

# The Sword in the Stone

by Pat Choate

*"The call for free trade is as unavailing as the cry of a spoiled child for the moon. It never has existed; it never will exist."*

—Henry Clay



**Opening America's Market: U.S. Foreign Trade Policy Since 1776**  
by Alfred E. Eckes  
Chapel Hill: University of North Carolina Press;  
382 pp., \$34.95



During the closing days of the 1993 congressional debate over the North American Free Trade Agreement (NAFTA), 300 of the nation's leading economists, including two Nobel Laureates, released a joint letter that urged the pact's immediate ratification. Subsequently, a reporter for a national radio network contacted 150 of these economists and asked them two simple questions: Why do you support this agreement? Have you read the 1,000-page agreement you endorsed? All answered that they supported free trade and open markets. Only one of the nine claimed to have read the NAFTA agreement.

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I doubt that few, if any, equally distinguished lawyers would endorse a contract without reviewing it, or that any reputable accountant would approve a company's books without first checking them. So, why would some of America's leading economists urge ratification of an economic pact that they had not even read? The answer, of course, is that most of them are doctrinaire free traders. So too are most of America's political and opinion elite. To label a prospective international agreement as free trade, regardless of what is in the pact, virtually guarantees an influential base of political support. Cant has replaced thought.

This unthinking support for free trade was not always so. Indeed, from George Washington's first message to Congress in 1790 until the early 1930's, American policy was to build a strong, self-sufficient economy behind a wall of protections for its producers and workers. In this lucid, well-researched book, *Opening America's Market: U.S. Foreign Trade Policy Since 1776*, Alfred E. Eckes, Jr., the Eminent Ohio Research Professor at Ohio University, traces how America evolved from the world's most closed market to its most open.

Much as in a novel, Eckes, a former

chairman of the United States International Trade Commission, traces this evolution from the 1790's to the present with dozens of heretofore little-known examples and facts which he found in presidential libraries and various archives. George Washington, for instance, having fought a war in which the nation lacked the manufacturing facilities needed to supply his army, used his first annual message to Congress to warn that the safety and interests of a free people "require that they should promote such manufactories as tend to render them independent of others for essential, particularly military supplies." To set a personal example for his countrymen, Washington bought American goods first. At a time when fashionable Americans wore European clothes, for example, Washington attended his first inauguration in a suit made in America from locally produced cloth. He served only American ale and American cheese in his home, and as head of the govern-

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ment, he bought American goods at every opportunity.

His idealistic successors, Thomas Jefferson and James Madison, promoted free trade in their early years in office and experimented with trade sanctions against Great Britain to remove its mercantilist discriminations. Their reward was the War of 1812. The experience turned Jefferson, Madison, Monroe, and their contemporaries into economic nationalists and led to what is known as the "American System." Under this policy, protective tariffs were imposed against foreign imports, not to tax consumers for the benefit of producers, but to stimulate investment in the United States and thereby enable the country to produce its own goods and provide jobs for the American people. This system was America's policy from the early 1800's until the early 1930's.

But as Eckes points out, the system was controversial. While Republicans preached and practiced a nationalist trade policy in the period 1860 to 1930, the Democrats vacillated between approval of free trade and protection for working people. Their problem was that free trade would break the power of the protected monopolies that financed the Republicans and would provide cheap consumer goods, something they wanted. The inflow of cheaper foreign goods, however, would also devastate their working class constituents, an outcome they had to avoid at all costs. For almost three-quarters of a century, the Republican position prevailed at the polls and in Congress.

Did the American System work? At the same moment that America was protectionist, Great Britain, America's great industrial rival, championed free trade. Using comparative economic data from both countries, Eckes concludes that there is no significant relationship between high tariffs and real economic growth. One fact is clear: the United States evolved from a small colony with limited manufacturing capacity to the mightiest industrial power in the world under protectionist policies. Eckes, however, refuses to give all the credit for this transformation to trade nationalism. He identifies a host of other contributory factors such as immigration, the development of a mass market, technology transfer, high rates of domestic capital formation, foreign investment, and a legal system that protects private property. But he also points out that for Americans

of that time "who could compare relative opportunities for individuals on both sides of the Atlantic, the American protective system appeared compatible with high wages, rising living standards, and rapid economic growth." He also notes that "during the heyday of British free trade from 1871 to 1890, about 68,000 Britons emigrated annually to the United States seeking better economic opportunities."

The election of Woodrow Wilson, who ran for office in 1912 on a platform of low tariffs and free trade, spelled the beginning of the end for the American System. Only days after being inaugurated, Wilson summoned Congress into a special session to enact tariff-reduction legislation. The result was the Underwood-Simmons Tariff Act of 1913. This legislation drastically reduced American tariffs unilaterally without getting, without even requesting, any lowering of foreign barriers to American exports. The result was lower American tariffs, but also a government with little leverage to confront foreign discrimination against American exports.

As soon as Wilson was succeeded in office by Warren Harding, the new President called upon Congress to enact emergency tariff legislation. It zoomed into law. As Eckes describes in useful detail, the Harding legislation tightly constrained the capacity of the United States to negotiate effectively a reduction in foreign trade barriers. The result was twofold: a coalition of Republicans and industrialists who wanted the reestablishment of 19th-century tariff patterns of the American System, and a counter coalition, led by Congressman Cordell Hull of Tennessee, advocating a new system of reciprocal tariff cuts, emphasizing exports.

Eventually, America got both. In 1930, Reed Smoot and Willis Hawley shepherded through Congress the Tariff Act of 1930—commonly known as Smoot-Hawley. In one of his most engaging chapters, Eckes effectively demolishes most of the "lessons" three generations of Americans have been taught about the Smoot-Hawley Act. No, he points out, it did not cause the stock market crash of 1929, which occurred nine months prior to enactment of this legislation. No, Smoot-Hawley did not induce fierce retaliation and trade wars, or a spiraling decline in American trade. No, Smoot-Hawley did not cost either Smoot or Hawley their offices in the

1932 election.

No one, of course, should be surprised to learn that the myths of Smoot-Hawley are still taught in most schools of economics and political science and believed by most politicians. Just as most believers in the Shroud of Turin are unlikely to acknowledge, let alone accept, any modern proofs to the contrary, neither are most free trade ideologues likely to surrender the "lessons of Smoot-Hawley," all of which stress free trade and international multilateralism regardless of the cost to domestic industries and workers. For all others, Eckes provides a convincing response.

The American System was finally doomed with the elections of 1933 and Franklin Roosevelt's appointment of Cordell Hull to be Secretary of State. Now all but forgotten, Hull had a profound influence on 20th-century America. A long-term Democratic member of Congress, Hull, for instance, drafted the constitutional amendment that created the income tax (tariffs could never be reduced until an alternative source of federal revenues was created). Most important, Hull also authored, championed, and first administered the Reciprocal Trade Acts of the Roosevelt administration. In the process, he single-handedly changed American history. Indeed, Eckes describes by example after example how the philosophy, policies, and coalitions behind most of America's trade positions today can be traced directly to Cordell Hull. It was Hull, for instance, who realized that America's negotiation of concessions granting foreign access for a favored few industries, notably automobiles and agriculture, would result in the formation of an export coalition that could provide strong political support for his policies and large political contributions for the Democratic Party. The coalition Hull created continues to dominate American trade policy and provides much of the money going to both parties. Another example is Hull's persuading Congress to delegate to the Executive Branch, and notably the State Department, its authority to negotiate the reduction of tariffs. More than 60 years later, the Executive Branch still negotiates American trade agreements and all tariff reductions on behalf of Congress. Once Hull had the delegated negotiating authority, he created an anonymous committee of bureaucrats drawn from the State Department, Agri-

culture, Treasury, Commerce, and other departments to coordinate the country's trade strategy and negotiations—the Committee on Trade Agreements (CTA). For more than two decades, the names of these members were a tightly held secret. Eckes, who has seen the list, reveals that most of them, like many appointees of the New Deal, were free-trade economic theorists recruited from academe. During the Roosevelt administration, they were turned loose to play with their economic theories.

Here Eckes hits his stride. According to one of the internal CTA memos he cites, the “primary objective” of the Reciprocal Trade Agreements Program was to “reduce trade barriers rather than drive a sharp bargain . . . and permit a greater increase in imports than in exports with a view to correcting the trade balance problem of the United States.” In short, the United States was willing to give more than it gave in trade negotiations. The goal was to increase imports and reduce its trade surplus with other nations. In one negotiation after another the State Department, largely unsupervised in its trade negotiations, made maximum concessions to other nations while getting minimum concessions in return. Equally significant, in the mid-1930's, the State Department extended trade concessions to all of its major trade partners, except Germany, despite that country's flagrant discrimination against American exports. Not surprisingly, the State Department in the same period soon began to use trade as an instrument of foreign policy. Eckes documents trade concessions made to Belgium, Switzerland, Britain, Canada, Turkey,

Argentina, and Venezuela, among dozens of other nations. The goal was to buy goodwill, even though each concession damaged some domestic American industry.

Hull retired in 1944, but his policies continued in the postwar period. The result of the Reciprocal Trade Acts, Eckes explains, was to transform the United States in less than 30 years from “an impregnable commercial fortress” into “the world's largest and most inviting target of commercial opportunity for foreign producers.”

In the post-World War II era, unbalanced concessions have been the norm in American trade negotiations. Eckes uses unpublished papers from the Truman Presidential Library to describe the first negotiations of the General Agreement on Tariffs and Trade in 1947. He describes how the United States wanted an agreement, regardless of how “thin” it might be. This is a less-than-desirable negotiating position. By contrast, Britain wanted American concessions for its textile and manufacturing industries, and also retention of its imperial preference system. The result was that Britain got its concessions, kept the preference system, and the United States got a thin agreement. This pact established both a pattern and an expectation of concessions from the United States in future trade agreements. In essence, trade became aid.

By the 1950's, the State Department had negotiated dozens of pacts. Yet, as Eckes documents, none was being monitored or enforced. He describes how in 1958 the Chamber of Commerce asked the State Department for an accounting of which countries had given concessions for American exports and which products were eligible, as well as the tariff levels for those exports. The State Department could not supply an answer, for they had not kept a list, let alone monitored the agreements they had negotiated.

In its negotiations with Japan during this period, Eckes describes how the State Department went an extra step. Using minutes from numerous negotiations, he reveals how the State Department provided several third-party nations with concessions in the American market in exchange for their acceptance of Japanese exports. Foreign policy, of course, was the reason. Eckes documents dozens of additional examples of

domestic industries being sacrificed for foreign policy objectives.

More than a third of *Opening America's Market* describes American trade policy making from 1960 until the present. It is a sad tale. The economist-advisors invariably seem to have been free trade ideologues with little experience outside the classroom. Invariably, the negotiators are politicians with little knowledge or experience in trade matters. Most become foreign lobbyists when they leave office. Agreements go unenforced, and when there was a surge of enforcement in the late 1980's, foreign interests successfully lobbied Congress to weaken American trade laws. Foreign producers have taken aggressive advantage of the situation. So have many domestic firms that have found the cheap labor and lax regulations of other nations too attractive to resist. The result is a hollowing out of America's manufacturing base, and a decline of American wages and living standards. One measure of this is that in 1970 only 10 percent of the manufactured goods consumed in the United States were imports. Today, 50 percent are. Another measure is the fact that in 1970 almost 24 percent of the American labor force was employed in manufacturing, but today less than 14 percent is. Viewed yet another way, virtually all of the 44 million net new American jobs created since 1970 were in industries immune to international competition, such as health care. Yet, most of the American jobs lost during this same period, such as those making capital goods, were subject to international competition.

The favored solution—or at least that approved by America's opinion and political elite—to this decline is for the United States to enter into still more free trade agreements. Thus, the United States became a member of NAFTA in 1993 and the World Trade Organization in 1994. Meanwhile, President Clinton has proposed American membership in several additional regional trade blocks (including one with our Asian rivals), the inclusion of 23 Caribbean nations and Chile into NAFTA, and perhaps a trans-Atlantic free trade pact with Europe. The discordant note in all these plans is that no politician or economist has yet to offer an alternative as lucid and compelling as that provided in the 1930's by Cordell Hull. Pulling that sword from the stone is one of the central economic challenges of our time.

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# The Future Belongs To Us

by E. Christian Kopff

*“Reaction is the consequence of a nation waking from its illusions.”*

—Benjamin Disraeli

## Charles de Gaulle: Futurist of the Nation

by Régis Debray. Translated by John Howe  
London-New York: Verso;  
111 pp., \$49.95



Anna Mireck-Wodecki

In the 1960's, when those of us who are now “of a certain age,” as the old-fashioned French expression goes, were young, we used to talk about the Revolution. I remember one excited student at little Haverford College, on the Main Line outside of Philadelphia, saying that things had gotten so bad, it would soon be time to get our rifles and set out for the mountains to fight the government. “You’re going to fight in the Poconos?” I asked. “No!” he exploded, “not the Poconos. The Rocky Mountains. We’ll hide by day and strike by night.” Many of those putative revolutionaries went on to graduate school, or law or medical school, and are now serving the United States government as bureaucrat, professor, or some other type of skill.

We used to talk, in those days, about Régis Debray, the young Frenchman who went from school in Paris to Cuba and fought with Ché Guevara in Bolivia. He was captured when Ché was killed in 1967, and French President Charles de Gaulle telegraphed the Bolivian authorities to ask them to spare his life. The government did so and, after some unpleasant years in prison, Debray returned to France, one of the few intellectuals of his time who had actually risked his life trying to rouse indigenous peoples to revolt. The experience changed him.

“I became a ‘Gaullist’—the term is incorrect but appropriate—around May 1968 [at the time of the student protests that eventually led to de Gaulle’s fall]. A bit late, you might think, but better late than never. . . . It was the Guarani Indi-

ans of the Chaco who recruited me, affiliated me to that discredited brotherhood; convinced me that what is immaterial about a nation, a culture or a memory may constitute the ultimate axis for historical action. The Indians of the Bolivian Chaco did not speak Marxist, but this (although regrettable) was not unexpected: the same had been true of the Chinese peasants in Yunnan 30 years earlier. The problem with this lot was that they did not even speak Spanish. Ché made speeches, gave them the word; they understood not a word, not a single blessed word.” Their culture was too different. Debray had years in a Bolivian prison to ponder the lesson the Guarani Indians taught him. *La révolution mondiale n’est pas une patrie*. I can explain that sentence more easily than I can translate it. I think I know what it means: “What does it profit a man if he gain the whole world and lose his country?”

The World Revolution did not work. Proponents of “Global Democracy” and “Global Free Trade” will derive little consolation from Debray’s conversion, because what did work, what turned out to be real, was the nation and the religious element that structures the nation. As he made clear to Jean Ziegler, a conventional leftist, in discussions on “France Culturelle”:

Marxism and free trade liberalism are in my eyes almost the same thing. They are two sides of an illusion that belongs to the first industrial revolution . . . and which I call the ‘Economist Illusion.’ We thought the essence of History would be decided in the economy, in the production of material goods. In this sense Marx, Adam Smith, Ricardo seem to me variants of the same postulate which I believe false. . . . The Religious element . . . is not a passing factor. It is the structural basis of every human society, no matter how secularized. I believe that History has shut the book on that kind of Economism, and what was true for Communism will be true for Capitalism as well.

The great figure in recent history who saw that the nation is realer than the global economy or the world revolution was Charles de Gaulle. In this little book, Debray pays his belated respects to the man who took time out of a busy schedule to write on behalf of a French citizen locked up in a foreign jail, and stood for reality in a world grown frantic on hallucinations.

“We always sniggered at De Gaulle,” at his pompous style (“Fécamp is a seaport and intends to remain so”) but, more than that, at his anachronistic views. He walked out of NATO, offending his old ally, the United States, to build an independent atomic *force de frappe*. He went to Moscow and refused to recognize the German Democratic Republic. “Artificial creation. Won’t last. Prussia, living entity. Will last. . . . The old boy just could not grasp the fact that Communism had altered the European set-up. He went on stubbornly talking about ‘Russia’ as if we were still in the time of the Czars. Well, yes: ‘Soviet Union.’ Artefact, interesting but transitory, superficial. Won’t last. ‘Russia,’ serious entity, leathery, great people. Will endure.” He was always embarrassing

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