave the president new powers to order sanctions. Three months later, Roosevelt cut off shipments of iron and steel to Japan. On June 21, 1941, he cut off the flow of oil to Japan; at that point, Japan had only 12 to 18 months' worth of oil, and unless Japan could secure additional supplies, its navy would be helpless--something no country would tolerate. On July 26, Roosevelt issued Executive Order 8832, which froze Japanese assets in the United States. Subsequently, he demanded that the Japanese pull out of China and Southeast Asia.[144]

"What is incontestable," wrote historian W. N. Mendlicott, "is that the almost complete suspension of exports to Japan from so many vital sources would have compelled her to abandon her whole policy of expansion if she had not been prepared to face the risks of war."[145] Historian Herbert Feis added, "The embargo failed as a lesson, since it was taken as a challenge."[146]

Economic sanctions have failed even where they seemed sure to succeed, namely against small target countries such as Cuba. When Castro seized power, the United States bought half the Cuban sugar crop and 69 percent of Cuban exports overall and provided Cuba with 68 percent of its imports. So it seemed easy to use U.S. economic sanctions to overthrow Castro, which was the original policy objective. President John F. Kennedy cut off trade with Cuba and authorized the Bay of Pigs invasion.

When it became clear that Castro was hanging on, U.S. policymakers tried to "contain" him. That also proved difficult, because Castro whipped up popular support by criticizing the United States, and he reoriented the economy so that 80 percent of Cuba's trade was with the Communist bloc. U.S. sanctions did not stop Castro from shipping weapons to insurgents in Venezuela and soldiers to Angola and Ethiopia. Recently, high-level Cuban officials have been linked to Colombian drug traffickers. After 30 years, the Cuban economy is a shambles, but Castro still defies U.S.

sanctions.[147]

Seldom effective against small countries, economic sanctions are even less likely to force a significant policy change on a large country. For example, after World War II, President Harry S Truman became alarmed about Stalin's aggressive intentions, and he ordered that any Soviet imports be subject to so-called Schedule 2 tariffs, which were the original Smoot-Hawley tariffs. Those depression-makers effectively shut the Soviet Union out of the U.S. market.

In addition, the Allies formed the Coordinating Committee for Multilateral Export Controls, aimed at restricting Soviet access to a wide range of "strategic" goods. COCOM sanctions probably hindered the Soviets, but they also spurred the Soviets to become more self-sufficient in weapons. COCOM sanctions did not change Soviet behavior for the better; the Soviet Union supported authoritarian political movements in Africa, Asia, the Middle East, and Latin America. It escalated its arms build-up, ignoring arms control agreements. For years it expanded its military presence in Southeast Asia and the Pacific.[148]

After the Soviet invasion of Afghanistan on December 26, 1979, President Jimmy Carter opted to use the "food weapon," suspending Soviet orders for 17 million tons of grain. Citing bad Soviet harvests, Carter's agriculture secretary Robert Bergland declared, "These actions could not have come at a worse time for the Soviet Union." Yet during the 16 months the U.S. grain embargo was in effect, the Soviet Union actually imported more grain than it had before. It increased orders from Australia, Canada, and especially Argentina. Additional sanctions, including a ban against exporting high technology to the Soviets, curtailed fishing privileges, a suspension of scientific and cultural exchanges, and a boycott of the 1980 Moscow Olympic games, did not force the Soviets to end their aggression in Afghanistan.[149]

U.S. economic sanctions did not cause much change in Poland after Gen. Wojciech Jaruzelski introduced martial law on December 13, 1981. Within months, Solidarity was outlawed, and its leader, Lech Walesa, was jailed. President Reagan suspended negotiations for a new grain agreement with the United States; withdrew U.S. landing rights for Aeroflot, the Soviet airline; refused to renew scientific exchange agreements with the Soviets; banned the export of sophisticated technology, including equipment for a 3,500-mile pipeline that was intended to supply Europe with Siberian gas; blocked new credit guarantees for U.S. companies doing business with the Soviet Union; suspended Polish fishing rights in U.S. waters; and stopped negotiations about rescheduling Poland's monumental debt and lowering barriers to Polish products in the United States. Those sanctions did little to relieve oppression in Poland.[150]

West Europeans resented U.S. efforts to block construction of a pipeline that would bring them Siberian natural gas. The French and British ordered U.S. operations in their countries to comply with their laws. The United States retaliated with restrictions against European operations in the United States, but the pipeline was built. On November 13, 1982, U.S. sanctions were abandoned with a face-saving statement of Western unity.[151]

Many other cases confirm the tendency of target countries to defy sanctions and reorient their economies toward new trade partners. The Soviet Union's sanctions against Yugoslavia did not work; Yugoslavia developed trade with the West. Beginning in 1965 Britain applied economic sanctions against the racist white regime in Rhodesia (Zimbabwe), a landlocked country. Eventually, the regime surrendered power--more because of the murderous civil war and economic chaos that resulted from the oil shocks of the 1970s. In any case, the outcome was a brutal Marxist dictatorship that has ravaged the economy.[152] During the past four decades, the Arab League has imposed tough sanctions against Israel and countries supporting Israel, but those sanctions have not produced the desired policy changes.[153] Hit with sanctions, South African companies fired black workers and became self-sufficient in weapons; powerful interests are arming themselves to maintain apartheid.[154] In the 1980s U.S. economic sanctions had little effect on Libya, Nicaragua, and Panama. President Bush acknowledged the failure of sanctions against Panama by ordering the invasion that led to the capture of Gen. Manuel Noriega.[155]

There is a consensus among those familiar with economic sanctions that they seldom produce significant policy changes, despite the harm they may inflict on target countries. Margaret Doxey, author of International Sanctions in Contemporary Perspective, writes, "Economic sanctions are not susceptible to 'fine tuning'; they are blunt instruments [156] which may miss their true target and can have a boomerang effect." Former secretary of state George Shultz said, "As a general proposition, I think the use of trade sanctions as an instrument of diplomacy is a bad idea. Our using it here, there and elsewhere to try to affect some other country's behavior . . . basically has not worked.[157]

Stagnation, Decline, and Backwardness

Crowbar theorists may protest that they certainly do not contemplate repeating any of those failures, but the theory has devastating contradictions.

If retaliation were a magic wand for getting countries to open their markets and make other worthwhile policy changes, then surely we should apply it everywhere. We should shut our markets to the outside world, not just in a few cases but across the board. After all, every country has some objectionable policies. Waving the banner of "fairness," congressional crowbar theorists, such as California's Tom Campbell, urge that we adopt the restrictions of others, supposedly until they give us adequate "concessions."[158]

Consider the possibilities. According to the crowbar theory, we should enact "reciprocal" exchange controls as a way of forcing India to abandon its exchange controls. In the name of reciprocity, the crowbar theory would also have us adopt India's complex import licensing system, which denies Indians access to world markets. Since India's average tariffs are 118 percent, the crowbar theory would call for U.S. tariff hikes almost twice as large as those imposed under the Smoot-Hawley Act.

That would be just the beginning. German tax policies discriminate against foreign investors, so the crowbar theory implies that we should make our taxes more discriminatory. We should retaliate tit-for-tat against the British who are pressing for tax changes that would prevent U.S. mutual funds from investing in British companies. Similarly, we should subsidize airline manufacturers, as Britain, France, Germany, and Spain subsidize Airbus Industrie. We should restrict retail competition, as the Japanese have done. We should establish industrial monopolies as have Argentina, Brazil, Indonesia, and other countries. We should force farmers to sell their produce at below-market rates to government monopoly marketing boards, a common practice in Africa. If we retaliate by closing our markets to every country with objectionable trade policies, then ultimately we will be as isolated as the Soviet Union, Romania, Bulgaria, Albania, China, Burma, North Korea, Cuba, and Ethiopia.

As a consequence, the crowbar theorists would have us surrender our sovereignty. Rather than continue our historic mission as a beacon for human liberty--which requires open markets--the crowbar theory would have us close our markets as other countries close theirs. In effect, our policies would be determined not here but in foreign capitals, many of which are controlled by dictators.

We would end up following the world's most disastrous economic policies, for everywhere closed societies are collapsing. Behind socialist-closed borders, hundreds of millions of people languish amidst stagnation, decline, and backwardness. Perhaps the ultimate sinkhole is sub-Saharan Africa whose contact with the outside world is declining precipitously; the gross national product of the region is only $135 billion, comparable with that of Belgium, a country with 2 percent as many people and 1 percent as much land.[159]

Border restrictions have also proven disastrous when tried on a limited scale in relatively open societies. Declining U.S. industries such as steel, automobiles, and textiles have become addicted to protection.[160] Border restrictions were a principal cause of "Eurosclerosis" during the 1970s and 1980s, which is why the European Community is now working to eliminate hundreds of restrictions.[161] The most heavily protected and subsidized Japanese industries have been the worst performers--agriculture, retailing, railroads, ship building, coal mining, aluminum, and petro hemicals.[162] The most heavily protected South Korean industries, such as banking and securities, are among the most backward.[163]

The crowbar theory leads straight to a black hole. The more industries are cut off from the outside world, and the longer border barriers persist, the worse the resulting stagnation, decline, and backwardness. As East Europeans are discovering, reentry to a competitive world is painful.

The Injustice of Trade Retaliation

Although most of this discussion has focused on the practical failures of retaliation, the moral issues are perhaps more important. They probably arouse more intense emotions. Touted as a strategy for fairness, retaliation actually promotes injustice, since it hurts large numbers of innocent people who have nothing to do with a particular trade dispute. Retaliation is the moral equivalent of civilian bombing.

First of all, retaliation hurts innocent American consumers--companies as well as individuals. U.S. steel restrictions, for example, are supposed to help steel producers by limiting the supply of steel and maintaining high prices. They have hurt steel users such as Caterpillar Tractor, which needs. good quality, competitively priced steel to serve its customers. How can we justify hurting companies like Caterpillar and jeopardizing thousands of American jobs, just to bail out U.S. steel producers that happen to have more political clout? How can we justify forcing American consumers to dig deeper into their pockets and pay more for everything with steel in it?

Obviously, neither steel-using companies nor consumers are responsible for imprudent business decisions made by steel producers, such as signing extravagant labor union contracts and neglecting long-term investment and quality control. Even if a steel producer has a legitimate dispute with a foreigner, there is no conceivable moral case for attempting to resolve it by hurting Americans who are not a party to the dispute.

Advocates of retaliation may sound like champions of fairness, until we understand that the restrictions they favor will multiply the inequities. Perhaps T. Boone Pickens has suffered unfair treatment by Koito executives who kept him off their board, despite his substantial investment in the company--a situation that, by the way, reflects his experience in the United States; he never got on the board of any of the major companies he raided. But restricting foreign investment here, as Pickens seems to favor, would mean denying us the vital freedom to choose those with whom we will do business.

Moreover, to say that people should be hurt because they are foreigners is to slip into the moral slime of collective guilt. "Sanctions against collectivities will always affect the just together with the unjust, since collective sanctions correspond to a philosophy of collective guilt," wrote policy analyst Johan Galtung. "From the outside, . . . nations as such appear as the wrong-doers . . . undifferentiated wholes. From the inside, collective sanctions seem unreasonable to both the just and the unjust."[164]

Finally, there is the colossal hypocrisy of trade retaliation. The U.S. trade representative threatens retaliation against Japanese, Koreans, and Europeans unless they eliminate the same kind of trade restrictions that other U.S. officials enforce. The United States has Byzantine programs for protecting politically powerful farmers, just as everyone else does. As noted already, U.S. cigarette import duties (chiefly excise taxes) are higher than those in Japan. We have import quotas. We have "Buy American" laws that correspond with the "Buy Japanese," "Buy European," and other such laws aimed at excluding foreign bidders from government contracts. Japan may have obnoxious laws restricting retail competition, but the United States has many state and local laws that do the same kind of thing. As in Japan, there are persistent collusive practices in the U.S. construction industry, for example, the concrete industry in New York City. We have criticized Japan for its "tied-aid" programs that require foreign aid recipients to buy from Japanese suppliers, but the U.S. government also promotes tied-aid programs. The U.S. government has penalized others for dumping, yet for years it has been the world's biggest dumper, giving away free food and in the process impoverishing Third World farmers. The U.S. budget, like budgets elsewhere, is larded with business subsidies.

The U.S. government does not have any moral standing to hector the world about justice. On the contrary, Washington is a major source of injustice. We have more than we can handle just trying to put our own house in order.

Why Markets Open

It is past time to dispel the myth that large-scale trade takes place because of government trade negotiators' wielding crowbars. As we have seen, markets seldom open much because of force or the threat of force. That should not be a surprise, since the collapse of communism dramatically confirms that economies cannot be made to prosper by force. Indeed, the more governments have resorted to force, the worse economies have performed.

An alternative market-opening strategy--multilateral talks--involves fewer threats, but it has not fared well either. Since the 1960s, multilateral talks, especially the General Agreements on Tariffs and Trade, have helped lower tariffs from their Smoot-Hawley levels, but many of the gains have been offset by proliferating nontariff barriers. More than 20 years ago, Rep. Thomas Curtis, delegate to the Kennedy Round GATT negotiations, expressed his frustration: "Many of us like to think that the decades since the war have been marked by a continuing movement toward freer world trade and payments. The Kennedy Round in this vision is seen by shortsighted persons as the crowning achievement of the drive forward for freer trade, but they have ignored the fact that as tariffs have been dismantled . . . quotas, licenses, embargoes, and other rigid and restrictive trade barriers have been created."[165]

To maintain a semblance of order, the 98 members of GATT have winked at a multitude of trade barriers, such as "voluntary" export restraints and anti-dumping orders. There are bitter disputes among GATT members on other trade issues such as agricultural subsidies, textile restrictions, sugar restrictions, and intellectual piracy. Some proposals to resolve those issues entail even more restrictive practices (textiles) or a transition period that could go on for years (agricultural subsidies).

The whole theory of multilateral talks--eliminating trade restrictions means giving up advantages, and one side should not give up advantages without gaining concessions from the other side--is flawed. But trade restrictions mainly harm people in the restricted market. Denied access to it, an exporter can sell elsewhere, but those in the restricted market are denied choices and forced to pay higher prices. People lose every day that restrictions are maintained.

What about bilateral trade negotiations? Certainly, they are much simpler than dealing with 97 other countries. The Canadian Free-Trade Agreement resulted in a more open, mutually beneficial marketplace. Unlike a trade union, such as the European Community, a trade agreement does not establish a common trade policy that requires more open countries to add restrictions. A free-trade agreement removes restrictions between signatories without changing trade policies toward the rest of the world.

But the bilateral approach maintains the fallacy that it is a mistake to open our markets unless the other side offers concessions. Failure to reach agreement with another country can become an excuse for not opening our markets, even though opening them would benefit millions of U.S. consumers as well as companies that need economical, high-quality materials from abroad.

Unfortunately, a free-trade agreement is not a magic wand for curbing the greed of powerful lobbyists. Although the Canadian Free-Trade Agreement covered considerable ground, it excluded major categories of business such as broadcasting, airlines, railroads, trucking, and shipping. The Canadian beer industry is still protected, and U.S. sugar producers and dairy farmers continue to enjoy special privileges as the result of import quotas. As long as U.S. grain farmers get more subsidies than Canadian grain farmers, Canada will maintain its grain import restrictions.

In any case, a free-trade agreement seems a good bet to gain approval only when countries are already reasonably open, there is enough good will between prospective signatories, and political leaders promoting the agreement have popular support. A free-trade agreement with Mexico would encounter fierce resistance from long-protected, backward Mexican companies and expensive U.S. unions. A free-trade agreement with Japan could trigger an explosive xenophobic reaction in both countries. Obviously, a free-trade agreement strategy is not the panacea it is sometimes made out to be.

Markets are most likely to open when enough people recognize that repealing border barriers serves their interests, regardless of what other countries do. The biggest winners are people who set themselves free.

Unilaterally opening a market, however, requires overcoming entrenched interests that spend considerable time and money defending their privileges--after all, their livelihood is at stake. Because they are highly motivated, their political influence tends to be all out of proportion to their numbers, which are usually small. Experience suggests that only a domestic economic crisis can energize enough ordinary people to tear down trade walls.

One of the most influential market openings followed the 1845 Irish potato famine. The fiery British free-traders Richard Cobden and John Bright campaigned for unilateral repeal of almost all import restrictions, so that starving people could get cheap food. The market opened in 1846. Between then and the outbreak of World War I, British imports soared more than 600 percent. Far from being a disaster, as protectionists had predicted, free trade stimulated the economy. Since imports were not given away free, people had to find new ways to earn money, and they expanded into services such as shipping, insurance, and finance. Exports soared more than 600 percent.[166] Witnessing Britain's enormous prosperity, Germans, French, Belgians, Dutch, and others liberalized their trade policies so that they, too, could enjoy greater prosperity.

Those market openings were not the result of strong-arm tactics. Cobden remarked:

> We came to the conclusion that the less we attempted to persuade foreigners to adopt our trade principles, the better; for we discovered so much suspicion of the motives of England, that it was lending an argument to the protectionists abroad to incite the popular feeling against free-traders, by enabling them to say, "See what these men are wanting to do; they are partisans of England and they are seeking to prostitute our industries at the feet of that perfidious nation. . . ." To take away this pretense, we avowed our total indifference whether other nations became free-traders or not; but we should abolish Protection for our own selves, and leave other countries to take whatever course they liked best.[167]

The result of Britain's unilateral free trade? Harvard economic historian David Landes reported: "To the surprise of adamant protectionists--if not their discomfiture--all nations saw their volume of exports grow. Home industries did not collapse before British competition, but rather changed and grew stronger in the process."[168]

Later, when other countries again closed their borders, British economic nationalists such as Joseph Chamberlain thought it was foolish to stick with free trade. But as a member of Parliament, Russell Rhea, explained to the 1908 International Free Trade Congress:

> Free imports, by giving us every form of raw material, every semi-manufactured article, every finished article, every foreign tool and machine, has enabled us to do four things.
>
> First, it has enabled us to a great extent to surmount the wall of foreign tariffs and still to export our goods in competition with his own country, with the protected manufacturer, who in many cases is as much handicapped by the weight of the protective duties he has to pay on the elements of his production as he is benefited by the protection of his finished product.
>
> Second, it has enabled us to maintain our supremacy in the neutral markets of the world.
>
> Third, it has made this country the cheapest area for the establishment of those new industries which the progress of science and civilization is constantly creating.
>
> Fourth, it has thrown into our hands great international trades which, from their nature, are incapable of being effectively protected, such as the shipping trade of the world, and those numerous commercial and financial international services which we do not perform for nothing.[169]

Winston Churchill, then president of the Board of Trade, added:

> During the last sixty years we have indulged in no tariff wars; we have fallen back on no elaborate devices, or shrewdly, too shrewdly, calculated plans for negotiation or retaliation; but yet we find that our goods enter all the other countries of the world on as good terms as have ever been secured by any nation through the most elaborate of fiscal weapons. We levy no discriminating duties, nor do we seek artificially to stimulate our exports; and yet we find ourselves with a rich and fertile home market, and able, man for man, to export to foreign countries, in spite of all their tariffs, more than twice as much, man for man, as has yet been achieved by any country in the world. . . .
>
> After sixty years of being walled in by hostile tariffs, of paying, as we are assured, the taxes of all other nations besides our own, of being inundated year after year with all the good things from all parts of the

world, rushed in upon us in almost measureless abundance, we find ourselves still here unrepentant, still conducting business on a gigantic and unexampled scale, and still with a shot in the locker for a rainy day.[170]

In recent times, the most significant market openings have been the result of bold unilateral action.

West Germany

West Germany's "economic miracle" was the result of bold unilateral action by the anti-Nazi Bavarian economist Ludwig Erhard. For three years after World War II, the Allied occupation government enforced rigid economic controls, and the result was stagnation and despair. During that crisis period, there was no independent West German government; administrative authority for the economy was vested in a five-member Economic Administration whose members were nominated by the Allies. Erhard, who headed the Economic Administration, campaigned for currency reform to end inflation. Eventually, the Allies approved. They did not expect him to do anything else. On Sunday, June 20, 1948, when Allied officials were resting, Erhard announced an end not only to exchange controls but to price controls, rationing regulations, central planning practices. and trade restrictions as well.[171]

"Herr Erhard," Allied commander Gen. Lucius D. Clay reportedly warned, "my advisors tell me you're making a terrible mistake." Erhard replied, "Don't listen to them, General. My advisors tell me the same thing." When General Clay complained that Erhard changed the economic regulations without approval, Erhard retorted: "You are mistaken, sir; I have not changed them. I have abolished them." Erhard's unilateral liberalization was vigorously opposed by European socialists who wanted to keep the German market closed.[172]

Erhard had such self-assurance because he recognized the alternatives. Trade, he wrote later,

> can be caused to atrophy by promoting autarky, by currency restrictions and by a closed economy generally--a game of beggar-thy-neighbor worked by closing other countries' export openings. There follows a chain reaction of retaliatory measures by former suppliers. The final result is the co-existence of a number of hermetically closed groups in which production is pursued regardless of cost, accompanied by so-called full employment and inflation. The standard of living declines. .
>
> The alternative is a policy of stimulating foreign trade. This aims at an international division of labour, which works by exchanging the national specialties against those of the rest, thus contributing to the prosperity of all. This is the way we have chosen since the war; and we have pursued it the more resolutely and successfully in proportion as we regained control of our economic policy. We have thus contributed to strengthen free trade all over the world. We are continuing to open our own markets, and we are finding a corresponding readiness to open outlets abroad.[173]

West Germany was widely described as a miracle not just because it recovered from wartime rubble but because dramatic results were achieved quickly. People did not have to wait endlessly, as they did in closed socialist societies. The French economists Jacques Rueff and Andre Piettre observed:

If the state of recovery was a surprise, its swiftness was even more so. In all sectors of economic life it began as the clocks struck on the day of currency reform. . . . Shops filled up with goods from one day to the next; the factories began to work. On the eve of currency reform the Germans were aimlessly wandering about their towns in search of a few additional items of food. A day later they thought of nothing but producing them.[174]

Hong Kong

The British Crown Colony of Hong Kong did not become the world's most open market as the result of retaliatory threats. Since 1841 the barren island had been an entrepreneurial haven on the fringes of the British Empire, thriving initially because of the opium trade. It evolved into a port handling general trade with mainland China. Unforeseen events--waves of Chinese immigration, then Japanese invasion and the subsequent United Nations embargo on trade with communist China--convinced Hong Kong's colonial governors that a closed, centrally planned, socialist regime would never work.[175]

Although Hong Kong has a pro-business reputation, it has thrived by resisting traditional appeals for an industrial policy. Many business executives in Hong Kong, and elsewhere, have tried palming their losses off on taxpayers. Replying to one such appeal in 1968, Hong Kong's governor John Cowperthwaite declared:

It is, of course, all the fashion today to cry in any commercial difficulty, why doesn't the Government do something about it. . . . One of the things that most surprises me about my honourable Friend's remarks is that he characterizes his proposal for state intervention in, and control of, industry as "innovation and a spirit of adventure" and condemns free private enterprise as "prosaic precedent." This is a strange paradox. I would put it precisely the other way round. What he advocates is based on the "prosaic precedent" of many of our rivals who have to resort to wooing industry with artificial aids and have had remarkably little success at it.[176]

Maintaining free competition in Hong Kong has required constant vigilance against business interests that are seeking special favors. "Fundamentally, those who argue for Government direction, as opposed to general help and advice," maintained Hong Kong's financial secretary Philip Haddon-Cave in 1978, must show that it is possible for the Government, or a body appointed to it, to forecast the pattern of demand in our overseas markets, to determine what share of that demand it would be appropriate for Hong Kong's industry to try to meet, and then to persuade our industrialists and exporters to base their commercial decisions on all these forecasts and calculations (and notwithstanding their own views as to where their most profitable opportunities lie). Yet how can any Government body, no matter what its composition, determine in the abstract what will be the potential demand in our overseas markets for products of interest to us? Surely we can do no better than leave individual businessmen, with their intimate knowledge of overseas markets, to follow their homing instincts for profits.[177]

Thus, Hong Kong has prospered, because with free trade, companies have no choice but to adapt quickly. Free trade is maintained by unelected colonial officials, but there have been few signs of public opposition. After all, most Hong Kong residents are refugees or descendants of refugees from communism. Hong Kong's policies have yielded a standard of living that is 27 times higher than that of mainland China.[178]

Chile

Chile opened its markets after the disastrous Marxist policies of the regime of Salvador Allende Gossens. He had expropriated private property; promoted runaway inflation; and throttled the economy with price controls, exchange controls, and trade restrictions. By 1973 the economy was a disaster.[179]

As usually happens, economic chaos generated widespread demand for a strong man, a dictator, to restore order. Chile got Gen. Augusto Pinochet Ugarte. He simultaneously suppressed political opponents and phased out policies that had ruined the economy. His finance ministers brought inflation down from about 1,000 percent to 20 percent. Tariffs were cut to 10 percent. Import quotas were eliminated. Investment restrictions and subsidies were phased out. Government enterprises were privatized. Government payrolls were cut by 200,000.[180] In 1988, after reporting a budget surplus, the government chose to return it as a 20 percent cut in the value-added tax rather than spend it on political schemes.[181] Consequently, noted the London Financial Times, Chile's economy "may be performing better than any other in Latin America."[182] Prosperity, in turn, set the stage for a return to democracy.[183]

Japan

During the mid-1970s steeply higher oil prices hit the Japanese hard--80 percent of their oil came from the Middle East. The government incurred its first substantial budget deficits in three decades. Japanese government indebtedness soared eightfold between 1975 and 1985, to 134 trillion yen. [184] That forced the government to issue record volumes of bonds. Traditionally, such bonds yielded low interest and were bought by banks. But banks could not afford to have a larger and larger portion of their portfolios yielding so little. Unless it were easier for banks to unload the bonds, they would face a crisis. The most appealing way out was to eliminate restrictions on bond trading and let a secondary market develop.

The process got under way with the Foreign Exchange and Foreign Trade Law (1980) that abolished most exchange controls. For the first time since World War II, capital could move freely in and out of Japan. In 1981 banks were permitted to function as securities dealers, offering government bonds to the public. Then the government abolished restrictions on money market funds. In 1984 Japanese companies could begin raising money on unregulated Euromarkets. Bankers' acceptances--short-term bearer notes facilitating international trade--were legalized. Financial futures markets got started. The process of deregulating interest rates began. Thus, economic crisis spawned unilateral financial deregulation in Japan.[185]

U.S.-Japanese trade has expanded for reasons that have little, if anything, to do with retaliatory threats. Commerce Department reports indicate that total U.S. exports to Japan jumped 64 percent to $44.6 billion between 1986 and 1989.[186] Fifty-eight percent of those exports were manufactured goods; in contrast, half of U.S. exports worldwide were manufactured goods. As a U.S. export market, Japan was second only to Canada, the neighbor with whom we have a free-trade agreement. On a per capita basis, Japan imported $364 in U.S. products, compared with $366 imported by Britain, $275 by West Germany, $207 by France, and $126 by Italy. Japan continues to be by far the largest export market for U.S. agricultural products.[187]

The lower priced dollar is an important factor in the current trade relationship. "Experience shows that when market trends are with us, significant changes take place, regardless what our trade negotiators do," says University of Michigan economist Gary Saxonhouse. "U.S. imports are cheaper, so the Japanese import more. On the other hand, when market trends are against us, very little changes, regardless what we do."[188] South Korea

Widely publicized trade disputes with South Korea have led many people to overlook the grassroots trend toward liberalization in that country. During the late 1970s South Korean economic planners pursued grandiose industrial policies, accelerating investment in heavy industries such as steel, chemicals, machinery, transportation equipment, and electrical power. The result was costly excess capacity in heavy industry and widespread shortages in light industry, which the planners had neglected. Shortages generated pressure for liberalizing trade restrictions. The first significant market opening occurred in 1978, and it was followed by a broad liberalization effort in 1983. Since then the Korean government has eliminated 95 percent of its import licensing restrictions, which had applied to more than 7,900 products. Tariffs are gradually being reduced; they are currently about 18 percent.[189] In addition, the expansion of Korean industry requires more capital than the government can provide, so there are mounting domestic pressures to liberalize financial markets.

Britain

Unilateral action has been every bit as dramatic in Britain. In 1979 decades of ruinous socialism and inflation brought Britain to a dead end, which is why voters turned to Margaret Thatcher. Perhaps the most significant reduction of business subsidies anywhere has been a by-product of her unilateral privatization. Moreover, Thatcher unilaterally liberalized telecommunications. She unilaterally deregulated airlines. She unilaterally deregulated financial markets. Those measures forced British companies to become more competitive, and Britain prospered during the 1980s.[190]

Britain's unilateral liberalization has caused reverberation throughout Europe and brought about important market openings there. While Brussels bureaucrats are stalled on many trade issues, key services are opening up. Because Britain deregulated capital markets in 1986, commission rates dropped 20 percent.[191] Raising funds is much cheaper in London than on the Continent, and as a consequence London dominates European finance. London handles about a fifth of the world's international banking business, half of foreign equity trading, half of foreign exchange trading, three-quarters of the Eurobond volume, and a substantial share of fund management. Other financial markets have been forced to start to liberalize, or see more business go to London.[192]

With deregulation, British charter airlines expanded dramatically, and by 1987 they handled 60 percent of the European charter business. Fares were reportedly 40 percent cheaper on routes on which they competed with traditional flagship carriers.[193]

A similar, though slower, change is taking place in telecommunications. When privatized British Telecom cut its rates to about half the level prevailing on the Continent, routing European calls to the United States through Britain became cheaper than calling direct. French rates were cut 20 percent, and other countries were under pressure to cut their rates. Since Britain had pushed deregulation much further than did the other nations, it continued to expand its share of total calls. British companies also dominate the European market for sophisticated new services, such as value-added networks and mobile phones.[194]

Turkey

Turkey had pursued old-fashioned economic nationalism for years, with government promoting subsidized industries that were protected behind trade walls. But escalating oil prices made the racket more costly than it had been. Violence became endemic. The Turkish military seized power in 1980. Three years later, with order restored, they permitted an election that was won by economist Turgot Ozal, a founder of the new Motherland party.

Ozal unilaterally liberalized import restrictions and abolished most price controls. He eliminated many investment restrictions, such as limits on the percentage of foreign ownership and the ability of an investor to repatriate profits.[195] Foreign investment increased 10-fold; benefits were most apparent in tourism, chemicals, plastics, paper, textiles, fertilizers, transportation equipment, and banking. By 1988 Turkey was growing more than 7 percent annually, up from 1.1 percent in 1980.[196] Ozal has not been able to control inflation--it exceeds 50 percent--but even so, according to a Western executive quoted in the Wall Street Journal, "Turkey is light years ahead of the Latins in terms of confronting its problems and taking steps to fix them."[197]

Australia and New Zealand

For years Australia stagnated behind protectionist walls. To resolve the crisis, Robert Hawke, elected prime minister in 1983, supported liberalization of the economy. Treasurer Paul Keating has been the guiding light. Australia deregulated banks so they could compete with nonbank institutions. Barriers against foreign banks were eliminated. Australia abolished foreign exchange controls, and now funds move freely in and out of the country. The Hawke government cut expenditures, abolished foreign investment restrictions, deregulated financial markets, and lowered many tariffs.[198]

Alarmed at escalating government subsidies, the Hawke government helped found the Cairns Group in 1985. That group consists of 12 nations, mostly agricultural exporters, that identify and oppose subsidies. They have not had much luck getting others to curtail subsidies, but their position makes it less likely that agricultural trade, like so many other trades, will be cartelized, and that is important.

Like Australia, New Zealand had stagnated for a long time. The Economist called it "the developed world's most protected, over-regulated and distorted economy."[199] In 1984, after the Labor party ousted the protectionist National party, Finance Minister Roger Douglas began to liberalize the economy. The top income tax rate was cut in half, to 33 percent. Tariffs, except on textiles, were scheduled to be under 10 percent by 1996. Import quotas were abolished. Price controls were abolished. Agricultural subsidies were abolished--an extraordinary feat considering the inability of the United States and Europe to control their agricultural subsidies. The New Zealand government privatized banking, oil, steel, telecommunications, and more; on the docket for future privatization are electricity, forest products, and even air traffic control. New Zealand's long-protected financial markets are now among the most open in the world.

With unemployment at a historically high 7 percent, turning the economy around has taken longer than many people expected, but it is clearly being done. Productivity is increasing at a robust 5 percent a year. The agricultural sector, which was the first to begin restructuring, has started to recover first. In July 1990 New Zealand and Australia reported that they were taking steps to establish a free-trade area so their economies could become integrated.[200]

Indonesia

The dramatic fall of oil and gas prices--which accounted for almost 80 percent of Indonesia's foreign exchange earnings--had a galvanizing effect on the substantially closed, stagnant, corrupt economy. President Raden Suharto had to do something. He could see the stunning success of more open East Asian economies, so by 1985 he had decided to liberalize. He cut government spending for the first time in more than 20 years.[201] The tax system was simplified from 58 different rates to just 3, and the top rate was cut to 35 percent.[202]

Although some tariffs remain quite high, overall tariffs have come down dramatically. "Indonesia now has lower average tariffs than any other East Asian economy except Singapore or Hong Kong," reports economist Paul Meo of the World Bank.[203] Suharto curtailed import monopolies and abolished import restrictions for export-oriented manufacturers.[204] He privatized the notoriously corrupt customs service by retiring half the customs inspectors and contracting to have imports counted and inspected by the Geneva firm Societe Generale de Surveillance SA. Imports have increased almost 40 percent since 1985.[205]

Continuing flat oil revenues spurred officials to become more hospitable to foreign investment, and restrictions on such investment were unilaterally liberalized. During 1989, 294 companies started doing business in Indonesia--double the number of the previous year. That influx reportedly represented $4.7 billion in manufacturing.[206] President Suharto abolished the restrictive bank-licensing system, thereby opening the way for new private banks, including foreign banks, to be established. Securities trading has been substantially liberalized on the Jakarta stock exchange, and foreigners may participate.[207]

To be sure, there is still considerable government intervention in the Indonesian economy, and the ultimate success of present reforms will depend on how smoothly a successor government establishes itself after President Suharto passes from the scene; he has been in office since 1967. The point is that Indonesia liberalized when people perceived that doing so would serve their interests.

Mexico

After decades of self-destructive economic nationalism, expropriation, inflation, and trade restrictions, the Mexican economy was a wreck by the 1970s. Money-losing nationalized enterprises could be propped up only with massive subsidies. As long as oil prices remained high, the government could avoid major changes. But when oil prices collapsed in 1982, it became harder to postpone the inevitable. International banks virtually shut off the supply of credit. In a desperate parting shot before leaving office, President Jose Lopez Portillo nationalized Mexico's banks, and that made things worse.

However, more and more Mexicans recognized that the only viable alternative was to create a favorable environment for equity investment. Foreign capital surged into northern Mexico where the maquiladora factories prosper because they can import materials and components from the United States, assemble them into finished products, and ship them back to the United States, paying tariffs only on value added in Mexico. Maquiladoras are now second in importance only to the country's oil industry, generating over $3 billion in foreign exchange annually and thousands of jobs. The economy of northern Mexico is growing a very respectable 6 percent annually.[208]

The Mexican interior, however, was stagnating behind import quotas and tariffs that often doubled the price of imports. Overall living standards plunged 50 percent after 1982, in dramatic contrast to booming East Asian economies that lack the advantage of Mexico's natural resources, especially oil. The long-dominant Institutional Revolutionary party faced growing discontent. Mexican officials began a reluctant retreat from their disastrous economic nationalism.[209]

In December 1987 President Carlos Salinas de Gortari abolished most import quotas and cut tariffs, on average, to around 10 percent. Imports jumped 50 percent in 1988. Better quality products became readily available to large numbers of Mexicans. Prices fell. But the rest of the world yawned, because Mexico had a terrible history to overcome, and there were plenty of attractive alternatives for investors. President Salinas cut tariffs further and pushed privatization of the government telephone monopoly, steel companies, and banks. Taking his cue from the U.S.-Canadian free-trade agreement, he began promoting the idea of a U.S.-Mexican free-trade agreement. Despite the likelihood of enormous resistance from lobbyists representing backward industries in Mexico as well as the United States, the proposed agreement has stimulated considerable interest. "The prospect of free trade is the most important reason investors view Mexico differently," reported the Wall Street Journal.[210]

Brazil

For Brazilians the 1980s were a lost decade. They watched from the sidelines as millions of people elsewhere prospered. Money-losing government monopolies, which accounted for 60 percent of the economy, stagnated behind high trade barriers while runaway inflation, which exceeded 2,000 percent annually, destroyed the currency. Although interest groups defended their privileges aggressively, more and more Brazilians recognized that there was no alternative to opening up. As the New York Times reported, "Behind the new drive to open the country to imports is a spreading realization that this nation of 140 million people is falling behind other industrializing countries in growth and productivity."[211]

In addition, Brazilians could see that the easy-money days were over. U.S. and other banks were overloaded with bad loans. Events in Eastern Europe made it clear that economic nationalism was an indulgence they could no longer afford. As the New York Times observed, "Now, the fear here is that Eastern Europe will draw away foreign capital."[212]

Fernando Collor de Mello, elected Brazil's president in December 1989, announced a series of "shock therapy" measures including a dramatic unilateral liberalization of import restrictions. He cut tariffs on sacred cows such as textiles and computers. Collor's announced objective is to have tariffs fall from the present average of 105 percent to 20 percent by the end of his first term in 1994.

Recently, Collor has revived talks on establishing a common market with Argentina, which has also begun to liberalize its trade regime. Although powerful interest groups torpedoed the idea several times in the past, it seems to have better prospects as more Brazilians and Argentinians recognize the dangers of remaining a protected backwater. Other Latin American countries that have unilaterally liberalized their trade policies include Bolivia, Uruquay, and Venezuela.[213]

European Community

During the three decades after the signing of the Treaty of Rome in 1957, Europeans did little to create an authentic common market. Each country protected its industries behind myriad restrictions. Consequently, industries were small and inefficient. Milk, telephones, insurance, trucking, and thousands of other products and services cost substantially more than they did on the world market. The job market was stagnant. Unemployment was stuck around 10 percent.

Eventually, fears of backwardness began to overcome political inertia; as the New York Times reported, "The European Community's rapid march toward removing barriers began with fears that it was falling hopelessly behind the United States and Japan."[214] And again, "Jacques Delors, president of the European Commission, likes to recall that he explained a barrier-free Europe to Mr. Reagan as inspired by the President's push to deregulate American industry."[215]

Spaniards are among the most ardent supporters of opening markets. Xenophobic economic nationalism and a legacy of kings and fascists had left Spain in grinding poverty. Unemployment exceeded 20 percent during the late 1980s. Though nominally a socialist, Prime Minister Felipe Gonzalez Marquez admired the bold unilateral reforms of Britain's Margaret Thatcher. As she had, he abolished exchange controls and began privatizing moribund government enterprises. He liberalized labor laws, decreed by Generalissimo Franco, that made it almost impossible to fire anyone. Gonzalez threw open the doors to foreign investment, and companies such as AT&T, Ford, General Electric, Honda, Matsushita, Nissan, Sony, Unisys, and Volkswagen started building new factories that provided jobs and technology. By 1989 the Spanish economy was growing 5 percent a year, double the European average.[216]

Although the European Community has erected some trade barriers to the outside world, we should not underestimate the importance of unilateral forces that have driven long-protected national companies to accept competition within an expanded European market of 320 million people.

Communist Bloc

As Western Europe revived, stagnation in Eastern Europe and the Soviet Union became intolerable. People lost patience with the backwardness of their consumer goods, medical care, housing, telephones, roads, and just about everything else. "The catalyst for Mikhail Gorbachev's perestroika, and thus for the revolution that swept through Eastern Europe last year," noted the Economist, "was the Soviet Union's deepening economic crisis."[217]

Revolution has proceeded furthest in the countries that had the most contact with the West--Poland, Hungary, Czechoslovakia, and East Germany. They voted Communists out of office. They prepared to privatize government enterprises, eliminate monopoly privileges, and open their borders. They swallowed their nationalist pride and welcomed foreign investors from whom they could learn how to compete again.

In the Soviet Union, too, open revolution against communist rule started where people were closest to the West--the Baltic republics of Lithuania, Latvia, and Estonia. While President Mikhail Gorbachev has repeatedly affirmed his goal of salvaging communism, the worsening Soviet economic crisis has driven him toward market-oriented reforms. An increasing number of people in the Soviet Union are advocating radical measures like private property, free markets, and a freely convertible currency--which would mean substantially dismantling the massive communist state. As Edward Yardeni, chief economist at Prudential-Bache, put it, "The fear of falling hopelessly behind capitalist societies is one of the most powerful forces of revolutionary change in the world today."[218]

The experience of all those countries makes it clear that significant market openings do not have anything to do with trade retaliation or retaliatory threats. Significant market openings occur when people in dead-end, closed economies become desperate enough to mobilize for change, and when prosperous open markets show the way.

A Comprehensive Program for Opening Markets

To show the way, we must set an example for the world. That means taking courageous action here at home. We must challenge powerful lobbyists and politicians who unfairly gain from border restrictions that depress living standards for millions. If America is to be a pacesetter, we can no longer tolerate outrageous backroom deals that enable the auto lobby, the steel lobby, the textile lobby, the apparel lobby, the semiconductor lobby, the sugar lobby, the dairy lobby, the shipping lobby, and myriad other vested interests to exact tribute from ordinary Americans. We must let people be completely free at last to spend their hard-earned money as they choose.

Accordingly, I've drawn up a hit list of harmful trade laws, regulations, executive orders, and bureaucracies that should be targeted for elimination. This list might become the basis of an Omnibus Consumers Relief through Free Trade Act. [219]

An Act for Registering and Clearing Vessels. Regulating the Coasting Trade and for Other Purposes

Although this 1789 act has been superseded by generally more restrictive legislation, some of its provisions survive, namely 46 U.S.C. 8103(A), 12102, and 12110, which specify that only U.S. citizens may operate fishing boats that are larger than five tons in U.S. coastal waters. Defended in the name of national security, those provisions have protected U.S. shipping and fishing interests. Recently, the provisions are known to have been enforced only against Vietnamese residents of the United States. [220]

Countervailing Duty Law of 1897

The Countervailing Duty Law (19 U.S.C. 1303) still applies to countries that have not agreed to abide by the Subsidies Code of the GATT. A countervailing duty can be levied on imports that are alleged to benefit from subsidies, without determination of injury to the affected U.S. industry. The result is higher U.S. consumer prices.

Antidumping Act of 1916

The Antidumping Act (15 U.S.C. 71) gives U.S. firms a legal basis for suing foreigners in Federal District Court for criminal violations. Because the standards of proof for a criminal case are higher than they are for an administrative case, there has been only one case filed under the act--by the U.S. television industry during the 1970s.

Jones Act

The Jones Act [Section 27 of the 1920 Merchant Marine Act, 46 U.S.C. 883, 19 C.F.R. 4.80 and 4.80(B)] restricts U.S. intracoastal commerce to vessels made and registered in the United States and operated by U.S. citizens. During the severe cold wave in the winter of 1990, millions of Americans were hit with unusually high fuel prices in part because the Maritime Administration, enforcing the Jones Act, prevented foreign-owned vessels from delivering needed fuel. Pipelines were at capacity, and shippers reported that U.S. vessels were unavailable. [221]

Tariff Act of 1930

The Smoot-Hawley Act (19 U.S.C. 4) is the foundation of American trade policy. Most subsequent major trade laws--including the Reciprocal Trade Agreements Act (1934) and much of the Trade Expansion Act (1962), the 1974 Trade Act, the Trade Agreements Act (1979), the Tariff and Trade Act (1984), and the Omnibus Trade and Competitiveness Act (1988)--have been amendments of Smoot-Hawley.

Repealing Smoot-Hawley would, of course, eliminate what remains of the original act, including

- Section 201, which provides temporary relief from import competition, via a tariff. Such relief would be phased out over a five-year period.
- Section 232, which authorizes restrictions on imports found to imperil our national security. Such relief is difficult to qualify for, so there have been fewer than two dozen cases filed. Relief has been granted only to the oil industry.
- Section 301, which authorizes retaliation against other countries.
- Section 337, which deals with intellectual property. That provision treats imports less favorably than domestic products. The remedy can be a cease-and-desist order or an import ban (the more common remedy).

Repealing Smoot-Hawley would also eliminate

- U.S. tariffs, which are low in most cases but still more than 20 percent for many industries.
- Anti-dumping duties (19 U.S.C. 1673). A plaintiff need not prove criminal intent as he must under the 1916 anti-dumping law. Elaborate, often arbitrary, procedures are specified for determining whether an importer's selling price constitutes dumping. The result is to prevent American consumers from gaining the advantages of price competition.
- Countervailing duties (19 U.S.C., 1671), which prevent foreign governments from subsidizing American consumers. Countervailing duty laws, too, involve arbitrary standards that are capriciously enforced.
- Legislative authorization of the Office of the U.S. Trade Representative and the International Trade Commission.

Adjustment assistance to firms or individuals that claim to be harmed by foreign competition. Firms do not deserve assistance. Individuals who lose their jobs because customers prefer foreign suppliers should not be treated differently than individuals who lose their jobs because customers prefer other domestic suppliers, or individuals who lose their jobs because of poor health or other reasons. People should be treated equally on the basis of their need and the willingness of taxpayers to provide support.

- Balance-of-payments authority (19 U.S.C. 2132), which gives the president power to restrict imports, by tariffs or quotas, as a way of dealing with balance-of-payments problems.

- Exon/Florio amendment (1988), which gives the president authority to block foreign investment.

- Machine tool voluntary restraint agreement enforcement authority [section 1501(c) of the Omnibus Trade and Competitiveness Act of 1988].

- Fair Trade in Auto Parts Act of 1988 (15 U.S.C. 4701), which authorizes a Commerce Department "initiative" for increasing sales of U.S. auto parts. The act is to expire on December 23, 1993.

Agricultural Adjustment Act

The Agricultural Adjustment Act of 1934 (7 U.S.C. 624, section 22) authorizes costly agricultural import quotas, the avowed purpose of which is to prevent Americans from buying cheaper imports and thereby undermining U.S. government efforts to keep food prices high. At one time or another, section 22 has forced Americans to pay needlessly high prices for wheat, wheat flour, rye, rye flour, rye meal, barley, oats, cotton, dairy products, shelled almonds, shelled filberts, peanuts, peanut oil, flaxseed oil, linseed oil, and sugar. Section 8e bans imports that fail to meet certain grade, size, maturity, or other requirements; currently bans are applied against tomatoes, raisins, olives, limes, grapefruit, green peppers, Irish potatoes, cucumbers, oranges, onions, walnuts, dates, filberts, table grapes, and eggplants.

Foreign Trade Zones Act

The foreign Trade Zones Act of 1934 [19 U.S.C. 81(A)-(U)] is the basis for authorizing duty-free areas within the United States, such as those at international airports. Those areas would not be needed if the entire United States became a free-trade zone.

Buy American Act

The Buy American Act of 1937 [41 U.S.C. 10(A)-10(D)] hits American taxpayers by requiring the federal government to buy from higher priced domestic suppliers, rather than shop abroad.

Export-Import Bank Act of 1945

The Export-Import Bank Act (12 U.S.C. 635) authorizes export subsidies. Appropriations are provided by amending the law.

Public Law 480

Public Law 480 (7 U.S.C. 1701-1736d) created the Agricultural Trade Development and Assistance Act of 1974. That act, as amended, authorizes the U.S. government to practice large-scale dumping of food, which impoverishes poor Third World farmers. The agencies involved include the Commodity Credit Corporation.

Agricultural Act of 1956

The Agricultural Act of 1956 (7 U.S.C. 1854) authorizes collusion between the U.S. government and foreign governments to restrict the textile trade. The most egregious outcome has been the Multifiber Arrangement, a maze of bilateral agreements that limit what Third World producers may sell to consumers in the industrialized world.

Presidential Proclamations

With Presidential Proclamation 3822 (December 16, 1967), Lyndon Johnson created, among other things, authority for annual quotas on sugar, syrups, and molasses. Ronald Reagan authorized country-by-country sugar quotas with his Presidential Proclamation 4941 (May 5, 1982), which also specifies that sugar can enter the United States only with bureaucratic "certificates of eligibility."

Meat Import Act of 1979

The Meat Import Act of 1979 [19 U.S.C. 1202 (note)] authorizes limits on the amount of meat Americans may buy from overseas suppliers. The act has been invoked only once, so the main effect of repeal would be to eliminate future temptation to harm consumers.

Steel Trade Liberalization Proaram Implementation Act of 1989

The Steel Trade Liberalization Program Implementation Act (Public Law 101645) authorizes collusion between the United States and foreign governments to restrict the steel trade.

Other Ramifications of Repeal

In addition to repealing those laws, an Omnibus Consumers Relief through Free Trade Act would prohibit further U.S. contributions to the International Monetary Fund and the World Bank, since those institutions give taxpayers' money to governments. What we need are fewer government-to-government relations and more voluntary relations among private individuals, companies, and organizations.

On behalf of millions of American consumers, we could notify our trading partners that we do not wish them to renew their voluntary export agreements.

We could allow cartel deals, such as the International Coffee Agreement and the International Tin Agreement, to expire. In the future, we would not promote cartels. Among other things, that would mean the end of U.S. participation in the UN-sponsored Integrated Program for Commodities, which has attempted to arrange cartels in 18 commodities, and in the United Nations' Common Fund for financing cartels.

After we unilaterally eliminated our trade and investment restrictions, there would not be much for us to do at the GATT, so we could withdraw from it or at most maintain observer status.

In addition, trade-related activities of the Departments of Agriculture, Labor, Commerce, Energy, and Transportation could be prohibited, because they generally help their various constituencies erect trade barriers.

Prosperity and Justice

With closed economies collapsing everywhere, people around the world are probably more receptive to free-market ideas than they have been at any time in more than a hundred years. Americans have a historic opportunity.

We can show the world how markets are opened by opening our own. Instead of badgering foreign governments thousands of miles away, we can pressure our own federal, state, and local governments to get rid of border restrictions. Victimized companies, such as steel users, retailers, and computer producers, will join the battle.

By repealing our restrictions, we would affirm that, along with freedom of religion, freedom of assembly, and freedom of the press, Americans deserve full economic freedom regardless of what other countries do. Continuing restrictions elsewhere are not a valid reason to deny freedom in America.

We would fulfill our destiny as a champion of human liberty. We would not be tricked by reciprocal trade theories into adopting the restrictions of foreign rulers.

We would affirm that the greatest benefits go to those who open their own markets. Repealing restrictions would liberate us to shop for the best the world has to offer, and in the process to enjoy an even higher standard of living. Since most of the commodities that are traded internationally are industrial raw materials and components, repealing our restrictions would also give a boost to American manufacturers, including a lot of exporters.

We would demonstrate that the crowbar theory is a cruel fantasy. Retaliation, as we have seen, does not offer a shortcut to happyland. It is more likely to trigger a xenophobic backlash that closes markets and impoverishes people.

By repealing our restrictions, we would abandon the myth that harming millions of innocent people, who have nothing to do with a particular trade dispute, promotes fairness. We would affirm that retaliation is the moral equivalent of civilian bombing, which decent people condemn.

The best way we can help open markets abroad is to unilaterally open our own, gain the benefits, and thereby show the way toward prosperity and justice. In economic affairs, that would amount to nothing less than a new American revolution.

Notes

1. James Fallows, editorial, Atlantic, May 1989, pp. 40-54.

2. Karel Van Wolferen, The Enigma of Japanese Power (New York: Alfred A. Knopf, 1989), p. 421.

3. Clyde V. Prestowitz, Trading Places (New York: Basic Books, 1988), pp. 322-24.

4. Quoted in M. S. Daoudi and M. S. Dajani, Economic Sanctions, Ideals and Experience (London: Routledge & Kegan Paul, 1983), p. 185.

5. Interview with J. Michael Finger, economist at the World Bank, Washington, D.C., November 1989. Figure based on UN Conference on Trade and Development data.

6. According to the Office of Compliance, Antidumping Division, International Trade Administration, U.S. Department of Commerce, in July 1990 there were 197 anti-dumping orders, whereas in January 1990 there had been only 83 anti-dumping orders--an increase of 237 percent.

7. Office of the U.S. Trade Representative, 1990 National Trade Estimate Report on Foreign Trade Barriers, p. 39.

8. Ibid., p. 87.

9. Ibid., p. 151.

10. See, for example, World Bank, World Development Report 1987 (New York: Oxford University Press, 1987), pp. 49, 83-90, 105-6; David Ewing Duncan, "The Long Good-bye," Atlantic, July 1990, pp. 20-24.

11. Interview with Patrick A. Messerlin, economist at the World Bank, Washington, D.C., November 1989.

12. Mark Newman, Tom Fulton, and Lewrene Glaser, A Comparison of Agriculture in the United States and the European Community (Washington, D.C., U.S. Department of Agriculture, October 1987). Updated in Lindley H. Clark, Jr., "It's Time to End the Farm Subsidy War," Wall Street Journal, September 8, 1989.

13. Official Journal of the European Communities, no. L 252/1 (September 20, 1984). Such language is in response to section 301 of the U.S. trade law: "to make sure the Community, in managing trade policy, acts with as much speed

and efficiency as its trading partners, it has become apparent that the common commercial policy needs to be strengthened."

14. List entitled "E.C. Releases 1989 Report on U.S. Trade Barriers," May 3, 1989.

15. U.S. Customs Service, Department of the Treasury, Anti-dumping and Countervailinq Duty Reference List, July 13, 1990, p. 36. Case A 307801 involves aluminum sulfate from Venezuela to which a 259 percent dumping "margin" is applied.

16. GATT Secretariat, Multilateral Trade Neqotiations Uruguay Round Draft Factual Compilation of Anti-Dumping Measures Taken by Participants (1988), p. ii. The countries listed as having anti-dumping laws include Argentina, Australia, Austria, Canada, Chile, Czechoslovakia, Finland, Hong Kong, Hungary, India, Indonesia, Israel, Japan, Mexico, New Zealand, Norway, Pakistan, the Philippines, Poland, Romania, the Soviet Union, Sweden, Switzerland, the United States, and Uruguay as well as the 12 nations in the European Community.

17. Interview with Robert McNeill, executive vice chairman of the Emergency Committee for American Trade, Washington, D.C., July 1990. McNeill cited Mexico's unusually arbitrary anti-dumping practices.

18. USTR case 301-5, petition filed by Great Western Malting Company, November 13, 1975.

19. USTR case 301-2, petition filed by United Egg Producers and the American Farm Bureau Federation, July 17 and 21, 1975.

20. USTR case 301-21, petition filed by Universal Optical Co., December 6, 1979.

21. I count the following cases as openings: (1) 301-2, Canada doubled its egg import quota; (2) 301-4, the European Community discontinued its minimum required price for imported canned fruit; (3) 301-8, the European Community stopped requiring that its surplus nonfat dry milk be mixed into cattle feed, thus opening the possibility of U.S. soybean sales to European cattle producers; (4) 301-11, the European Community reduced tariffs on citrus products, almonds, and peanuts; (5) 301-35, Brazil reduced tariffs and liberalized import surcharge policies for nonrubber footwear; (6) 301-37, South Korea reduced tariffs on footwear; (7) 301-44, Argentina agreed to nondiscriminatory treatment of foreign air courier services; (8) 301-50, Japan agreed to eliminate its tariffs on cigarettes and end discriminatory distribution practices; (9) 301-56, Taiwan eliminated a burdensome duty-paying system; (10) 301-57, Taiwan eliminated restrictions on foreign beer; (11) 301-59, India established a separate import quota for almonds, supposedly increasing access to that market; (12) 301-60, the European Community took steps to improve market access for U.S. meat producers; (13) 301-66, Japan agreed to phase out orange juice import quotas. Another case, 301-12, resulted in more U.S. thrown silk being admitted to Japan, but apparently the solution was to cut down quotas from Brazil and South Korea rather than to actually open the market. Other cases are so recent that their actual effects cannot yet be evaluated.

22. Office of the U.S. Trade Representative, 1989 National Trade Estimate Report on Foreiqn Trade Barriers, p. 97.

23. According to the Division of Tariff Classification, Office of Regulations and Rulings, U.S. Customs Service, Department of the Treasury, the Harmonized Tariff Schedule of the United States Annotated for Statistical Purposes (Washington, D.C.: U.S. Government Printing Office, 1990) indicates that the duties collected on imported manufactured tobacco (including cigarettes) include a tariff of 79.4 cents per kilogram plus an excise tax of $4.21 per kilogram and 10.5 percent of the value (known as a compound rate).

One cannot just call a tobacco import broker to find out the going price per kilogram, since that varies all over the lot--for dark tobaccos from Eastern Europe, for American-style blends, for Indonesian clove-flavored cigarettes, and so on. Aggregate figures are needed.

According to the Tobacco Merchants Association's Tobacco Trade Reporter, December 1989, part 5 (Imports of Tobacco Products), p. 6, the "CIF" value of imported cigarettes during 1989 totaled $50,042,211. CIF includes the purchase price of the cigarettes, plus freight and insurance, but no customs, duties. The CIF figure is based on data from U.S. Customs computer tapes, which are received by the Tobacco Merchants Association. The same source also reported that during 1989, 2,555,752,725 cigarettes were imported.

The U.S. Department of Agriculture's Economic Research Service reported, in their September 1989 Tobacco Situation Outlook Report, that 1,000 cigarettes weigh 1.737 pounds. Dividing the number of cigarettes imported in 1989 (2,555,752,725) by 1,000 and multiplying the result by 1.737 gives 4,439,342.483 pounds as the weight of those imported cigarettes. One pound equals 0.45 kilogram, and multiplying the pound weight by 0.45 yields 1,997,704.117 kilograms of imported cigarettes.

Hence, at 79.4 cents per kilogram, the tariff equals $1,586,177.06. At $4.21 per kilogram, the first part of the excise tax equals $6,677,805.46. Multiplying the 10.5 percent rate times the CIF value, $50,042,211, yields $5,204,389.94 for the second part of the excise tax. Total duties are $1,586,177.06 in tariffs plus $6,677,805.46 for the first part of the excise tax and $5,204,389.94 for the second part, or $13,468,372.46. Dividing that figure by the CIF value yields 26.9 percent--the rate of duty the United States imposes on imported cigarettes.

Japan does not have cigarette duties anymore, so the U.S. rate is higher than Japan's. The last Japanese rate, before elimination in 1987, was 20 percent.

24. Office of the U.S. Trade Representative, "Statement by Ambassador Yeutter on Beef/Citrus Signing," July 5, 1988.

25. Interview with Nik Haras, Dairy and Livestock Section, Foreign Agricultural Service, U.S. Department of Agriculture, July 1990. Haras reported that U.S. beef exports to Japan were $840,729,000 in 1988 and $1.013 billion in 1989. Australian beef is cheaper than U.S. beef because, among other things, the cattle are grass fed, whereas in the United States virtually all cattle are grain fed.

26. Interview with Mark Dries, Citrus Section, Foreign Agricultural Service, U.S. Department of Agriculture, July 1990. Dries reported that U.S. exporters sold $78,413,000 in fresh oranges to Japan in 1987, $72,862,000 in 1988, and $82,907,000 in 1989. Those amounts represented 120,499 metric tons in 1987, 113,397 in 1988, and 120,864 in 1989.

27. Based on data compiled by James Byron, Consumer Goods Section, International Trade Administration, U.S. Department of Commerce, from the Japan Tariff Association's monthly publication, Japan's Exports & Imports, Commodity by Country. For non-rubber footwear, Japan had a quota system that was found to be illegal under the GATT. Subsequently, Japan switched to a quota/tariff rate system that is legal under the GATT. There is no official quantitative limit to the volume of nonleather footwear that can be brought into Japan at a 60 percent tariff rate. The government has established an annual global quota of 3.2 million shoes that qualify for a 27 percent tariff. The Ministry of International Trade and Industry issues import licenses twice a year, thus determining which suppliers can bring in how much. Since that system still harms U.S. suppliers, Japan offered GATT-legal "compensation" in the form of somewhat reduced tariffs for over 370 products, including paper, chemicals, and medical equipment.

28. Based on data compiled by Linda Gossack, Telecommunications Section, International Trade Administration, U.S. Department of Commerce, from Japan's Exports & Imports, Commodity by Country. U.S. market shares were 3.7 percent in 1983, 2.8 percent in 1984, 2.6 percent in 1985, 2.2 percent in 1986, 2.3 percent in 1987, and 2.3 percent in 1988. No tariffs or quotas apply.

29. USTR cases 301-12 (thrown silk, which also involved Brazil, China, and Japan); 301-20 (insurance); 301-37 (nonrubber footwear); 301-39 (steel wire rope); 301-51 (insurance); 301-52 (intellectual property rights); 301-64 (cigarettes); 301-65 (beef); and 301-67 (wine).

30. Interview with economist John Bennett, Korea Development Institute, Washington, D.C., November 1989.

31. Ibid.

32. USTR case 301-24, petition filed by National Tanners' Council, October 9, 1981.

33. USTR case 301-13, petition filed by Tanners' Council of America, August 4, 1977.

34. USTR case 301-71, petition filed by Carla Hills, U.S. trade representative, May 8, 1989.

35. USTR case 301-61, petition filed by Pharmaceutical Manufacturers Association, June 11, 1987.

36. USTR case 301-62, petition filed by President Ronald Reagan, November 25, 1987.

37. USTR case 301-15, petition filed by various television licensees, August 29, 1978.

38. USTR case 301-27, petition filed by Tool and Stainless Steel Industry Committee et al., December 2, 1981.

39. USTR case 301-58, involving Canadian softwood lumber, December 30, 1986.

40. USTR case 301-48, petition filed by the Semiconductor Industry Association, June 14, 1985.

41. Kenichi Ohmae, The Borderless World. Power and Strategy in the Interlinked Economy (New York, Harper Business, 1990), p. 52.

42. Interview with Amit Sharma of McKinsey & Company's computer group, New York, November 1989.

43. Marguerite Markey, semiconductor analyst, Science and Electronics Section, International Trade Administration, U.S. Department of Commerce, derived the figures from the Semiconductor Industry Association's monthly publication, Japan Market Shares. The figures are three-month moving averages.

44. Statement by Ambassador Carla A. Hills, U.S. trade representative, Executive Office of the President, April 27, 1990.

45. Ibid.

46. Interview with Velma Branch, public relations manager, Brown & Root Inc., Houston, Tex., July 1990.

47. Ibid.

48. Interview with Don Phillips, assistant U.S. trade representative for industry, Office of the U.S. Trade Representative, July 1990. Phillips headed the wood products negotiations with Japan.

49. U.S. Department of Commerce, Statistical Abstract of the United States 1990 (Washington, D.C.: U.S. Government Printing Office, 1990), Table 1142, "Selected Farm Products--U.S. and World Production and Exports," p. 656.

50. Interview with David Graves, president of the Rice Millers Association, Arlington, Va., July 1990.

51. Joint Report of the U.S.-Japan Workinq Group on the Structural Impediments Initiative, June 28, 1990, III.

52. Ibid.

53. Ibid., p. IV-4.

54. Ibid., p. I-2-(1)-(i) and III.

55. Ibid., IV and V. For a discussion of Apple Computer and Mars Inc., see Jacob M. Schlesinger, "U.S. Call to Open Japan Trade Market May Bring Crackdown on Foreign Firms," Wall Street Journal, June 19, 1990, p. A16.

56. Joint Report of the U.S.-Japan Working Group on the Structural Impediments Initiative, p. I-12.

57. Ibid., p. I-23.

58. B. R. Mitchell, Abstract of British Historical Statistics (Cambridge: Cambridge University Press, 1962), p. 333;

Bureau of the Census, U.S. Department of Commerce, Historical Statistics of the United States from Colonial Times to 1970 (Washington, D.C.: U.S. Government Printing Office), vol. 2, p. 868.

59. Ibid., p. 867.

60. International Monetary Fund, Direction of Trade 1951-1954, United Nations Publication no. 1956, pp. 155, 256.

61. U.S. Department of Commerce, Statistical Abstract of the United States 1990, Table 1461, p. 847.

62. International Monetary Fund, Direction of Trade Statistics Yearbook (Washington, D.C.: IMF, 1989). Examples of troubled Latin American economies with trade surpluses include Argentina (p. 82), Brazil (p. 111), and Mexico (p. 279).

63. DeAnne Julius, Global Companies and Public Policy (London: RIIA/Pinter, 1990).

64. Kenichi Ohmae, Triad Power: The Coming Shape of Global Competition (New York: Free Press, 1985), pp. 76-83.

65. Interview with Jimmy Wheeler, Hudson Institute, Indianapolis, Ind., November 1989.

66. Interview with economist Chiaki Nishiyama, Rikkyo University, Tokyo, September 1988. See also Michael William Lochmann, "The Japanese Voluntary Restraint on Automobile Exports: An Abandonment of the Free Trade Principles of the GATT and the Free Market Principles of United States Antitrust Laws," Harvard International Law Journal (Winter 1986): 99-157. Lochmann provides a summary of MITI's power over the Japanese auto industry. "MITI would administer the quota by issuing written directives to each Japanese automaker stating the maximum number of units it could export to the United States. The quotas were based upon a pro rata allocation of market shares during the previous two years. Each manufacturer was required to report its exports so that MITI could monitor industry compliance with the voluntary export restraint quota. The Japanese government publicly threatened to impose compulsory export licensing under the Japanese Foreign Trade Control Law if the industry did not comply with MITI's written directives on auto exports" (p. 105).

67. "The Book That's Creating a Firestorm," Business Week, October 23, 1989. See also Damon Darlin, "Japan's Farm Lobby Fighting Reforms by Exploiting National Distrust of U.S.," Wall Street Journal, July 7, 1988, p. A18; Damon Darlin, "Farmers' Revolt Could Cost Japan Ruling Party Dearly," Wall Street Journal, May 9, 1989, p. A18.

68. Peter Drucker, "U.S.-Japan Trade Needs a Reality Check," Wall Street Journal, January 10, 1989.

69. International Finance Bureau, Japanese Ministry of Finance, Annual Data (Tokyo, 1989), p. 174. The total is for Japanese investment overseas, excluding the United States, and is based on annual figures going back to 1980, when Japanese overseas investment became significant. See also "Big Japanese Investors Look to Europe," Wall Street Journal, March 26, 1990, p. C1.

70. Robert Neff, Naoaki Usui, and Dave Griffiths, "Tokyo Wants Its Arsenal Made in Japan," Business Week, September 25, 1989, p. 64.

71. Marvin Piziali, letter to Roger Souba, Douglas International, Geneva, Ill., April 3, 1987.

72. Data General Corporation, testimony before the Section 301 Committee of the U.S. trade representative, Monday, April 13, 1987.

73. H. William Tanaka, "Responses to the New Global Economy," Fletcher Forum (Winter 1988): 10; Andrew Pollack, "Many Seek Exemptions at Japan Tariff Hearings," New York Times, April 13, 1987, pp. D1-D2. "Many of those who will testify in hearings beginning today said in interviews last Friday that they support, in principle, the proposed tariffs. But in the next breath they add that putting a tariff on the particular product they are concerned with would have a devastating effect--not only on the Japanese but also on their own companies and American consumers. 'I hate to say it,' one computer industry executive said, 'but a lot of it depends on whose ox is being gored.'"

74. Jack Lewis, testimony before the Section 301 Committee of the U.S. trade representative, May 24, 1989.

75. Quoted in brief to the U.S. trade representative in support of oral testimony regarding Section 301 Committee proposal to restrict imports of 50-plus copies per minute photocopying machines, May 17, 1989.

76. Edwin B. Spievack, testimony before the Section 301 Committee of the U.S. trade representative regarding possible U.S. actions in response to acts by the government of Japan inconsistent with the Market-Oriented Sector Selective (MOSS) agreements, May 24, 1989.

77. Interview with Jerry Junkins, chief executive officer of Texas Instruments, at the Japan Society, October 1989.

78. Elmer L. Elkins, letter to Dorothy Balaban, Office of the General Counsel, Office of the U.S. Trade Representative, May 24, 1989.

79. Robert A. Fay, letter to Dorothy Balaban, Office of the General Counsel, Office of the U.S. Trade Repesentative, May 22, 1989.

80. Don Corcoran, letter to the Office of the General Counsel, Office of the U.S. Trade Representative, May 19, 1989.

81. Henry George, Protection or Free Trade (1886) (New York: Robert Schalkenbach Foundation, 1980), p. 169.

82. Interview with Gary Horlick, attorney with O'Melveny & Meyers, Washington, D.C., July 1990. Horlick's clients include steel users.

83. International Trade Commission investigations TA 201-48 (stainless steel) and TA 201-51 (carbon and certain steel alloy products).

84. According to the Steel Industry Section, International Trade Administration, U.S. Department of Commerce, the 16 countries that agreed to restrict their steel shipments to the United States under the 1984 voluntary export restraints included Austria, Brazil, China, Czechoslovakia, Finland, East Germany, Hungary, Japan, Mexico, Poland, Romania, South Korea, Trinidad, Tobago, Venezuela, and Yugoslavia in addition to the European Community. The related 1982 episode was chronicled in Michael K. Levine, Neqotiatinq International Trade Aqreements: The U.S.-E.C. Steel Agreement (New York: Praeger, 1985).

85. Robert H. Slosberg, testimony before the Section 301 Committee of the U.S. trade representative, December 14, 1987.

86. Domenic Diapaola, statement to the Section 301 Committee of the U.S. trade representative on possible U.S. actions in response to certain Brazilian unfair trade practices, December 14, 1987.

87. Susan G. Esserman, statement on behalf of American Restaurant China Council to the Section 301 Committee of the U.S. trade representative on possible U.S. actions in response to the unfair Informatics policy of the government of Brazil, December 14, 1987.

88. George A. Watson, letter to the U.S. trade representative, December 14, 1987.

89. Roger M. Golden, letter to the U.S. trade representative, December 14, 1987.

90. James Sterngold, "U.S. Urged to Soften Japan Stand," New York Times, November 25, 1989, p. B1.

91. Data for 1989 supplied by the Office of Compliance and the Office of Textiles, International Trade Administration, U.S. Department of Commerce.

92. Frank W. Taussig, The Tariff History of the United States (New York: G. P. Putnam's Sons, 1931), pp. 174-75.

93. George, p. 169.

94. Report of the Committee on Ways and Means Concerning Reciprocity and Commercial Treaties (Washington, D.C.: U.S. Government Printing Office, 1896), pp. 67, 68.

95. Emil Ludwig, Bismarck: The Story of a Fiqhter (Boston: Little, Brown, 1927), p. 544.

96. Carlton J. H. Hayes, A Generation of Materialism (New York: Harper & Brothers, 1941), pp. 205-9.

97. Taussig, The Tariff History, pp. 251-83. On the retaliatory provision, see Frank W. Taussig, Free Trade The Tariff and Reciprocity (New York: Macmillan, 1923), pp. 120-21.

98. John H. Clapham, The Economic Development of France and Germany 1815-1914 (Cambridge: Cambridge University Press, 1923), p. 319.

99. Harry Elmer Barnes, Felix Flugel, and Melvin M. Knight, Economic History of Europe (Boston: Houghton Mifflin, 1928), p. 758.

100. Gordon A. Craig, Germany, 1866-1945 (New York: Oxford University Press, 1978), p. 98.

101. Koppel S. Pinson, Modern Germany: Its History and Civilization (New York: Macmillan, 1954), p. 237. See also Hajo Holborn, A Historv of Modern Germany 1840-1945 (New York: Alfred A. Knopf, 1969), PP. 384-86.

102. David S. Landes, The Unbound Prometheus (Cambridge: Cambridge University Press, 1987), pp. 246-47.

103. Winston Churchill in For Free Trade: A Collection of Speeches Delivered at Manchester or in the House of Commons during the Fiscal Controversy Precedinq the Late General Election (Sacramento, Calif.: The Churchilliana Co., 1977), p. 89.

104. Norman Angell, The Great Illusion (1933 ed.) (London: William Heinemann, 1953), pp. 60, 68.

105. Ludwig von Mises, Omnipotent Government (New Rochelle, N.Y.: Arlington House, 1969), p. 2.

106. See, for example, the summary in R. R. Palmer and Joel Colton, A History of the Modern World (New York: Alfred A. Knopf, 1984), pp. 683-87. See also C. Paul Vincent, The Politics of Hunger: The Allied Blockade of Germany. 1915-1919 (Athens: Ohio University Press, 1985).

107. Hearings on General Tariff Revision before the Committee on Ways and Means. House of Representatives, 6 vols. (Washington, D.C.: U.S. Government Printing Office, 1921). The principal opponents of tariff hikes were importers, manufacturers who wanted their imported components to be as inexpensive as possible, and some free-trade associations.

108. Taussig, The Tariff History, pp. 447-88.

109. Margaret S. Gordon, Barriers to World Trade: A Study of Recent Commercial Policy (New York: Macmillan, 1941), p. 16.

110. Ibid., p. 217.

111. Daniel Barbezat, "Cooperation and Rivalry in the International Steel Cartel, 1926-1933," Journal of Economic History (June 1989): 435-47; Gustav Stolper, The German Economy 1970 to the Present (London: Wedenfield & Nicolson, 1967), p. 105.

112. Max Gallo, Mussolini's Italy: Twenty Years of the Fascist Era (New York: Macmillan, 1973). See also Philip V. Cannistraro, Historical Dictionary of Fascist Italy (Westport, Conn.: Greenwood Press, 1982), pp. 63-64.

113. Paul A. Buran, "The U.S.S.R. in the World Economy," in Foreign Economic Policy for the United States, ed.

Seymour E. Harris (Cambridge, Mass.: Harvard University Press, 1948), p. 171. Soviet exports, in thousand metric tons, were 24,112.8 in 1913 and 2,160.8 in 1922-23. Soviet imports, in thousand metric tons, were 15,342.8 in 1913 and 907.5 in 1922-23.

114. V. I. Lenin, Collected Works (Moscow: Foreign Languages House, 1960), vol. 36, p. 529.

115. Mikhail Heller and Aleksandr M. Nekrich, Utopia in Power. the History of the Soviet Union from 1917 to the Present (New York: Summit Books, 1986), p. 117.

116. Joseph Rothschild, East Central Europe between the Two World Wars (Seattle: University of Washington Press, 1974), pp. 3-25.

117. Ibid., p. 30.

118. Ibid., p. 10.

119. Ibid., p. 86.

120. David Rock, Arqentina 1516-1982: From Spanish Colonization to the Falklands War (Berkeley: University of California Press, 1985), pp. 208-13.

121. See William P. Glade, The Latin American Economies: A Study of Their Institutional Evolution (New York: Van Nostrand, 1969), pp. 347-449; Shoshana B. Tancer, Economic Nationalism in Latin America: The Ouest for Economic Independence (New York: Praeger, 1975).

122. Ludwig von Mises, Liberalism (1927) (San Francisco: Cobden Press, 1985), pp. 2, 3.

123. Tariff Readjustment--1929. Hearinqs before the Committee on Ways and Means House of Representatives, 18 vols. (Washington, D.C.: U.S. Government Printing Office, 1929).

124. Victor A. Canto, The Determinants and Consequences of Trade Restrictions in the U.S. Economy (New York: Praeger, 1985), p. 2.

125. U.S. Tariff Commission, Number of Items and Tariff Rates in the Tariff Act of 1922 as Compared with the Acts of 1930 and 1913 (Washington, D.C., 1930), cited in E. E. Schattschneider, Politics Pressures and the Tariff (New York: Prentice-Hall, 1935), p. 17.

126. Joseph M. Jones, Jr., Tariff Retaliation: Repercussions of the Hawley-Smoot Bill (Philadelphia: University of Pennsylvania Press, 1934), p. 222.

127. Charles P. Kindelberger, The World in Depression 1929-1939 (Berkeley: University of California Press, 1986), p. 125.

128. Sumner Welles, A Time for Decision (New York: Harper & Brothers, 1944), p. 46.

129. Gordon, pp. 81-83.

130. Jones, p. 25.

131. Ibid., p. 223.

132. Ibid., p. 236.

133. A listing of U.S. bilateral agreements is provided in Gordon, p. 395.

134. Cordell Hull, The Memoirs of Cordell Hull (New York: Macmillan, 1948), vol. 1, p. 376.

135. Alonzo E. Taylor, The New Deal and Foreign Trade (New York: Macmillan, 1935), pp. 178-225.

136. Gordon, pp. 212-15, 368.

Leland B. Yeager and David G. Tuerck reached similar conclusions in Foreign Trade and U.S. Policy (New York: Praeger, 1976). "American negotiators usually bargained over tariff cuts on each particular product only with the chief country supplying it. Sometimes the product was narrowly and cleverly defined so that only our partner in the negotiations could much increase its sales. The agreement of 1939 with the United Kingdom revived a separate classification for bone china, exported almost solely by the English; feldspar china from Japan and continental Europe remained dutiable at the old rates. . . . The agreement with Mexico confined the duty cut on sales to huaraches, almost by definition of Mexican manufacture. Such practices permit observing the letter while evading the spirit of the principle of nondiscrimination" (p. 270).

See also John A. C. Conybeare, Trade Wars: The Theory and Practice of International Commercial Rivalry (New York: Columbia University Press, 1987), who concludes that the bilateral tariff reduction agreements did not do much good. "Most treaties were concluded with small, weak countries that were principal suppliers of primary products to the United States. This tactic not only excluded free-riders, but also made best use of the asymmetries in bargaining power, and reduced the decline in the effective rate of protection of U.S. manufacturing industries. . . . It is clear that the effective rate of protection fell by very little" (pp. 255-56). "The 1936 agreement with France appears to have been relatively unimportant in its trade-creating effects: of the $118 million in U.S. exports to France in 1935, only $25 million (21.5 percent) was subject to concessions, and by 1938 the concessional items had actually fallen to 16.6 percent of U.S. exports to France. The 1938 agreement with Britain was the only serious exception to the U.S. strategy of bargaining only with small primary producers" (p. 257).

137. See, for example, Max Shapiro, The Penniless Billionaires (New York: Times Books, 1980), pp. 170-224.

138. Robert Lekachman, "Introduction" to John Maynard Keynes, The Economic Consequences of the Peace (1920) (New York: Penguin Books, 1988).

139. Margaret P. Doxey, Economic Sanctions and International Enforcement (New York: Oxford University Press, 1980), pp. 45-

140. John Foster Dulles, "Practicable Sanctions," in Boycotts and Peace: A Report by the Committee on Economic Sanctions, ed. Evans Clark (New York: Harper & Brothers, 1932), pp. 18-19.

141. Robin Renwick, Economic Sanctions (Cambridge, Mass.: Harvard University Center for International Studies, 1981), p. 22.

142. H. J. Taubenfeld, "Economic Sanctions: An Appraisal and Case Study," Ph.D. dissertation, Columbia University, 1958, p. 203.

143. Ethel B. Dietrich, Far Eastern Trade of the United States (New York: Institute of Pacific Relations, 1940), pp. 18-29.

144. See chronology in Gary Clyde Hufbauer, Jeffrey J. Schott, and Kimberly Ann Elliott, Economic Sanctions Reconsidered: History and Current Policy (Washington, D.C.: Institute for International Economics, 1985), pp. 163-66; Thomas A. Bailey, Diplomatic History of the American People (Englewood Cliffs, N.J.: Prentice-Hall, 1970), pp. 734-37.

145. W. N. Mendlicott, The Economic Blockade (London: Longmans, Green, 1952), vol. 2, p. 119.

146. Herbert Feis, The Road to Pearl Harbor (Princeton, N.J.: Princeton University Press, 1950), p. 109. Again, "events were to show that the freezing order shook the Japanese rulers. But they did not change their course. They were soon to decide to rush full speed ahead, lest they would not have enough oil to reach those distant ports which were marked on the Imperial chart" (p. 239).

147. Margaret P. Doxey, International Sanctions in Contemporary Perspective (New York: St. Martins Press, 1987), pp. 59-65; Sergio Roco, "Economic Sanctions against Cuba," in The Utility of International Sanctions, ed. David Leyton-Brown (London: Croom Helm, 1987), pp. 87-104; Jerrold D. Green, "Strategies for Evading Economic Sanctions," in Dilemmas of Economic Coercion, ed. Miroslav Nincic (New York: Praeger, 1983), pp. 66-71; Rachel Ehrenfeld, "Castro Is Shocked! to Find Drug-Dealing Comrades," Wall Street Journal, June 23, 1989, p. A15; David Asman, "Man in the Middle of Drug Trafficking," Wall Street Journal, September 25, 1989.

148. Hufbauer, Schott, and Elliott, pp. 211-20; Doxey, Economic Sanctions, pp. 16-20.

149. Doxey, International Sanctions, pp. 77-79; Peggy L. Falkenheim, "Post-Afghanistan Sanctions," in The Utility of Economic Sanctions, pp. 105-30; Robert L. Paarlberg, "The 1980- 81 US Grain Embargo: Consequences for the Participants," ibid., pp. 185-220; Daoudi and Dajani, pp. 130-45.

150. Doxey, International Sanctions, pp. 80-83; Paul Marantz, "Economic Sanctions in the Polish Crisis," in The Utility of Economic Sanctions, pp. 131-46.

151. Doxey, International Sanctions, pp. 79-80; Bernard M. Wolf, "Economic Impact on the United States of the Pipeline Sanctions," in The Utility of Economic Sanctions, pp. 207-20.

152. Doxey, International Sanctions, pp. 188-22; Douglas G. Anglin, "United Nations Economic Sanctions against South Africa and Rhodesia," in The Utility of Economic Sanctions, pp. 23-44; Renwick, pp. 25-58; Jerrold D. Green, "Strategies for Evading Economic Sanctions," in Dilemmas of Economic Coercion, pp. 66-71; Michael Holman, "Zimbabwe: Disillusion Sets In," Financial Times, August 21, 1989; Tony Hawkins, "Illusionary Prosperity in Zimbabwe," Wall Street Journal, November 8, 1988; Richard W. Hull, "Zimbabwe's Elusive Quest for Unity," Contemporary History, May 1986, pp. 209-12, 228-29.

153. David B. Dewitt, "The Arab Boycott of Israel," in The Utility of Economic Sanctions, pp. 149-66; Roy Licklider, "The Arab Oil Weapon of 1973-74," ibid., pp. 167-81; Howard Stanislawski, "The Impact of the Arab Boycott of Israel on the United States and Canada," ibid., pp. 223-54; "Strategies for Evading Economic Sanctions," in Dilemmas of Economic Coercion, pp. 72-77; Doxey, Economic Sanctions, pp. 20-28.

154. Doxey, International Sanctions, pp. 124-41; Anglin, pp. 44-56; David F. Gordon, "The Politics of International Sanctions: A Case Study of South Africa," in Dilemmas of Economic Coercion, pp. 183-210; Roger Thurow, "Reform in South Africa Has Rightists Talking of Armed Resistance," Wall Street Journal, June 19, 1990; "The Wind Rises in Welkom," Time, May 28, 1990; "How Do South African Sanctions Work?" The Economist, October 14, 1989, pp. 45-46; Roger Thurow, "South Africa's Far Right Prepares for War," Wall Street Journal, December 22, 1988, p. A12; Marshall Loeb, "What the U.S. Must Do in South Africa," Fortune, July 18, 1988, pp. 88-90; John Brimelow, "Sanctions Are the Bane of Liberal South Africa," Wall Street Journal, May 25, 1988.

155. On Libya see Hufbauer, Schott, and Elliott, pp. 620-25; Alan Cowell, "Few Gains for Qadaffi in Drive to End Isolation," New York Times, September 4, 1989. On Nicaragua see Hufbauer, Schott, and Elliott, pp. 671-82; Douglas W. Payne, How the Sandinistas Lost: Nicaragua's Second Revolution (New York: Freedom House, 1990). On Panama see Alan Tonelson, "Sanctions Work, but Only If Hard and Fast," Wall Street Journal, July 13, 1988. Tonelson notes that 22 Latin American countries have opposed U.S. sanctions against Panama. See also Douglas Waller and John Barry, "Backwards Strategy, the Campaign against Noriega Misfires," Newsweek, April 18, 1988.

156. Margaret Doxey, "Economic Sanctions: Benefits and Costs," World Today, December 1980, p. 488.

157. Interview in U.S. News & World Report, July 26, 1982, p.

158. Representative Campbell's bill, H.R. 3699, was introduced on November 17, 1989.

159. Duncan, p. 20.

160. See, for example, Congressional Budget Office, Has Trade Revitalized Domestic Industries? (Washington, D.C.: CBO, November 1986).

161. Details of the inefficiencies and the legacy of protection are scattered through Tony Horwitz, "Welfare Stagnation Besets Smug Sweden," Wall Street Journal, April 5, 1990; Guy de Jonquieres, "The Break with French Tradition," Financial Times, January 17, 1990; "Europe's Capital Markets: Together We Stand," The Economist, December 16, 1989; "Italian Industry," Financial Times, June 21, 1989; "Europe's Internal Market: After the Fireworks," The Economist, July 9, 1989; John F. Magee, "1992: Moves Americans Must Make," Harvard Business Review (May/June 1989): 78-84; Eric G. Friburg, "1992: Moves Europeans Are Making," ibid., pp. 85-89; "Business in Britain," The Economist, May 20, 1989; "Europe's Internal Market: What Are They Building?" The Economist, July 8, 1988; Steven Greenhouse, "Europe's Big 1992 Goal: Truly Common Market," New York Times, March 14, 1988; "The Nordic Alternative," The Economist, November 21, 1987.

162. Katsuro Sakoh, "Japanese Industrial Success: Industrial Policy or Free Market?" Cato Journal 3, no. 2 (Fall 1984): 521-48; Kenneth Flamm, Targeting the Computer (Washington, D.C.: Brookings Institution, 1987), pp. 125-72; Edward J. Lincoln, Japan's Industrial Policies (Washington, D.C.: Japan Economic Institute, 1984).

163. Sung Yeung Kwack, "The Economic Development of the Republic of Korea, 1965-1981," in Models of Development: A Comparative Study of Economic Growth in South Korea and Taiwan, ed. Lawrence J. Lau (San Francisco: Institute for Contemporary Studies, 1986), pp. 65-134; Depak Lal, The Poverty of Development Economics (London: Institute of Economic Affairs, 1983), p. 46; "From Grasshopper to Butterfly: Market Liberalization," Korean Economic Report, April 1990 (about how backward banks and securities firms cannot be exposed to global competition overnight); Lee Keum-Hyun, "Chasing Financial Rivals," Business Korea, April 1990 (more about the vulnerability of Korea's financial companies); Maggie Ford, "Heavy S. Korea Aid for Textiles," Financial Times, November 28, 1989; "Realigning Korea's National Priorities for Economic Success, the Presidential Report on Economic Restructuring," Korea's Economy, October 1988, pp. 3-28.

164. "On the Effects of International Economic Sanctions: With Examples from the Case of Rhodesia," in Dilemmas of Economic Coercion, p. 46.

165. Quoted in John W. Evans, The Kennedy Round in American Trade Policy: The Twiliqht of the GATT? (Cambridge, Mass.: Harvard University Press, 1971), p. 305.

166. Mitchell, pp. 271, 272. For more detail see John H. Clapham, An Economic History of Modern Britain: Free Trade and Steel (Cambridge: Cambridge University Press, 1963).

167. J. A. Hobson, Richard Cobden--the International Man (New York: Henry Holt & Co., 1919), p. 41.

Cobden's friend Frederic Bastiat, a great French free-trader, believed that free trade cannot be forced on another country. "There exists an inveterate mistrust of England, I will even say a sentiment of hostility, as old as the two names of French and English." John Morley, The Life of Richard Cobden (London: T. Fisher Unwin, 1906), pp. 476-77. Bastiat promoted free trade in France by arguing that the French would fall hopelessly behind the English unless they opened their markets, lowered their costs, and modernized. Arthur Louis Dunham, The Anglo-French Treaty of Commerce of 1860 and the Proqress of the Industrial Revolution in France (New York: Octagon Books, 1971), p. 15. Bastiat referred to the apparent damage that the French had already done to themselves. "Tariff policy isolated France and accounted more than anything else for the economic stagnation in France in the first half of the 19th century." Alexander Gerschenkron, Capital Formation and Economic Growth (Princeton, N.J.: National Bureau of Economic Research, 1955), p. 376.

168. Landes, p. 200.

169. Report of the Proceedings of the International Free Trade Conqress, London, 1908, pp. 292-93.

170. Ibid., pp. 2, 3.

171. Ludwig Erhard, Prosperity through Competition (London: Thames and Hudson, 1962), pp. 10-36.

172. Josselyn Hennessy, "The German 'Miracle,'" in Economic Miracles (London: Institute of Economic Affairs, 1964), p. 5; Enno von Loewenstern, "The Man Who Pulled West Germany Out of Poverty," Wall Street Journal, November 21, 1989.

173. Ludwig Erhard, Germany's Comeback in the World Market (New York: Macmillan, 1953), pp. 13-14.

174. Quoted in Erhard, Prosperity through Competition, p. 13.

175. Jon Woronoff, Hong Kong Capitalist Paradise (Hong Kong: Heinemann Asia, 1980), pp. 31-79.

176. Ibid., p. 33.

177. Ibid.

178. World Bank, World Development Report 1990 (New York: Oxford University Press, 1990) lists China's per capita gross national product as $330 (p. 179); Hong Kong's is listed as $9,220 (p. 179).

179. Lindley H. Clark, Jr., "In Chile, Even a Dictator Plays Populist," Wall Street Journal, August 10, 1989; Robert M. Bleiberg, "Chile's Legacy, Free Elections and the Many Benefits of Free Markets," Barron's, July 17, 1989, p. 9.

180. Roger Cohen, "All Latins Should Try Chile's Homemade Growth Recipe," Wall Street Journal, September 30, 1989, p. A27; Paul Craig Roberts, "A Tale of Two Countries: Why Chile Booms as Peru Swoons," Business Week, May 29, 1989, p. 18; Roger Cohen, "Chile's Finance Chief Teaches a Dictatorship about Free Markets," Wall Street Journal, September 28, 1988, pp. A1, A14.

181. Interview with economist Steve H. Hanke of Johns Hopkins University, Baltimore, Md., November 1989.

182. Peter Hakim and Richard Feinberg, "The Lessons from Chile and Peru," Financial Times, November 30, 1988.

183. "Chilean Victors Calm Economic Fears," New York Times, October 10, 1988; Robert Graham, "Recovering a Lost Democracy," Financial Times, October 7, 1988.

184. Jim Powell, The Gnomes of Tokyo: The Positive Impact of Foreign Investment in America (New York: Amacom Books, 1989), p. 25.

185. Ibid., pp. 25-28.

186. Calculations based on Statistical Abstract of the United States 1990, Table 1406, pp. 806-9 (showing U.S. exports to respective countries), and Table 1438, pp. 831-33 (showing population of other countries).

187. Ibid., Table 1144, p. 657.

188. Interview with University of Michigan economist Gary Saxonhouse, November 1989.

189. Tibor Scitovsky, "Economic Development in Taiwan and South Korea, 1965-1981," in Models of Development, pp. 188-90; Soo-Gil Young, "Korean Trade Policy and the Implications for Korea/US Cooperation," Korea's Economy, May 1988, p. 8.

190. Patrick A. Messerlin, "Liberalization in Services: The Experience and Challenge of the European Community," World Bank, Washington, D.C., September 30, 1989, pp. 3, 4.

191. Ibid., pp. 11, 13.

192. David Barchard, "Free Market 'Favours London' as World Financial Centre," Financial Times, November 9, 1989.

193. Messerlin, p. 11.

194. Ibid., pp. 9, 13.

195. "On the Banks of the Bosporus, Another Korea," Business Month, November 1988, pp. 26-27; Kathryn Christensen, "Turkey Puts the Brakes on Rapid Growth," Wall Street Journal, August 4, 1988, p. A16; "A Survey of Turkey: Half Inside, Half Out," The Economist, June 18, 1988; James Brown, "The Politics of Transition in Turkey," Current History, February 1988, pp. 69-72, 82-83; Metin Demirsar, "Turkey's Ozal Expected to Win Mandate to Continue His Overhaul of Economy," Wall Street Journal, November 27, 1987; Marcia Berss, "Turkey Opts for Free Enterprise," Forbes, August 26, 1985, pp. 46-47; "Stability and Growth in Turkey," Nation's Business, June 1985; "Turkey Bounces Back from the Brink," U.S. News & World Report, April 1, 1985, pp. 42-43.

196. Christensen.

197. Ibid.

198. "Hawke Swoops, the Worm Turns," The Economist, September 23, 1989, pp. 36-37; Chris Sherwell, "Financial Times Survey: Australia," Financial Times, June 14, 1989; "Australia: Renaissance Down Under," The Economist, May 6, 1989; "Australian PM Hits at 'Massive' Coal Subsidies," Financial Times, May 5, 1989, p. 3; S. Karene Witcher, "Australia Waits for the 'Nasty Correction,'" Wall Street Journal, March 7, 1989, p. A20; Chris Hurford, "Australian Economy Isn't Going Under," Wall Street Journal, June 15, 1988; S. Karene Witcher, "Australia to Slash Corporate Taxes, Cut Import Tariffs," Wall Street Journal, May 26, 1988; Alan Reynolds, "Australia Misses the Supply-Side Boat," Wall Street Journal, May 23, 1988, p. 19; Stephen Hughes, "A Place in the Sun," Banker, November 1987, pp. 24-28; Geraldine Brooks, "Australia Goading Its Manufacturers to Look beyond the Domestic Market," Wall Street Journal, October 27, 1986.

199. "The Spectre at the Feast," The Economist, May 6, 1989, pp. 34-35. See also "Barriers Fall Down Under," Far Eastern Economic Review, July 7, 1988, pp. 76-77; "The Kiwi and the Koala," The Economist, June 24, 1989; "Learning to Fly," The Economist, November 21, 1987, pp. 21-22.

200. Interview with New Zealand economic counselor Derek Gill, July 1990; Simon Upton, "Douglas Is Back, but Rogernomics Is Not," Wall Street Journal, September 13, 1989, p. A21; Richard Evans, "Financial Times Survey: New Zealand," Financial Times, July 27, 1989; "Reforms at Risk," Far Eastern Economic Review, March 9, 1989, pp. 82-85; "New Zealand Aims to Curb Joblessness Slowly with Current Economic Policies," Wall Street Journal, February 10, 1989; Colin James, "Advancing under Fire," Far Eastern Economic Review, January 26, 1989, pp. 56-57; "Who Framed Roger Douglas?" The Economist, December 17, 1988, p. 34; William McGurn, "New Zealand's Painful Economic Cure," Wall Street Journal, October 11, 1988.

201. Geoffrey B. Hainsworth, "Indonesia's Economic Downswing and Political Reforms," Current History, April 1987, p. 172.

202. Steven Erlanger, "Indonesia Moving Quietly toward a More Private Economy," New York Times, October 11, 1989, p. A13.

203. Interview with economist Paul Meo at the World Bank, July 19 9 0 .

204. Geoffrey B. Hainsworth, "Indonesia: On the Road to Privatization?" Current History, March 1990, pp. 121-24, 134.

205. Michael Richardson, "Could Import Nightmares Return to Indonesia?" International Herald Tribune, February 9, 1990, p. 17.

206. David Clark Scott, "Indonesia Aims for Spot as Asian 'Tiger,'" Christian Science Monitor, March 27, 1990, p. 5.

207. Hainsworth, "Indonesia: On the Road," pp. 122-23.

208. See Sandy Tolan, "The Border Boom: Hope and Heartbreak," New York Times Magazine, July 1, 1990, pp. 16-21, 31, 40; David Ehrenthal and Joseph Newman, "Explaining Mexico's Maquila Boom," SAIS Review (Winter/Spring 1988): 189-211; Patricia Wertman, "Tariff Items 807.00 and 806.30 and the Mexican Maquiladoras," Congressional Research Service, Washington, D.C., June 8, 1987; "Commerce Department Conference on Mexico's Maquiladora Program," General Accounting Office, Washington, D.C., April 1987.

209. James H. Street, "Mexico's Development Crisis," Current HistorY, March 1987, pp. 105-8, 129-30. See also Richard Johns and Robert Graham, "Hands across the Border," Financial Times, June 11, 1990; Larry Rohter, "Stop the World, Mexico Is Getting On," New York Times, June 3, 1990, sec. 3, pp. 1, 6.

210. Matt Moffett, "Free-Trade Talk Puts Mexico in Spotlight," Wall Street Journal, July 9, 1990.

211. James Brooke, "Era of Free Trade to Begin in Brazil," New York Times, July 5, 1990, pp. A1, D9. See also "Argentina and Brazil--Free Trade Moves South," The Economist, July 14, 1990, p. 40; Sharon Reier, "Lessons of a Samba Dancer--Can Brazil Teach Eastern Europe That Fiscal Discipline Is As Important As a Free Market?" Financial World, March 6, 1990, p. 66; Ivo Dawnay, "A Brave Throw of the Dice in Brazil," Financial Times, March 23, 1990.

212. James Brooke, "Bad Times, Bold Plans for Brazil," New York Times, January 7, 1990.

213. Interview with Paul Meo, World Bank, July 1990.

214. Steven Greenhouse, "On to 1992: The World Watches Europe, the Power That Will Be," New York Times, July 31, 1988, sec. 4, p. 1.

215. James M. Markham, "Europeans, East and West, Are Indulging in Revival," New York Times, July 17, 1988, sec. 4, p. 1.

216. Steven Greenhouse, "With Spain in Common Market, New Prosperity and Employment," New York Times, January 15, 1989, p. A1. See also Richard C. Morais, "Sun, Sea and a Will to Change," Forbes, September 19, 1988, p. 76.

217. "Perestroika: And Now for the Hard Part," The Economist, April 28, 1990, survey, p. 5.

218. Quoted in Stephen Kindel, "On the Bloc--Suddenly All of Eastern Europe Is Up for Grabs," Financial World, March 6, 1990, p. 23.

219. For an idea of how tangled U.S. trade laws have become, see U.S. House of Representatives, Committee on Ways and Means, Overview and Compilation of U.S. Trade Statutes (Washington, D.C.: U.S. Government Printing Office, 1989). It runs 898 pages but still does not cover all U.S. trade-related laws, such as restrictions on fishing and shipping.

220. Katherine Bishop, "18th-Century Law Snares Vietnamese Fishermen," New York Times, November 26, 1989, p. A1. Canada has similar restrictions, which occasionally lead to gunfire. Constance L. Hays, "Fishing Boat Dodges Gunfire and Canadian Navy," New York Times, December 13, 1989.

221. Allamma Sullivan, "Maritime Agency Blocked Fuel Shipment That May Have Eased Regional Shortage," Wall Street Journal, January 1, 1990.