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NAFTA:
Engine of
Freedom in the
Americas

By Senator Phil Gramm



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By Senator Phil Gramm

If I am known for anything in Washington, D.C., it is for trying to put the federal government on a budget. But in terms of the overall well-being of the nation and its people, the deficit is a relatively mild matter compared to trade. Trade is an issue of overarching importance. Trade has been the key to American success from the very beginning. After all, the effort to overcome trade barriers is what brought the first ship to the Americas in 1492. Trade has played a critical role in the growth of America and has been the principal instrument of America's success throughout our history, no more so than in the post-war period.

In fact, I credit two policies for our victory in the Cold War. The first was containment—maintaining military strength, projecting military force to the frontiers of freedom, keeping Ivan back from the gate for 45 years, while allowing the natural superiority of our economic system to prevail.

But what guaranteed that our system would prevail was trade. Trade in the post-war period created the greatest wealth-generation machine in world history. And that wealth-generation machine rebuilt Germany and much of Europe, rebuilt Japan, and created economic powers in places like Taiwan and Korea that had never before experienced economic growth of any sustained nature. In the process, international trade so changed the economic, and ultimately the military, balance of power that the Berlin Wall collapsed, the people of Eastern Europe were liberated, the Soviet Union was transformed—and, as they say, the rest is history. All that occurred principally because of the power of a growing trade base, where barriers came down, jobs were created, and economic expansion occurred.

The importance of trade is especially clear when we consider the history of the Americas, and contrast the current success story with earlier failures. Our policies in the Americas, at least since World War I, centered around two policy statements remembered more for the flair with which they were announced than any success they achieved, because for all practical purposes they achieved little. I am talking about the Good Neighbor Policy and the Alliance for Progress.

These policies were built on paternalism and our ability to supply foreign aid to the Americas. They produced a situation where, more often than not, America was like a little rich kid in the middle of a slum walking around with a great big cake. Everybody saw this cake and wanted a piece of it. Every once in a while we cut off a slice of that cake and gave it away, but people considered it a small down payment on what they were owed. So rather than loving us for giving them a little piece, they hated us for it. What we had to share, of any lasting value, was not the cake, but the recipe we used to bake it. And that recipe is democracy and free enterprise mobilized—I might say galvanized—through trade.

Now, why is the North American Free Trade Agreement so important? Well, first of all, consider the record of the European Economic Community. The EEC was born out of the Marshall Plan. The Marshall Plan, in the big scheme of things, was a relatively small amount of economic

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aid provided by the United States coupled with a historical reduction in trade barriers, both between the U.S. and Europe, and within Europe itself.

President Eisenhower was the first to champion the idea that we should have an economic union in Europe. And that economic union, under the encouragement of Presidents Eisenhower and Kennedy, took root, grew, expanded, and became a massive economic power generating prosperity, freedom, and success for the West.

Today, the United States has a free trade agreement with Canada. We have a free trade agreement with Israel. And we have negotiated a free trade agreement with Mexico. And now, as we debate the NAFTA, we will determine whether or not the Congress will continue with the tradition that has expanded freedom around the globe or turn away from that field of success to the follies of the past. The opposition to ratification can be broken into two parts; one is the environmental issue, and the other is the so-called jobs issue.

The environmental issue is easy to deal with. Anybody who tells you that he or she opposes the North American Free Trade Agreement because of a concern about the environment is simply a phony. No poor country on the planet does a good job protecting its environment. No poor country on the planet has a good record for environmental protection. Because the NAFTA will expand trade and raise living standards in both the U.S. and Mexico, it will give Mexico the capacity, for the first time, to enforce its environmental laws and to invest in improving the quality of its environment for its people. That is the strongest environmental argument for approving the NAFTA. Opponents have the burden to prove that the NAFTA's defeat will improve environmental conditions in Mexico. They cannot do it.

Let us turn to the jobs issue—and one of my most famous constituents, Ross Perot. I'm sure you have all heard Ross Perot speak in graphic terms about this "giant sucking sound" that we are going to hear if the NAFTA passes and American jobs flow across the border. Well, it's a pity that before making up all of these nice analogies nobody ever stopped to look at the facts. I defy anybody to cite a single case where a free trade agreement has denuded a country of jobs. No such thing has ever happened.

Instead of reasoning by false analogy, we should look at the existing trade situation with Mexico. Currently, the average American product entering Mexico faces a 10 percent tariff. The average Mexican product entering the United States faces a 4 percent tariff. Under these circumstances, we almost have free trade, only it goes in just one direction: Mexican products are freely coming into the United States. If Mexico has these inherent advantages in competing against the United States, why do they have a trade deficit of \$6 billion today?

In fact, with all this talk about American capital going to Mexico, it never ceases to amaze me that no one has thought to look at what happened during the 1980s. Using any effective measure of capital flow, during the 1980s there was a net capital flow, but it was a flow of Mexican capital coming into the United States. Why? Because Mexico had a restrictive trade policy, because Mexico had not joined the GATT, because Mexico had effective government control of major segments of its economy, and because Mexican investors had no confidence in the future of the Mexican economy and struggled to get private capital out of their country and into ours, where it could be put to work.

I am delighted to say that President Salinas is one of the most enlightened heads of state in the world. The greatest economic miracle in the last five years has not taken place in Eastern Europe or the former Soviet Republics; it has occurred in Mexico. As a result, the Mexican economy dramatically rebounded from the lows of the debt crisis, and when it started to grow, American exports to Mexico expanded, too.

I don't want to sound like an old college professor, but I can't resist explaining one more point that is never mentioned in any of these trade discussions. We have a dollar for international exchange whose value is set by the market. We have a freely floating exchange rate. In a period of non-economic enlightenment, when Richard Nixon imposed price controls, he did one smart thing—he established a flexible exchange rate.

The value of the dollar, relative to every foreign currency, is set every day on a market that has over \$200 billion in transactions. So the value of the dollar, relative to the peso, is set every day as people buy and sell dollars and pesos. People want to buy pesos with dollars because they want to buy Mexican goods or invest in Mexico. People want to buy dollars with pesos because they want to buy American goods or invest in the United States.

Now, what would happen if suddenly every businessman in America decided to invest in Mexico? Obviously, the value of the peso, relative to the dollar, would skyrocket. Mexican goods would become non-competitive. American goods would become very competitive in Mexico, and the whole process would be choked off. Conversely, if Mexican investors decided to invest everything in the United States, the peso would go right through the floor, relative to the dollar, and ultimately stop the process—which is just what happened when we had a flight of Mexican currency into the U.S. in the 1980s.

This whole idea that nations can simply engage in one-sided trade, or that you can have a nation where everybody just “flips hamburgers” is false; it cannot happen. And the reason that it can't happen is flexible exchange rates. The whole argument is absolute and utter nonsense.

Strange to relate, other ages have understood, far better than ours, that foreign goods are not a threat and that foreign trade is not a danger. Let me read from the great funeral oration of Pericles, where he tries to sum up the splendor of Athens. “Because of the greatness of our city,” Pericles says, “the fruits of the whole earth flow in upon us so that we enjoy the goods of other countries as freely as our own.” Did enlightenment die so long ago? Fortunately, it did not, but it sure has suffered one heck of a rhetorical beating, which is why we are here engaged in this discussion.

Finally, let me say that my constituent Ross Perot wonders how we can trade effectively with people who make so much less money than we do. My question is, if you can't trade competitively with people who make less money than you do, how does Ross Perot do business with anybody? Since Ross Perot makes more money than everybody, how is it that he is able to compete with people like me? The reason he competes is that he does it better, which is why he makes more money. America does not have the highest living standards in the world for nothing. It is because we have the most productive workers in the world.

The North American Free Trade Agreement is vitally important to the development of North America. There is no enlightened argument against it. All three nations of North America will benefit. I am committed to do everything I can to see it happen. But it is going to be a close vote. The Administration started off its new term doing relatively little to support the agreement. Daily they allowed their constituency groups and support groups to savage the free trade agreement. But I have to give the President some credit. When Leon Panetta embarrassed the Administration a few months ago by expressing the obvious—he said the North American Free Trade Agreement appeared to be dead, basically because of a lack of support from the President—he so shamed the Administration that they are now doing a better job. I believe that if the White House makes a full-fledged commitment to the agreement, it will ultimately become the law of the land.

Important as the North American Free Trade Agreement is, I see it primarily as a stepping stone to even greater achievements. I want to expand this agreement to the Caribbean nations, Central America, and South America. And before this century ends, I would like to have a free

trade agreement going from the Arctic to the Antarctic, so that any person in any village in the Americas could produce a good or service and sell it anywhere in the Americas based on the quality and price of the product that they produced. That, I think, is a goal truly worthy of American trade policy.

I also think that as we expand this free trade agreement, we should put into place a legislative structure for a free trade agreement with Cuba. It would become operative only when Castro is gone, when Cuba has set into place a convertible currency, has joined the GATT, and has had free, democratic elections. In doing so we would provide a reward that would hasten the day when the people of Cuba enter into their birthright of freedom.

Questions and Answers:

Q: Senator, the recent polls have shown that about half of the American people voting know what the NAFTA is. Considering that public support to some extent will be important for the passage, what is the strategy for mobilizing that support?

A: Well, I think we have to go out and inform people. Before anyone else was talking about it, I introduced legislation calling for the agreement, setting up the structure for the negotiation. I went out all over Texas, had meetings in virtually every city of any size in the state, and worked to draw attention to the free trade agreement. We went into factories where people were producing things that were being sold in Mexico. We tried to tell the story of the expansion of trade that was underway and the gains that could be had by the free trade agreement. Not only did I reach the people who were there, but through the media we were able to send that message all over the state. And I think people in Texas are fairly well informed on this subject, and of all states in the Union, are probably the most supportive. Now you could say, "Well, they are closer to Mexico, they have got other ties." That is true, but I think that we have to get out and tell our story.

Finally, because this issue is so important, we have to persuade people to cast a vote that is going to affect the country for many years to come. And I think that vote has to be based on what is right for the country, not on some poll that reveals which way the wind is blowing. I can tell you that the free trade agreement, in my opinion, is vitally important. And if there is only one person on the continent who is for it, that person is going to be me. This is one of those times where a vote could make a difference, where the lives of millions of people could be affected. If we reject the North American Free Trade Agreement, we would demonstrate to the whole world that we were hypocrites, that everything we have said in the post-war period was a lie. After all that President Salinas and the Mexicans have done, if we left them at the altar, I think the damage to U.S./Mexican relations would be tremendous, and would last for a generation or two.

Q: When will Congress vote on the NAFTA?

A: I don't know. I would like to vote on the NAFTA this year. I don't think delay does us any good. I also am concerned about the so-called side agreements. To the degree that they give people sufficient political cover to say that some concern they had has been dealt with, I think they are positive, but I think it is very difficult to cut a deal with somebody where you bargain hard on both sides, you make an agreement, and then you come back and say, "Well, having reached that agreement, now let's do another one; I want to open up all of the issues again." I just don't think that is going to work. So, to the degree that we can work out agreements related to implementation, border infrastructure, guarantees on environmental

protection, I think all of that might turn out to be positive. But I do not think that it is going to have much of an impact, because I think the agreement is going to produce broader prosperity so people can build infrastructure and improve the environment.

Q: What will happen if Congress rejects the NAFTA?

A: Well, obviously we would lose hundreds of thousands of good jobs we could have had. The economic expansion that would have been created by the NAFTA would be lost if it didn't go through. As I look at the economic horizon and try to find a reason to think that we might have economic recovery, I certainly do not find it in Bill Clinton's budget. Nor do I see a world-wide expansion underway. We have a world-wide recession. The only positive thing I see on the horizon is the U.S.-Canada-Mexico Free Trade Agreement, and I think its adoption would be a factor contributing to our recovery. Moreover, if the agreement does not go through then there is going to be a very negative reaction in Mexico, with the Mexican government shifting hard to the left. I would like to believe the Salinas reforms are so strong, so deeply rooted, that they could survive the kind of international affront that this would be, but I am concerned about it. I think it would be a signal all over the world that America was becoming more protectionist. I think there is a good chance that the current GATT round would collapse. I think it would encourage petty protectionists all over the world. And I think we would see an increase in protectionism world-wide.

And don't forget another point. With all of our rhetoric about other countries opening their markets (and I am not taking second place in terms of the American market and how open it is) don't forget that in the last ten years, of all the developed nations in the world, the country that has gone furthest in closing its market is the United States of America. No question about that. No other country of any significance, in the last ten years, has imposed more trade restrictions, mostly in the name of "fair trade," which is then justified by saying, "Foreigners cheat their workers and consumers, so let American special interests cheat our workers and consumers." We have had a tremendous amount of it. It continues and accelerates as of this moment.

