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THE GREAT BETRAYAL

How American Sovereignty and Social Justice Are Being Sacrificed to the Gods of the Global Economy

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Chapter 3

How Free Trade Is Killing America

> *Free trade is a myth. Foreign countries subsidize their manufacturers, which enables them to undercut United States companies and take the jobs of American workers. . . . This is not competition — it is a stacked deck, stacked against the American worker. . . . If we pursue the policies that have gone on for the last few years, we're going to be a completely service nation.*[1]
>
> — George Meany,
> AFL-CIO PRESIDENT, 1977

Free trade, as Meany said, is a myth. It envisions a future that will never exist and assumes an ideal world that does not exist. True believers, however, will never be dissuaded. To them, free trade is not an economic theory or policy option, it is revealed truth about how the world should work, and it is held to the heart with a devotion that is almost religious. In its economic determinism, its utopianism, and its hold on the imagination, free-trade theory is first cousin to socialism and Marxism.

Yet, if the grip that this myth holds on the minds of America's ruling elite is not broken, we will lose the country the Founding Fathers gave us, and America will separate along class lines. The signs are everywhere, even more visible in Europe, incubator of this dogma. Let us see with concrete examples how free trade is shredding the society we grew up in and selling out America's sovereignty,

why free trade is truly a betrayal of Middle America and treason to the vision of the Founding Fathers.

The Premier Fallacy of Adam Smith

Adam Smith's famous quotation is often cited as the core of the free-trade gospel:

> It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a taylor. . . .
>
> What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom.[2]

"These words are as true today as they were then," writes Nobel Prize–winning economist Milton Friedman.[3] But Milton Friedman notwithstanding, these words are not true today; they never were. To equate the decisions of a "private family" with those of a "great kingdom" is absurd. A great nation can and will prudently borrow from itself — as America did in two world wars — and go into debt for generations. No family can do that. Families are natural friends, while nations are rivals, antagonists, and often mortal enemies. To compare a family's dependence on a grocer or gas station to a nation's dependence on imported food or OPEC oil is folly for a leader and can be suicidal for a country. No family is self-sufficient, but no superpower can rely on foreign trade for the necessities of national survival — and remain a superpower.

American TV manufacturers once possessed the greatest market on earth, a market Japan coveted. Aided and guided by its Ministry of Industry and Trade, Sony attacked, overran, and captured that U.S. market, destroying its U.S. rivals by dumping TV sets at below-production-cost prices. By 1971 America's domestic TV-manufacturing industry had proved to the satisfaction of judicial officials that Japan was dumping. But the U.S. Treasury waited more than ten years before acting to protect the industry. By the 1980s it was too late. Only one U.S. TV producer was left alive — Zenith — and it is now a subsidiary of a Korean company and has shifted operations to Mexico. The U.S. television-manufacturing industry is history.

In the Global Economy, the relationship of giant corporations like Sony and Zenith is less like the friendly relationship between me and 7-Eleven than it is like the relationship between the U.S. Marines and the Japanese army on Guadalcanal.

In 1946 Japan's steel industry was rubble. Japan had no coal or iron ore. Under free-trade theory, Japan should have purchased its steel from the United States, which could have furnished all it needed. Instead, Japan began to import coal and iron ore and, using government loans, built a steel industry with the most modern technology. Because its wages were a fraction of ours, its exports went untaxed, and its defense was paid for by America, Japan was able to undercut U.S. steel producers and capture America's markets. Now Japan produces far more steel than the United States, though our economy is twice as large.

American steel companies, all privately owned, have for decades been forced to compete in a world where 80 percent of foreign production was government-subsidized or -controlled. Was it fair to U.S. steelmakers, or the United Steelworkers of America, to blithely declare, Let the market work? Steel was not a free market; it was a fixed market. And how wise is it to adopt a laissez-faire attitude toward the foreign capture of a vital industry on which America depends? To how many great industries should we let that apply?

Commercial aircraft has been a crown jewel of U.S. manufacturing and export trade. Yet, consider the fate of the companies that were

once America's special pride. Not long ago, McDonnell Douglas and Lockheed helped America dominate a world market in which no European nation could compete with the United States. Europe's answer: a consortium of the aircraft companies of England, Spain, Germany, and France called Airbus Industrie. In its first quarter century this socialist cartel sold 770 planes to 102 airlines but did not make a penny of profit. A U.S. company would have been forced into bankruptcy, but not Airbus. Airbus was backed by the treasuries of European governments, which had a strategic goal unrelated to next year's profits. Europe was determined to capture a huge slice of the Americans' world market, no matter what the initial cost. "If Airbus has to give away planes," warned an executive, "we will do it!"

When Europeans complained of Airbus's subsidies, $26 billion by 1990, German aerospace coordinator Erich Riedl replied, "We don't care about criticism from small-minded pencil-pushers."[4] Boasted Richard Evans of British Aerospace, "Airbus is going to attack the Americans, including Boeing, until they bleed and scream." That is the authentic voice of economic nationalism, a voice an earlier America would have instantly recognized — and known how to deal with.

The Airbus cartel gradually began to squeeze its U.S. rivals to death. Lockheed was the first to give up the ghost. Under an American defense umbrella, our European allies were killing off the very companies that had built the planes that kept Europe free; and American statesmen stood by and watched, like buffalo grazing contentedly on the grass as one after another of their number was cut down.

In late 1996 once-mighty McDonnell Douglas — whose F-15s had swept the skies over Iraq in a war to protect Europe's oil — capitulated, canceling plans to build a 300- to 500-seat passenger jet. The lucrative field of jumbo jets was left exclusively to Boeing and Airbus. McDonnell Douglas had not been defeated in fair competition. It lost because the U.S. government would not tell Europe that the United States would not tolerate a continental cartel running our aircraft companies into the ground.[5]

In the name of "free trade" we let foreign companies — abetted by the regimes that own them — collude and kill U.S. companies, using tactics that would have brought criminal indictments if done by such a conspiracy in the United States. Why did we Americans let this happen?

"It has tried to kill me; I will kill it," said Andrew Jackson when told that Nicholas Biddle's national bank was out to destroy him. What happened to the spirit of Jackson? Only a feckless nation would permit a rival power to rob it of this crown jewel without a ferocious struggle.

In a final abject surrender, when McDonnell Douglas merged with Boeing, the European Union threatened sanctions unless Boeing gave up its exclusive supply contracts with three U.S. airlines. As our government stood by, Boeing capitulated and canceled the contracts.

The corruption of thought begins in the corruption of language. Politicians talk of "trading partners" as though the relationship between the United States and China, or the United States and Japan, is comparable to that between Fred Astaire and Ginger Rogers. Such language does not clarify; it distorts. Toyota and Ford, Boeing and Airbus are not partners; they are adversaries. They may enter into alliances, as even hostile nations do, but added market share for one means diminished market share for the other. Victory for one can mean death of the other.

"All we want is a level playing field," Americans plead. But, as one economic historian has written,

> This term trivializes the issue. This is not some schoolyard game where it doesn't matter who wins or loses. It is a struggle to control the world's wealth and resources, markets and territory; to provide for future generations and for the security of the nation. By defining the issue as one of fairness rather than outcome, the free traders have already steered thought into a dead-end channel.[6]

"The state is a cold monster," said General de Gaulle. Surely, there is more truth in the general's insight than in all our blather about a "family of nations" and "the international community." At a 1981 press conference that horrified the diplomatic community, Ronald Reagan blurted, "The Soviets claim the right to lie, cheat, and steal." Reagan spoke the truth about the Cold War, and there are parallels with today's trade wars. Japan, France, and South Korea may be military allies, but each has a budget for industrial espionage and technology theft. Their principal target: the United States of America. Spies from two dozen countries now operate on U.S. soil, looting the secrets of U.S. industries and targeting high tech, defense, biotechnology, telecommunications, and computer software. Economic espionage, says James Kallstrom of the FBI's New York office, "presents a new set of threats to our national security." The International Trade Commission estimates that in 1988 the United States lost — to economic and industrial espionage — $43 billion and a million American jobs! Foreign governments are now sending students as sleeper agents to take jobs at vital U.S. industries, steal U.S. secrets, and send them back.[7]

FREE TRADE VS. THE FREE MARKET

Some see in the Global Economy simply the natural enlargement of the American economy. They look on free trade as the means to bind the world in a global free market. While the vision is endearing, it is an illusion. For free trade in today's world is not consistent with the U.S. free market; it is at war with it.

In the glossary to *Human Action*, the classic work of the great twentieth-century Austrian economist Ludwig von Mises, four conditions are listed for the operation of a true "market economy": (1) private ownership of the means of production; (2) voluntary exchanges of goods and services; (3) no institutional interference with operation of the market processes that generate prices, wage rates, and interest rates; and (4) a government intent on preserving market processes and protecting peaceful participants from those who would use a threat of force or fraud.[8]

In a U.S.-China trade zone, not one of these conditions for a true free market is met. And the people who pay the price for the absence of those conditions are the people who play by the rules: Americans.

Consider the respective attitudes of Americans and Asians toward what in the United States is a felony: bribery. Most Asian nations engage in bribery, shakedowns, and extortion as the conventional tactics of trade wars. A Boeing contract to sell to China invariably carries Beijing's non-negotiable demand for a transfer of U.S. aircraft technology. The only Americans who routinely do business that way are in organized crime, and the term we use to describe that way of doing business is *racketeering*.

"The U.S. government has documented almost 100 cases between April 1995 and May 1996 in which American firms lost contracts valued at $45 billion to foreign companies that pay bribes," said the *Wall Street Journal* in a recent editorial titled IS CORRUPTION AN ASIAN VALUE?[9]

Now, 45 billion dollars in one year is a lot of lost contracts. But with what weapons do we fight back if we have adopted a free-trade philosophy dictating that in the case of a foreign-inflicted injury or injustice, you do not retaliate because you only hurt yourself?

After passage of the Foreign Corrupt Practices Act in 1977, which outlawed bribery of foreign officials, a study found that the United States had suffered sudden and "unusual" drops in aircraft exports to countries where officials routinely accepted bribes.[10] Who won those contracts? Our European "trading partners," for whom foreign bribery was just a cost of doing business. Let the Americans posture as morally superior, cynical Europeans say; we will take the contracts. In late 1997, the Europeans finally agreed to end the practice of bribing foreign officials — by 1999. But in most European nations these bribes are still tax-deductible.

Louis XIV's finance minister Jean-Baptiste Colbert described trade as "a perpetual and peaceful war of wit and energy among the nations." In that war, free trade amounts to unilateral disarmament. Even Adam Smith knew that his famous metaphor was, at least, inexact. Lest we forget: the "great kingdom" of which Smith was a loyal subject was trying, as he was publishing his great classic, to choke to death its American colonies with a naval blockade. And Adam Smith lived out his days as a commissioner of customs enforcing the Navigation Acts on the American states that had won their liberty from Great Britain.

WHAT'S GOOD FOR CONSUMERS . . .

> *In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest, that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question, had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind.*[11]
>
> — Adam Smith, 1776

Here is another fallacy of free-trade theory: what's best for its consumers is best for a country. But a nation is more than a consumer cooperative; it is a people, separate and apart, with its own destiny and history, language and faith, institutions and culture. And the national interest must take precedence over any consumer demand for foreign products. Carpe Diem! (Seize the pleasure of the passing day!) has proved as fatal a philosophy to nations as it has to individuals.

George Washington and Alexander Hamilton, entrusted with leadership of the infant republic, rejected the idea of letting consumer preferences shape the national destiny. "A free people . . . should promote such manufactories as tend to render them independent on others for essential, particularly military supplies," said Washington.[12] Nor was James Madison content to entrust America's destiny to consumer whims when he discovered British ships dumping goods in U.S. ports to kill the industries begun during the War of 1812. Madison imposed a protective tariff. The economic nationalists who built America did not permit alien ideologies to prevent them from doing what was best for the nation.

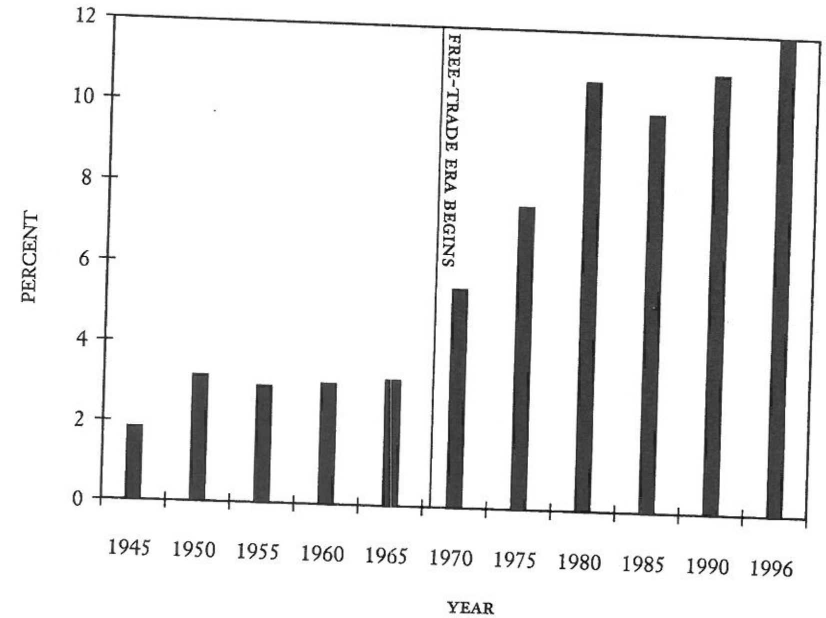
Britain, too, might dissent from the idea that buying cheapest is best for a nation. With the repeal of the Corn Laws in 1846, Britain became so dependent on imported food that she could feed but a fourth of her people by World War I and was almost starved to death by a submarine blockade. On whom did free-trade Britain depend for survival? Protectionist America.

Small nations like Austria or Singapore may never again be self-sufficient. But great nations like America, blessed by Providence with virtually all it needs to stand alone, have no excuse for allowing dependency to grow to the degree it has.

Putting consumption first goes against the grain of common sense, as well as inherited wisdom. Before consumption comes production. Before production, investment. Before investment, savings. And before savings, income — the reward for work. Before a family consumes bread, a farmer must plow the ground, sow the seed, till the field, wait and watch. Before an athlete becomes a champion, he must exercise, train, discipline, and deny himself. No athlete ever consumed his way to an Olympic medal; and no nation ever consumed its way to greatness or prosperity. As Aesop's fable of the ant and the grasshopper teaches: he who puts consumption first has put his foot on the road to ruin.

CAPITAL HAS NO COUNTRY

Adam Smith assured the British people that, as savers of capital naturally seek the best return in their own country, they need not be



Imports as a Share of GNP/GDP

Source: *Historical Statistics of the United States* and U.S. Department of Trade

concerned about free trade. In a now famous rendering, Smith wrote:

> Upon equal, or nearly equal profits . . . every individual naturally inclines to employ his capital in the manner in which it is likely to afford the greatest support to domestic industry, and to give revenue and employment to the greatest number of people of his own country. . . . By preferring the support of domestic to that of foreign industry, he intends only his own security . . . he intends only his own gain, and he is in this . . . *led by an invisible hand* to promote an end which was no part of his intention.[13] (Emphasis added.)

David Ricardo, credited with discovering the theory of comparative advantage, made the same point:

> Experience . . . shews . . . that the . . . natural disinclination which every man has to quit the country of his birth and connexions and intrust himself . . . to a strange government and new laws, checks the emigration of capital. *These feelings, which I should be sorry to see weakened,* induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations.[14] (Emphasis added.)

Hamilton agreed with Smith on the importance of capital and the need to keep it in the home market. But unlike Smith, he was not content to entrust this national imperative to some "invisible hand." He created an economic system to guarantee that America's capital stayed at home to build the United States, not some foreign country. As Arthur Vandenberg wrote in his 1921 testimonial, *The Greatest American*, Hamilton

> was unwilling to await natural consequences . . . if beneficent consequences could be guaranteed by government action. He refused to concede that it was best for a thinly settled agricultural nation, like the new America, to buy its manufactured articles in foreign markets wherever cheapest price might seem superficially to beckon to great bargain. He was unwilling to leave the United States at the mercy of "combinations, right or wrong, of foreign policy."[15]

Adam Smith's British empire could afford leaving things to chance; the vulnerable infant republic of Alexander Hamilton could not.

Today, the Global Economy has overtaken the theories of Ricardo and Smith and proved Hamilton right. In the Global Economy, money no longer follows the flag. Money has no flag. Multinational banks, pension funds, and mutual funds move scores of billions of dollars at the speed of light to where the return is greatest, whether it be in Mexican bonds or Japanese yen. When Arab oil producers restricted production to drive up prices, U.S. banks into which the

petrodollars poured did not reinvest in America. The big banks lent the money to Mexico, Argentina, and Brazil, confident that these regimes were sounder investments than the old industries of a dying Rust Belt. Economic patriotism? Tell it to Citibank's Thomas Theobald. Asked about his bank's loans to communist regimes, Theobald retorted, "Who knows which political system works? The only test we care about is: Can they pay their bills?"[16]

The transnational corporation does not naturally invest "at home." It has no home. Like the great white shark that calls the entire ocean home, it must swim ceaselessly or sink and die. A transnational has no heart or soul. It is an amoral institution that exists to maximize profits, executive compensation, and stock dividends. If the bottom line commands the cashiering of loyal workers after years of service, it will be done with the same ruthless efficiency with which obsolete equipment is junked.

"Merchants have no country," said Thomas Jefferson. "The mere ground they stand on does not constitute so strong an attachment as that from which they draw their gains."[17] This savage verdict did not apply to all the merchants of the Revolution, but it does apply to the transnational corporation.

How is our world different from that of Adam Smith? Consider Thomas Nelson, Jr. Before the Revolution, Nelson rose in the House of Burgesses to declare, "I am a merchant of Yorktown, but I am a Virginian first. Let my trade perish. I call God to witness that if any British forces are landed in the County of York, of which I am Lieutenant, I will wait no orders, but will summon the militia and drive the invaders into the sea!"[18]

In 1781 Governor Nelson was at Yorktown as the head of Virginia's militia. He was invited by the great Lafayette himself to direct the initial bombardment of the town. As Lafayette wrote in his memoirs:

> "To what particular spot would your Excellency direct that we should point the cannon," I asked. "There," promptly replied the noble-minded, patriotic Nelson, "to that house. It is mine, and is, now that the secretary's is nearly knocked to pieces, the best one in town; and there

you will be almost certain to find Lord Cornwallis and the British headquarters. Fire upon it, my dear marquis, and never spare a particle of my property so long as it affords comfort or a shelter to the enemies of my country."[19]

Nelson offered five guineas to the first gunner to hit his house and rode away. His splendid house was destroyed. Compare Thomas Nelson with Thomas Theobald.

THE IMPACT OF EXCHANGE RATES

Another feature of the Global Economy unfamiliar to the nineteenth century is the widespread manipulation of currency values by nation-states. Under a free-trade system, with floating exchange rates, U.S. businesses and workers are at the mercy of foreign central banks. Government-engineered alterations in currency values, done secretly, can have the same impact on trade as an openly imposed tariff.

When NAFTA passed in 1993, the Mexican currency was pegged at 3.5 pesos to the dollar. The United States had a tiny trade surplus with Mexico. A year later the peso sank to seven to the dollar. American goods that Mexicans could buy for 350 pesos in December of 1994 cost 700 by February of 1995. In one year the U.S. trade balance with Mexico went from a surplus to a $15 billion deficit.

For Paul Dimare, devaluation meant disaster. The owner of one of Florida's largest winter tomato farms, Dimare saw his business ravaged by an avalanche of Mexican tomatoes, the dollar price of which had been cut in half by devaluation. In 1995 Dimare was thinking of closing his farm and letting go hundreds of workers, mostly African-American women, few of whom earned much more than minimum wage. By 1988, production at the Dimare farm and processing plant was off two-thirds, and his employees were down to working half days.

Towns on our northern border have also been whipsawed. In 1991 a Canadian dollar was worth 87 cents, and Canadians made 59 million one-day shopping trips to U.S. cities. In 1996 the Canadian dollar had fallen to 73 cents; one-day shopping trips south by Canadians had dropped to 36.4 million. American businesses on the border paid the price as the merchandise trade deficit with Canada in 1996 soared to $23 billion.

The winners in a world of free trade and floating exchange rates are regimes whose central bankers manipulate currency values for national benefit, and a global corporate elite that can shift production from one country to another and calls no country home. Losers are the rooted people, the conservative people tied by the bonds of family, memory, and neighborhood to one community and one country.

ALL INDUSTRIES ARE NOT EQUAL

Behind free-trade theory lies another fallacy: it does not matter which nations produce ships, aircraft, autos, radios, or computers, so long as all can exchange goods freely. *But all industries are not equal.* Had infant America followed free trade, our legendary industrial expansion would never have taken place, and America would never have dominated the twentieth century. The thirteen colonies had almost no industry. Had they followed free-trade theory, we should have stayed with the production and export of cotton, corn, rice, and tobacco, those commodities in which we were most efficient, and imported our manufactured goods from England. America would have become the bakery and tobacconist of Europe. Instead, behind a protective tariff wall, we challenged — and within a century displaced — Great Britain as the greatest industrial nation on earth.

As George Bush was about to go to war in the Persian Gulf over oil, the chairman of his Council of Economic Advisers told a business gathering: "It does not make any difference whether a country makes computer chips or potato chips."[20] But as one critic pointed out, "Patriot missiles won't work with potato chips or chocolate chips or wood chips or buffalo chips."[21] The Patriot depends on computer chips.

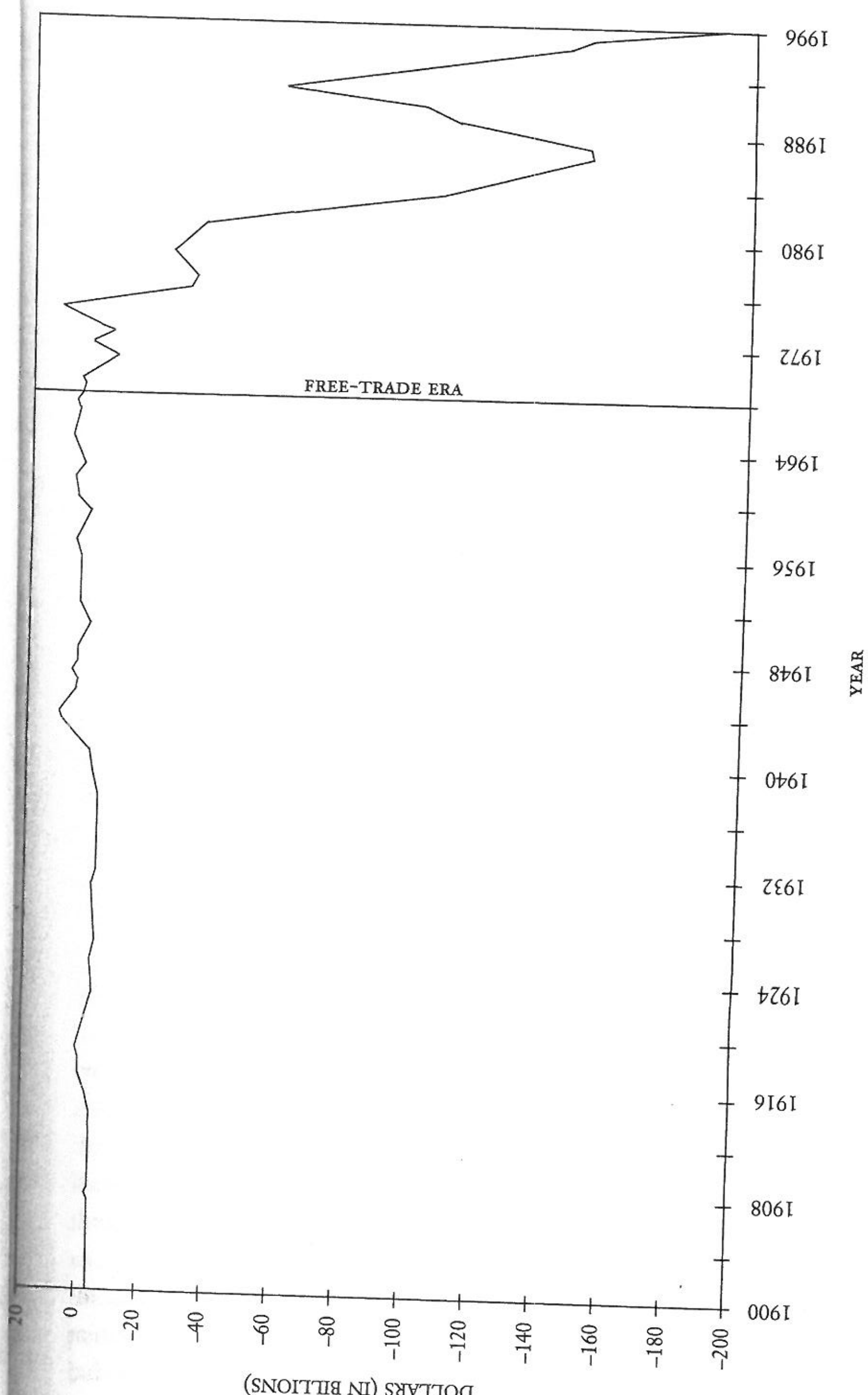
Manufacturing is the key to national power. Not only does it pay more than service industries but the rates of productivity growth are higher and the potential of new industry arising is far greater. From radio came television; from television, VCRs and flat-panel screens. From adding machines came calculators and computers. From the electric typewriter came the word processor. Research and development follows manufacturing.

WILL FREE TRADE LEAD TO WORLD PEACE?

> It has often struck me that it would be well to try to engraft our free trade agitation upon the peace movement. They are one and the same cause. It has often been to me a matter of surprise that the Friends have not taken up the question of free trade as the means — and I believe the only human means — of effecting universal peace.[22]

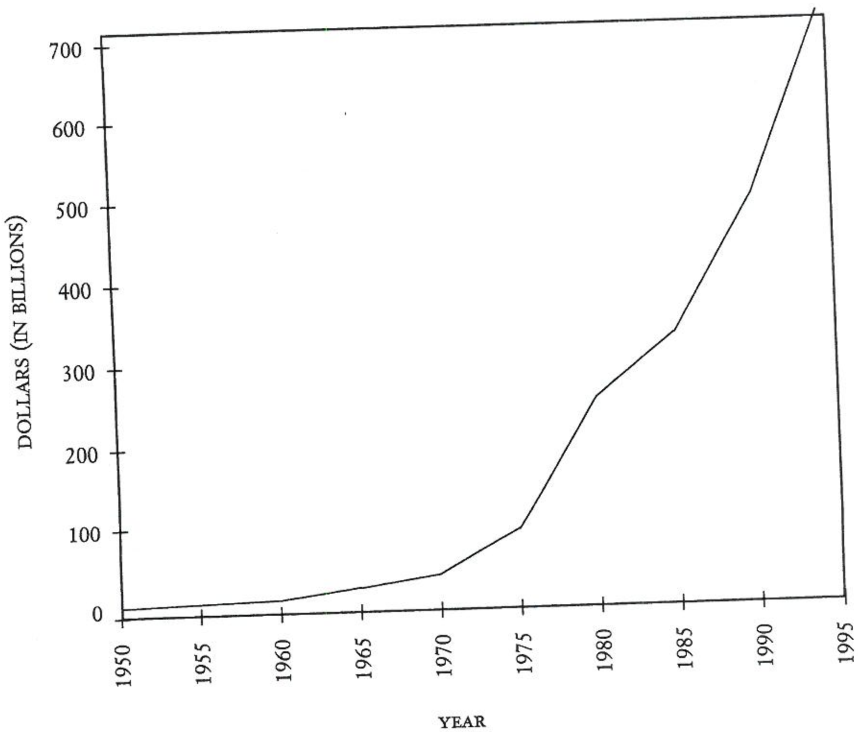
How do we answer this most compelling argument, made by the English Quaker Richard Cobden, that free trade is the surest path to world peace?

That claim has echoed through two centuries. "When goods are not allowed to cross borders, soldiers will," warned Frédéric Bastiat.[23] Cordell Hull, as we have seen, declared his faith for the following reason: "Toward 1916 I embraced the philosophy [of free trade]. . . . From then on, to me, unhampered trade dovetailed with peace; high tariffs, trade barriers and unfair economic competition with war."[24] Libertarian Frank Chodorov shared this vision: "The only condition necessary for the growth of Society into One World-ism is the absence of force in the market place, which is another way of saying that politics is a hindrance to, and not an aid of, peace."[25]



U.S. Merchandise Trade Balance, 1900–96

Source: *Historical Statistics of the United States* and *Statistical Abstract of the United States, 1996*



U.S. Merchandise Imports, 1950–95

Source: U.S. Department of Commerce

In his 1997 State of the Union Address, Bill Clinton echoed the theme: "By expanding trade, we can advance the cause of freedom and democracy around the world."[26]

Yet, history seems to contradict them all. The great trading nations of history also seem to have been the most warlike. Free-trade Britain in the nineteenth century was involved in more wars than any other nation, and the nineteenth century's bloodiest war was fought *inside* the world's greatest free-trade zone — the United States of America.

In August 1914 Germany attacked Russia, to whom she sold more goods than to any other nation, and Britain declared war on a Germany that was Britain's greatest Continental customer. In the

thirties Japan's principal overseas trade was with China and the United States. Tokyo attacked both. And when Hitler turned on and invaded Stalin's Russia in 1941, he was attacking Germany's principal source of food, oil, and raw materials.

> Free Trade! What is it? Why breaking down the barriers that separate nations; those barriers behind which nestle the feelings of pride, revenge, hatred, and jealousy, which every now and then burst their bounds and deluge whole countries with blood.[27]

So said Cobden. History says otherwise.

The Global Hiring Hall

GATT was the Magna Carta of the multinationals.

With Clinton's GATT treaty in 1994, the final scaffolding of the Global Economy was in place. The United States had assured its own Fortune 500 companies that if they shut their plants in Seattle or Salt Lake and opened in Singapore or Shanghai, they could export back to America, free of charge. We gave our greatest companies the most powerful of incentives to pack up and leave; and they responded accordingly.

These global-trade deals added hundreds of millions of Asians and Latin Americans to the labor pool of the industrial democracies. These new entrants into the "global hiring hall" have one thing in common: all are willing to work for a fraction of the wage that an American needs to feed, clothe, house, and educate his or her family. The global hiring hall is the greatest buyer's market in history for human labor. It puts American wage earners into direct competition for production jobs with hundreds of millions of workers all over the world. As labor leader Thomas Donahue says, "The world has become a huge bazaar with nations peddling their work forces in competition with one another, offering the lowest prices for doing business. The customers are . . . the multinational corporations."[28]

What does this mean for American workers? Well, as Ludwig von Mises wrote, "There prevails on the whole earth a tendency toward an equalization of wage rates for the same kind of labor."[29] Equalization of wage rates in the Global Economy means that Americans who produce autos, textiles, and steel will eventually earn the same as Latins and Asians who do the "same kind of labor." But the only way this can happen is for the wages of Asian and Latin workers to rise more rapidly and for the wages of U.S. skilled workers to be slowed, arrested, or fall. And, indeed, this is the stated goal of some American executives. Writes David Morris in his essay "Free Trade: The Great Destroyer":

> The revised version of the American Dream is articulated by Stanley J. Mihelick, executive vice president for production at Goodyear: "Until we get real wage levels down much closer to those of the Brazils and the Koreas, we cannot pass along productivity gains to wages and still be competitive."[30]

And that is what is happening. In the "knowledge industry" — authors, economists, lawyers, journalists, bankers, brokers, entertainers, whose labor foreign workers cannot easily replicate — wages continue to rise. It is Americans who make things with their hands, tools, and machines who are paying the price of free trade.

Not long ago, a worker at a manufacturing job could feed, clothe, and house his family and educate his children. But as wages have stagnated, men are working 140 hours longer each year than they did in 1982, and wives have been forced to enter the labor market in record numbers to maintain the family standard of living.[31] Nearly two-thirds of all women with children under the age of six now work. For today's parents the choice is dreadful. To give children the material blessings of the Affluent Society, many have to deny those same children the security of a young mother's constant presence, love, and care. Thus is free trade antifamily.

Under the Fourteenth Amendment, a state may not "deny [its citizens] . . . the equal protection of the laws." But its intent is violated by such trade deals as NAFTA. A Ford plant in Michigan must meet a higher standard of health, safety, and environmental protection than does a Ford plant in Mexico; it must pay a minimum wage of five dollars an hour, but the Mexican plant can pay as low as fifty cents an hour. Yet, under NAFTA, Fords built in Mexico must be granted the same access to America's market as Fords built in Michigan. Where is the equal protection of the law for American autoworkers who are losing their jobs to Mexican assembly plants?

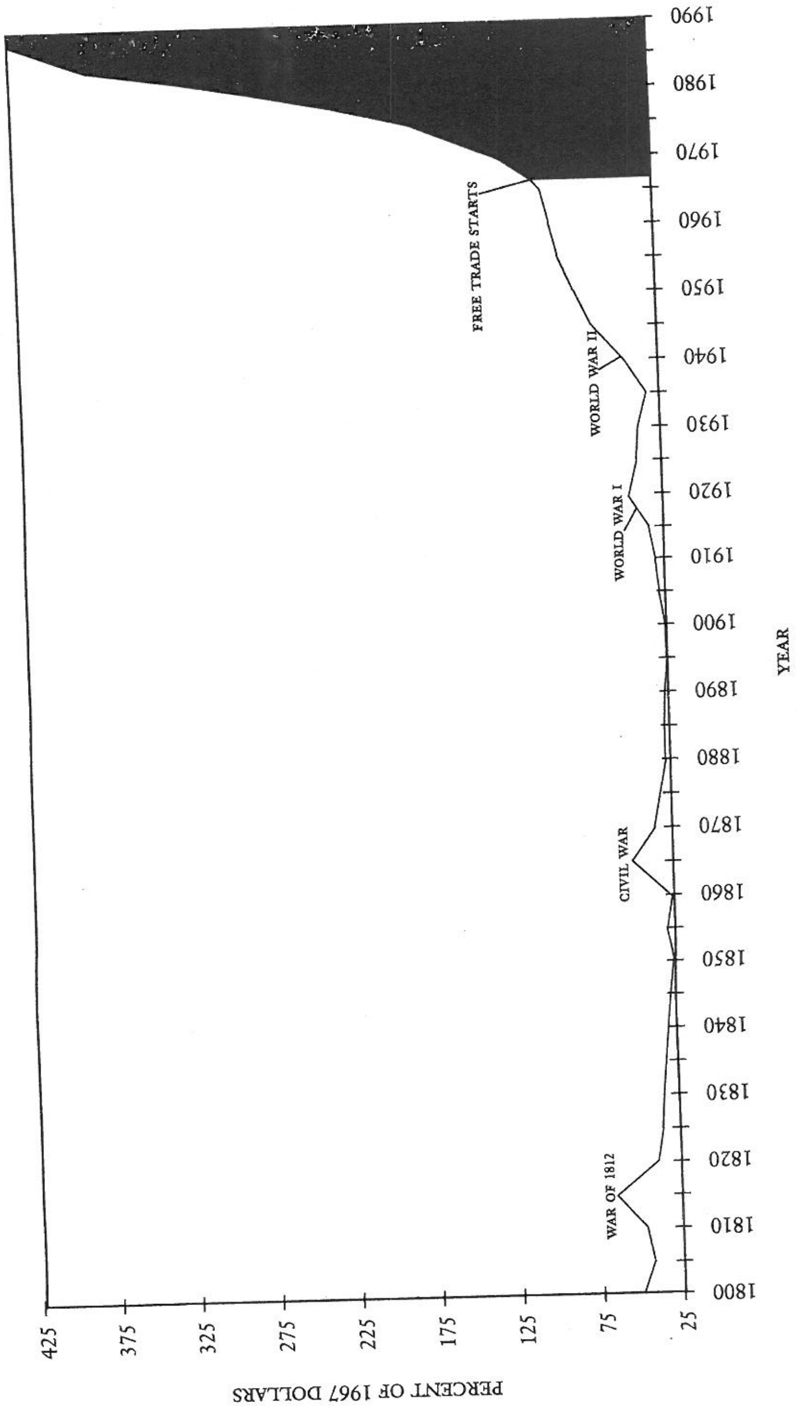
Americans are the most efficient workers on earth. Given the same rules and regulations, U.S. companies, like U.S. athletes in the Olympics, will win. But if U.S.-owned plants outside the country are exempt from taxes and laws applied to U.S. plants inside America, there is no doubt where manufacturing is headed. With the same weight in its saddlebags, the great thoroughbred Secretariat wins the Derby. But put five hundred pounds in the saddlebags of Secretariat, and he will run third to a Chinese mule and a Mexican burro. Only this is not a horse race, it is a struggle to determine whose century succeeds the American Century.

Dissolving the Bonds of Union

As expanding trade creates new bonds with foreign countries, it dissolves old bonds of patriotism. When Jimmy Carter imposed a grain embargo on Moscow for its invasion of Afghanistan, U.S. farmers, once militantly anticommunist, voted Carter out. Their livelihood was tied, thanks to the grain deals of the Nixon era, to Soviet grain purchases. Self-interest had changed the farmers' perception of national interest.

When the U.S. government sought to impose sanctions on Toshiba for selling silent submarine-propeller technology to Moscow, a treacherous act that imperiled the lives of U.S. sailors, the American hirelings of Japan, Inc. walked the halls of Congress pleading for amnesty for Toshiba.

In 1996, when Congress considered suspending trade privileges



Consumer Price Index, 1800–1995

Source: U.S. Bureau of Labor Statistics

to China for persecuting dissidents, bullying Taiwan, and selling missiles to Iran, America's mightiest defense contractors — Allied Signal, Boeing, GE, Hewlett-Packard, Honeywell, Lockheed-Martin, McDonnell Douglas, Rockwell International, TRW, and United Technologies — lobbied against suspension. If even vital defense contractors are so "hooked" on their China trade that they can no longer see the national interest, then free trade is costing America far more than even the $40 billion annual trade deficit with Beijing.

THE COMING CRISIS OF THE GLOBAL ECONOMY

As Robert Gilpin writes, there are three rival conceptions in political economics. The classical liberal views economics from the standpoint of the individual; the Marxist sees things in terms of classes; the traditionalist has an organic view of society and subordinates economics to the nation.[32]

Classical liberals and advocates of worldwide integration believe that international relations are essentially harmonious. Since the nineteenth century, they have argued that free trade is not a zero-sum game. One nation's gain is not another's loss. All peoples and nations benefit from free trade, and it is the duty of governments to remove all barriers to trade.

Politics, however, *is* a zero-sum game. For every winner there is a loser. GOP congressional victory in 1994 meant the Democrats' defeat. Clinton's reelection doomed Dole's career. "In power terms, international relations is [also] a zero-sum game."[33] One nation's rise entails another's decline. The collapse of the Soviet empire enhanced the power of the United States; and as China grows in power, people speak of the end of the American Century.

In the global arena, politics trumps economics; and it is relative, not absolute, power that counts. As German mercantilist writer Von Hornigk observed three hundred years ago: "Whether a nation be today mighty and rich or not depends not on the abundance or security of its power and riches, but principally on whether its neighbors possess more or less of it."[34]

Nations will abide by the rules of an international system as long as that system works to their advantage. America and Germany rejected Britain's call for free trade in the nineteenth century because they saw their national interest in protectionism. Postwar Japan listened to our discourse on open markets and went its own mercantilist way. As long as Western wealth, technology, and jobs are moving eastward — through foreign aid, loan guarantees, and huge U.S. trade deficits — China will go along. But when wealth and its all-important by-product, power, no longer move eastward, China will walk away from this global system as casually as the Europeans walked away from their war debts. This is the way the world works. Nations are rivals, antagonists, and adversaries, in endless struggle through time to enhance relative power and position. So it has been; so it shall ever be.

Comparative Advantage or Common Sense

Finally, classical free-trade theory fails the test of common sense.

According to Ricardo's law of comparative advantage, the core principle of free-trade dogma, if America makes better computers and textiles than China does, but our advantage in computers is greater than our advantage in textiles, we should (1) focus on computers, (2) let China make textiles, and (3) trade U.S. computers for Chinese textiles. Thus, both nations will do what they do best, and the production of computers and textiles is maximized.

The doctrine begs a question. If Americans are more efficient than Chinese in making clothes — i.e., an American worker with America-made equipment can produce more high-quality goods at less cost than can a Chinese worker, why surrender the more-efficient American industry? Why shift to reliance on a Chinese textile industry that will take years to catch up to where American factories are today?

And if America has an *absolute* advantage over China in producing textiles, what exactly is China's "comparative advantage"? If we contend that China has a "comparative advantage" merely because textiles are its most efficient industry, how can America ever acquire comparative advantage in textiles?

Ricardo's theory is at root not about economics or excellence or more-efficient producers capturing markets. It is a globalist dogma. *It demands that more-efficient producers in advanced countries give up industries to less-efficient producers in less-advanced nations.* Textiles is the perfect example. The U.S. industry, with its high-tech equipment, computerized plants, and well-paid, skilled workers, is the most efficient on earth. Yet, it is being dismantled, piece by piece, and sent off to Third World countries where labor is paid twenty-five cents an hour, where the looms cannot match the modern equipment in U.S. mills, and where the factories operate in conditions rivaling the "satanic mills" of William Blake.

Is child labor or slave labor more efficient than U.S. free labor? Of course not. Are Chinese factories more efficient than U.S. factories? Of course not. What, then, is China's "comparative advantage"? Answer: cheapness. The only advantage China has over the United States lies in its industrial retardation, exploited labor, and utter neglect of health, safety, and environmental concerns. For America to pursue a trade policy that compels our greatest companies to shutter plants here and open them in China pays homage to Ricardian ideology — by rewarding Maoism.

Why America Slept

Why haven't the harsh consequences of globalism for working Americans persuaded more politicians to take a second look? Because, for many, free trade is a matter of faith. They can no more give it up than Gus Hall can give up his belief in communism or Teddy Kennedy his belief in liberalism. For 150 years the London *Economist* has been preaching free trade. What does *The Economist* care that factories are moving out of the United States? It was not shaken in the faith when factories moved out of Great Britain. When *The Economist* began publishing, Great Britain produced nearly a quarter of the world's goods; now Britain produces about 3 percent. If one's allegiance is to one world, who cares if America is the dominant power? To a citizen of the world, a hollowing out of America's industrial power is an inconsequential, even a positive, development. It matters deeply only to American patriots.

During the Smoot-Hawley Tariff debate, labor leader Matthew Woll suggested a less-flattering reason why it is harder to persuade an economist than an autoworker that free trade is ruinous:

> With few exceptions they [economists] are free traders. They are neither producers nor creators of any commodity or article of trade. They are generally cloistered in the atmosphere of the schoolroom and their mental wares do not enter into the competition with producers where lower wage levels and longer working hours prevail and where standards of living are not only lower but in other respects much inferior to the standards built up in our own country under the American tariff policy. Briefly, these economists and college professors are consumers, not producers.[35]

The same holds for diplomats, bureaucrats, foundation-fed scholars, journalists, professors, and politicians — all of whom tend to be pro–free trade. For them, the policy is not only politically correct, it's cost-free.

A Colony of the World

Another hidden cost of the Global Economy is the slow attrition of our national independence. Trade, as a share of the GDP, has shot up from an average 10 percent before 1970 to 23 percent in 1995, and will rise to an estimated 36 percent by 2010. This startling projection is from the Office of the U.S. Trade Representative.[36] Before

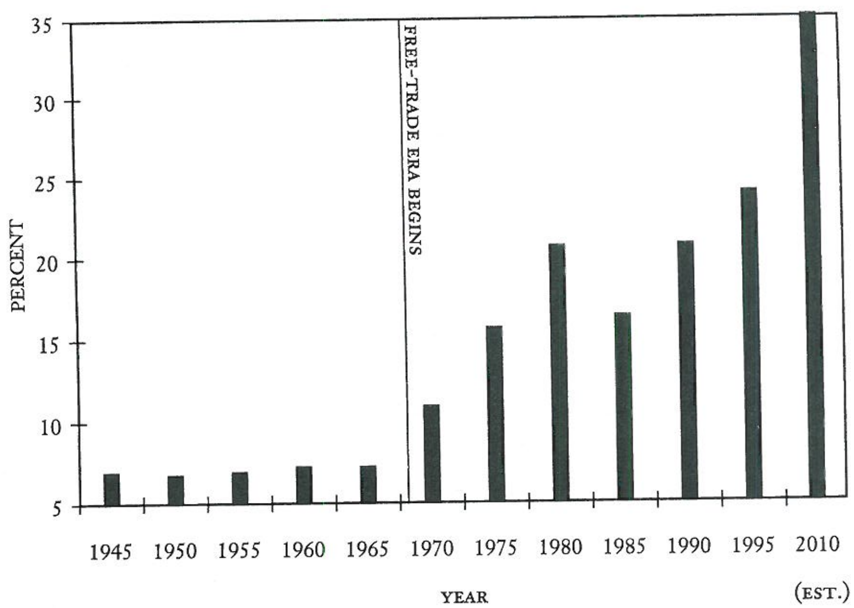
1960 America was self-sufficient in oil. Now we import 10 million barrels a day, half of all the oil we consume, and maintain vast air and naval forces in the Persian Gulf to protect the West's supplies. Out of fear for that supply, the United States had to go to war in 1991. Yet, rather than take alarm at this growing dependency on foreign sources of supply and foreign markets, some conservatives are positively cheerful. Columnist George F. Will writes that it is foolish for America to pursue "the chimera of autarky — national self-sufficiency, independent of the interrelations of trade."[37] But how wise is it for the United States to have a fourth, or a third, of its gross national product tied to trade, and much of that with shaky, unreliable, and even hostile regimes?

Was not the peso crisis of 1994 a fire alarm in the night? When the crisis struck, Michael Camdessus of the International Monetary Fund warned that in the absence of a U.S.-led bailout that could cost $50 billion, potential "world catastrophe" loomed. Sir James Goldsmith, founder of the British Referendum Party, asked a pointed question:

> Financial crises in Latin American countries have been recurring phenomena for many decades. What has suddenly transformed them into potential world catastrophes?
>
> Submarines are built with watertight compartments, so that a leak in one area will not spread and sink the whole vessel. Now that we have globalized the world's economy, the protective compartments no longer exist. Thus, we have globalized problems. A crisis in Mexico has become a "potential world catastrophe."[38]

If a debt crisis in Mexico can bring down the financial house of the United States, what is the benefit to America to justify so incredible a risk?

In the three years after the Mexico City crisis, nothing was done to shelter America from another "potential world catastrophe," and in mid-1997, the pointed warning of Sir James proved prophetic. The Thai stock market began to fall, bringing down the currency, the baht, with it. Within weeks the "contagion" spread to



Foreign Trade as a Share of GNP/GDP

Source: *Historical Statistics of the United States* and U.S. Department of Trade

Malaysia, the Philippines, and Indonesia. From there it began to rock the stock markets of North Asia — Taiwan, Hong Kong, South Korea, Japan. By late fall, the South Korean won had lost half of its value; Seoul's stock market was at a ten-year low; the Japanese market was at a two-year low and falling to a level at which Japan's banks were in peril. Almost every Asian currency had collapsed against the U.S. dollar; and the contagion had spread to Brazil, South Africa, Russia, and Eastern Europe.

The year 1998 shaped up as one in which U.S. taxpayers would be put at risk for scores of billions of dollars in IMF bailout money to "trade partners," as these partners were about to flood America with imports and swamp what was left of the U.S. manufacturing base — running U.S. trade deficits and dependency up to levels unseen since the time of Madison.

Is it not time to rebuild those "watertight compartments" that

once insulated the U.S. financial system from the chronic monetary collapses of our neighbors south and east?

Again, how farsighted is such global interdependence? During the Bush era it was said that the United States could not take a tough stand in trade talks with Tokyo, lest an angry Japan dump its hoard of U.S. debt onto the world market, forcing up U.S. interest rates and thereby inducing an American recession. In the name of national security, what benefit are we reaping from trade with Japan, to justify this vulnerability to Japanese retribution?

The American Revolution was fought for an economic as well as a political independence. Our Founding Fathers believed, almost to a man, that ending our reliance on foreign trade was a national imperative. They sacrificed mightily to achieve an independence we are now frittering away. We are today reverse-engineering American history, returning to a level of dependency on trade that once put America at the mercy of the predatory powers of the Old World. The most self-sufficient nation of half a century ago is again becoming a colony — a colony of the world.

PAWNING AMERICA'S SOUL

In building a global free-trade regime, say its advocates, we shall replicate the U.S. model on a planetary scale. What's good for America is good for mankind! The fallacy here is that the 180-odd nations of the UN are not remotely comparable to the original thirteen states of the Union. Those thirteen states, the building blocks of the U.S. free-trade zone, had been allies in revolution: they shared a common religion, language, history, culture, destiny, and standard of living; they had achieved a high measure of economic integration. Before the Founding Fathers met in Philadelphia in 1787, America was already an embryonic nation. But the political price the states paid in Philadelphia to become a free-trade zone is the price the nations of the world, including America, will have to pay to create a global free-trade zone: the surrender of national sovereignty!

At Philadelphia each state had to yield control of its borders, its tariffs, its trade, and its rights to defend itself and to coin its own money. Under the Constitution, New Yorkers and Virginians could cross each other's territory and settle on each other's land; and the United States would enforce that right with arms if necessary. As the South would discover in 1861, the Constitution was the beginning of the end of state sovereignty.

But to transfer state sovereignty to a national government led by Washington, Adams, Jefferson, and Hamilton is a far cry from transferring U.S. sovereignty to a global regime run by faceless foreign bureaucrats of the WTO or the UN. That would be tantamount to treason. Yet, that is the endgame — as the Europeans have begun to discover.

Global free trade is a Faustian bargain. A nation sells its soul for a cornucopia of foreign goods. First the nation gives up its independence; then its sovereignty, and finally its birthright — nationhood itself. Adam Smith saw the inexorability of the progression: "Were all nations to follow the liberal system of free exportation and free importation, the different states in to which a great continent was divided would so far resemble the provinces of a great empire."[39]

Europe is proving the point, reenacting Philadelphia in 1787. The process has been underway for half a century. The European Coal and Steel Community became the European Economic Community, which evolved into the European Community (EC). Now the EC has become the EU (European Union). The end of the line: a United States of Europe in which Britain and France enjoy the same sovereign rights as Missouri and Mississippi. The process is inexorable, and the nations of Europe are approaching the fail-safe point. Go forward, and there is no turning back; they will cease to be truly independent nations.

Britain is today facing that choice. "Euroskeptics" are imploring conservative comrades not to submit, not to give up the pound for a single European currency. Being part of a new European superstate,

they say, is not worth a surrender of British sovereignty. No consumer cooperative is worth a country.

Before the nations of Europe proceed, they should consider Canada. Most of Canada's GNP is now in trade, and 80 percent of that trade is with the United States. Its economic ties now run north-south more strongly than east-west. The TV shows and movies Canadians watch, the magazines they read, are more and more MADE IN THE USA. Canadians today fear the loss of their national identity. Quebec, desperate to retain its French language and culture, is ever on the verge of breaking free. In a recent crisis, a leader in the Maritime Provinces warned that if Quebec broke away, the Maritimes would seek admission to the United States. Said the leader, We now have more in common with New England than with Ontario.

Why is this true? Because of free trade. Many times this century Canadians were warned against joining a U.S. free-trade zone that must result in a dilution and eventual disappearance of Canadian independence. The poet laureate of the British Empire, Rudyard Kipling, asked in 1911:

> How can 9 million people enter into such arrangements as are proposed with 90 million strangers on an open frontier of four thousand miles and at the same time preserve their national integrity? It is her own soul Canada risks today. Once that soul is pawned for any consideration Canada must inevitably conform to the commercial, legal, financial, social and ethical standards which will be imposed upon her by the sheer admitted weight of the United States.[40]

When the U.S.-Canada free-trade zone was negotiated, opposition leader John N. Turner challenged Prime Minister Brian Mulroney, echoing the warning of Kipling:

> We have built a country, east and west and north, on an infrastructure that resisted the continental pressure of the United States. For 120

> years, we've done it, and with one stroke of the pen you've reversed that, thrown us into the north-south pull of the United States. And that will reduce us, I'm sure, to an economic colony of the United States, because when the economic levers go, the political independence is sure to follow.[41]

Turner was right. Watching frustrated Canadians fight a rear-guard action to defend their culture, a traditionalist must empathize. But Canada was warned that the price of economic union with the United States was the loss of its soul. For small nations like Belgium and Holland, losing one's self in a common market may be a necessary sacrifice to keep pace with modernity. But the United States is not some small or middle-sized nation. America is a continent-wide nation that was wholly self-sufficient at the end of World War II, and can become so again. We do not need to trade away our sovereignty for a seat at the table of some global regime. For no great nation can yield its sovereignty and still remain great.

America will soon face the same choice that the nations of Europe now face. NAFTA with Mexico means the gradual merger of the two economies. Eventually there must come a demand for open borders and a single currency. Make no mistake. We are in the betrothal stage of a courtship at the end of which comes a union of America and Mexico — and that is the end of the nation we grew up in.

The transnational elites have seen the brave new world coming and opened their arms. "I believe the nation-state is finished," says Robert Bartley, the editor of the *Wall Street Journal* who champions a five-word amendment to the U.S. Constitution: "There shall be open borders!"

Tear down the border posts! Throw open America's doors to all who wish to shop here, sell here, move here, live here. Nationality means nothing. America is one giant global mall; as Theodore Roosevelt said, a "polyglot boarding house" for the world.

For the United States that is the end of History.