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The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, D.C. 20002
U.S.A.
202/546-4400

EXPORTING CAPITALISM

by Senator Phil Gramm

The United States cannot continue to be the world's chief underwriter of poverty. To do so is impractical and immoral; it wins no friends for America, no victories for democracy, and no opportunity for a brighter future for the undeveloped countries of the world.

Succinctly, the problem with our foreign development efforts has been our unwillingness to send abroad that which is the basis of prosperity in our own country: the free market idea.

Instead we have promoted socialism and subsidized statism. In the name of humanitarianism, we have exported our welfare policies and not our wealth-creation policies. While speaking of compassion, our attitude has more often been an amalgam of pity, condescension, and guilt. We are a great nation that seems to have grown ashamed of its greatness and forgetful of the source of that greatness.

Too often we have been like a little rich kid in the middle of a slum, feeling ashamed for being rich. It is as if the rich kid had a cake and everyone saw it and wanted some of it. And whether he tried to buy off the hungry crowd with one inadequate piece of cake, or whether the crowd threatened to knock him in the head and take it, there is no way that the cake would provide each person with more than a crumb. What America has to share with a hungry world is not the cake, but the recipe that we used to bake the cake. And that recipe is the American free enterprise system.

Producing Prosperity. America is not a great nation because brilliant and talented people came to live here--mostly we got the people the Old World didn't want. America is a great nation because our system offered greater incentives and opportunities than had ever existed before. This system has produced extraordinary results from plain old common people like you and me.

It is one of the greatest paradoxes of the postwar period that we have made so little progress in exporting the American product which the world most desperately needs: the system that produced our prosperity.

The reason for this is that spreading capitalism has never been a part of American foreign policy--for the most part, not even conservatives have stressed it. In our relations with friendly countries, conservatives too frequently have asked for nothing more than anti-communism, while liberals have had a preference for collectivism. Capitalism has been treated as if it were beside the point. But the United States is not and cannot be neutral on the question of freedom, and that must include economic freedom as well as political freedom.

Senator Gramm, a Republican, is the junior senator from Texas.

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Under President Jimmy Carter, we established a single pillar of American foreign policy, and that was the doctrine of human rights. Under President Ronald Reagan, we recognized that the only system of government that respects human rights is democracy. So, the doctrine of human rights was energized by active support for democratic institutions. Our next challenge must be to incorporate the ingredient that has been missing from our foreign policy, the promotion of capitalism and free enterprise.

But there is no reason for us to be offering the world just part of the American idea: what makes America work is both halves of "democratic capitalism."

Thwarting the Soviets. At the root of our system is the understanding that the protection of human rights and democratic government requires the establishment of limits on the realm of the state in order to secure and expand individual economic freedoms. We have seen around the world and throughout history that when economic life is dominated by the state, freedom itself is diminished; under collectivism and statism the creative energy of the individual is suppressed and poverty is the result. In nations without capitalism, the people have little freedom or prosperity.

I do not think that we can be successful in promoting democracy and human rights unless we also promote prosperity. But the notion of helping to ward off communism by fighting poverty has been distorted so as to rationalize directionless programs of overseas welfare and the promotion of economic socialism. But these approaches cannot create prosperity, only capitalism can.

I am always amazed when I travel--especially to areas where we are trying to thwart the designs of the Soviet Union--to find that we are using American money and influence to promote economic systems that we would not dream of adopting for ourselves and that clearly do not work.

Encouraging Wage and Price Controls. When I was in El Salvador last summer, I was astounded to hear from the head of the economic section at the American Embassy that we are encouraging that embattled country to impose wage and price controls, capital controls, rent controls--in essence, to adopt state socialism. These policies can never be productive. Yet all over Central America, and in other parts of the world, the United States is creating aid-dependent economies that will function only with the infusion of large subsidies paid for by the American taxpayer.

These policies are highly destructive. American foreign aid generates a privileged class of people who are in government or tied to government. As a result, people of talent and ambition are drawn toward government and away from productive private enterprise. Inevitably, the economic engine is sidetracked as the chief business of the country becomes politics. The economic welfare of working people does not keep pace with expectations and popular discontent mounts. Then the communists come along, point at a fat, corrupt government and say, "That's capitalism."

In reality, and quite remarkably, capitalism is almost entirely absent from our international economic development policies. Just 4 percent of U.S. development

assistance goes to help develop the private sector; a majority of the money we send overseas is used to build up the public sector. We cannot afford to continue to promote statism; to do so guarantees failure, first economic, then political.

The promotion of free enterprise must be a top foreign policy objective that all agencies of the federal government work to advance through our development assistance programs, our leverage with multilateral development banks, our trade policies, our political influence with developing nations, and our participation in international forums and organizations. And on this issue there can be no compromise.

The Missing Ingredient. If the United States began, as a matter of national policy, to "export capitalism," not only would we promote greater economic growth in the developing world, we would also provide the missing ingredient for the expansion of freedom around the world, our central foreign policy goal.

Take a look at the world in 1945. We emerged from World War II the most powerful nation on earth. Compared to Europe and Asia, we were virtually unscathed. Our capital stock was intact, we produced over half the goods and services created on the planet. We were the world's supreme military power, holding a nuclear monopoly. Economically, militarily, and ideologically we were triumphant.

The Soviet Union, after entering the war as the Nazis' ally, emerged with over 20 million dead, its capital stock devastated, its economy in a shambles, its people hungry. Their third-rate economic idea was not working in the Soviet Union, and it had never worked anywhere in the history of mankind. But out they went into the world peddling communism. That is where the competition for the hearts and minds of the people of the world began.

Trade Most Effective. And since that time, we have suffered the greatest rout in human history. In every place where the competition came down to the direct or indirect use of military power we at best broke even and, more often than not, lost--even when we had clear military superiority. Our attempts to buy friends with our money were equally futile. Since World War II, our most effective foreign policy tool has not been arms, it has not been aid, it has been trade.

Everywhere we marched forward with trade we have been successful. After World War II, Western Europe was saved from communism and rebuilt through trade. The Marshall Plan is commonly misunderstood. The aid under the Marshall Plan was a band-aid of subsidies coupled with a substantial reduction of trade barriers against European goods. The continent knew how to produce and wanted to do so; we simply primed the pump and then opened our markets.

Unfortunately, we used a false understanding of the Marshall Plan, that of a grant program, as the model for our foreign development efforts. In the post-World War II period, the United States has awarded foreign aid equivalent in current dollars to \$825 billion. Despite all the money spent, aid has been an ineffective engine of economic development and the Marshall Plan's success has nowhere else ever been repeated.

The most effective way of promoting private sector development does not require U.S. government funds, it is simply for us to promote world trade. This has always been America's most successful development policy.

In fact, Taiwan and South Korea, early recipients of U.S. aid, achieved their most rapid growth only after we ceased giving them aid. With the termination of aid, they deliberately shifted their development strategies away from "import substitution" and moved to a reliance on trade. Trade quickly achieved what aid had not. Taiwan saw its exports as a share of manufactured output go from 19 percent in 1966 to 50 percent just six years later, while its GNP growth accelerated to an extraordinary average annual rate of over 11 percent.

Economic Miracles. South Korea emerged from the ruins of the Korean War devastated, cut off from the natural resources of the North, and with a per capita income of just \$50 a year. But today--because they ignored our economic advice, as did the West Germans--they are on the verge of becoming a world economic power, one able to shoulder a major regional defense responsibility. South Korea is not yet fully democratic, but its dynamic capitalist system provides a high degree of freedom and opportunity that undergirds the nation as it democratizes politically. Indeed, recent protests notwithstanding, the Republic of Korea's overall social stability is testament to the political significance of true economic rights--the right to private property, to make contracts, to truck, barter, and exchange--which are as vital in this world as the right to vote; in fact, I believe that ultimately you cannot preserve meaning in one without the other. Korea will soon have both.

Today the trade-based economies of the Pacific rim are the most dynamic in the world. And it is the communists who are trying capitalism--not the other way around. It is no overstatement to say that on the rim of Asia the dream of freedom was sustained through the economic miracle of trade-based capitalism. The Chinese communists now see the specter of the late Chiang Kai-shek returning to liberate mainland China--not with an army, but through the power of the free market idea, nurtured on Taiwan and now revolutionizing the mainland and the world.

But what an irony it is that in the same historic moment in which the communist Chinese are coming out from behind their ideological Great Wall to recognize that trade is the answer, so many in the United States seek to build a wall around America and say that trade is the problem.

Dishonesty of Protectionism. But trade does not injure America, it strengthens us. Trade is not something we promote just as a favor to help develop the poor countries of the world. Nor is trade beneficial to the United States exclusively because it unites and strengthens the free world. Nor, emphatically, is our present trade deficit a case of our allies taking advantage of us and prospering at our expense. The truth is that the United States is the world's biggest winner from trade, and to reduce trade would be an economic disaster for us.

Unfortunately, the campaign for protectionism is as dishonest as it is destructive. International economic development, the security of the free world, and

our own prosperity at home are being thrown into jeopardy because of outright falsehoods and distortions as to the real impact of trade on the U.S. economy.

The public is barely ever told the simple fact that trade deficits, dollar for dollar, are equalled and offset by investment surpluses. The flip-side of our trade deficit is that the U.S. economy has been "greenlined" by hundreds of billions of dollars of investment capital from throughout the world, making it possible for America to lead the world in the creation of jobs and prosperity.

We have heard again and again that "U.S. trade deficits are shipping jobs overseas." The fact is that while our trade deficits have nearly quadrupled since 1982, the United States created over 11 million new jobs through 1986, more than Western Europe and Japan combined in the past decade.

Utter Hogwash! We are told that "the trade deficit is fueling unemployment." The reality is that unemployment in the U.S. has declined by 28 percent in the past four years, while the unemployment rate has risen by 17 percent in Japan and by over 20 percent in the European Community.

We are instructed that "America is losing its manufacturing jobs." But the truth is that from 1982 to 1986, the United States gained 406,000 jobs in manufacturing. And not only have we increased the number of such jobs, but real wages in manufacturing, which declined by 7 percent from 1977 to 1981, increased by 6 percent from 1982 to 1986.

But "no," we are told, "America is being 'de-industrialized,' as manufacturing declines." The fact is that the manufacturing sector has grown with the economy, holding stable at just over a fifth of GNP for virtually the last fifty years. Furthermore, in the current expansion, manufacturers have increased their productivity at over four times the rate of non-manufacturing businesses.

And with great finality we are gravely advised that "the trade deficit is destroying the U.S. economy." What utter hogwash! The real story is that from 1982 to 1986, the U.S. economy grew 43 percent faster than Japan or West Germany, both of which have huge trade surpluses with the United States. While the trade deficit has soared, the U.S. has created jobs three times as fast as Japan and twenty times as fast as Germany--more jobs, better jobs, and higher paying jobs.

The Genius of Capitalism. This is the reality of foreign trade. The protectionist campaign which threatens to bring on a trade war--and which may make us lose the cold war--has been built on a mountain of falsehoods. The economic record tells just one story: America wins big from global capitalism.

Trade is good for the world, and it is good for America. Our goal must be to put trade at the center of our development policy, our foreign policy, and our domestic prosperity policy. The task at hand is for America to export the genius of capitalism to the developing countries and to remember its wisdom here at home.

Throughout the world, millions of people want to come to America. Every night they dream the American dream. Let us take the blessings of liberty and free enterprise to them. It is time for America to start exporting capitalism.

