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473

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Favors
This NAFTA

By Rep. Dick Armey



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Why *This* Conservative Favors This NAFTA

By Rep. Dick Armey

I appreciate this opportunity to speak to you today about one of the most important opportunities that America has faced in several decades. The North American Free Trade Agreement, which adds Mexico to the current free trade area with Canada, will create the largest free trade zone in the world, with a population of 370 million and a gross domestic product of \$7 trillion.

Most of the arguments in favor of NAFTA have focused on the short-term economic benefits to the U.S.:

- ✓ Mexico's tariffs on American goods average about ten percent while America's tariffs on Mexican products average only about three percent. Consequently, when NAFTA eliminates these tariffs, America gains greater access to Mexico's market than Mexico gains to America's.
- ✓ Under NAFTA Mexico will allow American enterprises to provide banking, securities, insurance, and other services in its market.
- ✓ All serious scholarly studies of the effects of the agreement find net new jobs created in the U.S. The only open question is, "How many?"

With all of these benefits, it is curious that some conservatives actually oppose NAFTA. On a few points their concerns are valid, but their conclusions about the actual effects of NAFTA are mistaken. The environmental and labor commissions established by the NAFTA side agreements, for example, are unneeded. But, they do *not* give more power to radical American environmental groups, they do *not* endanger American sovereignty, and they do *not* offset the benefits that will result from freer trade.

Today I want to give you ten reasons why all Americans who want a prosperous, growing country, and conservatives in particular, who favor less government control of the economy and more freedom for individuals, should favor NAFTA.

REASON #1: NAFTA originated as part of the vision of one of the most outstanding conservatives in this country's history — Ronald Reagan.

In the late 1970s Ronald Reagan was setting forth his vision of America, a vision that won him the White House and a vision which, when translated into economic policy, led to this country's longest period of economic expansion. Part of that vision was a free trade area in this hemisphere, stretching from the Yukon in the Arctic to the Straits of Magellan in South America.

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The Reagan Administration negotiated the country's first free trade area in 1985 with Israel. Next followed the FTA with Canada. NAFTA is the next step in the Reagan vision of a free trade hemisphere.

REASON #2: Conservatives stand for the freedom of individuals, not for the power of governments. NAFTA restores sovereignty to individuals.

Too often we speak of free trade as, for example, between Mexico and the U.S. But what do we mean by Mexico and the U.S.? Do we mean the governments of these countries? Do we mean the physical territory?

In point of fact, Mexico and the U.S. do not trade anything. Individual Americans and individual Mexicans are the actual merchants and customers.

NAFTA removes the current restrictions of the Mexican and U.S. governments on the freedom of their citizens to trade with one another. NAFTA removes power from the hands of governments and restores freedom to the sovereign individual.

Some critics have complained that somehow, by allowing the economies of Mexico and the U.S. to become more interdependent, NAFTA robs America of its sovereignty. But to these critics I say that it is not *your* economy to begin with. Conservatives reject the premise that a country's wealth is collective or communal. The American economy belongs to millions of individual private property owners who should be free to use and dispose of their property as they see fit. This freedom includes the right to buy from and sell to Mexicans.

REASON #3: Conservatives respect the lessons of history. One of these lessons is that free trade leads to a prosperous world. Another is that protectionism leads to poverty.

To paraphrase my friend Thomas Sowell, I don't have faith in free trade, I have evidence. Freer trade leads to greater prosperity.

In the 19th century Britain became the dominant economic power. Why did Britain, a small island, rise to economic dominance? In part it was because Britain progressively opened its markets to imports. It realized that it makes little sense to waste manpower, raw materials, land, and capital to produce goods and services that can be purchased more cheaply elsewhere. It is better to allow the individuals who are most efficient in producing any given good or service to do so and to allow them to trade with others for the things they cannot produce as efficiently.

Even countries that kept their markets more closed than Britain to the outside world in fact prospered through trade liberalization. Germany, for example, was only united as a country under the leadership of Prussia in 1871. But that union was the culmination of a process of eliminating trade barriers between the numerous small German principalities. The efficiency that resulted from the free trade area between these German states helped what became unified Germany to grow and prosper.

The U.S. kept trade barriers relatively high in the 19th century as well. But much of the American national enterprise in that century was settling the vast territory of the West. America was a huge, European-size continental free trade area, stretching from the Atlantic to the Pacific, the same distance as between Madrid and Moscow.

NAFTA will apply this lesson, that freer trade means greater prosperity.

History also shows us the follies of protectionism. During the 1920s the U.S. progressively raised its trade barriers to other countries. Of course, that meant that other countries could not earn the dollars necessary to purchase U.S. products. So the U.S. government, through the newly created federal reserve system, expanded credit and encouraged lending to other countries.

When the stock market crashed in October 1929 because of these policies, policy makers and the public assumed the country was in a temporary recession. By early 1930 the economy was beginning to rebound.

But in that year President Hoover changed a recession into a depression by raising taxes twice. First he raised taxes on personal and business income. And second, he raised taxes on purchases from overseas, under the infamous Smoot-Hawley Tariff Act.

Britain followed suit at the 1930 Ottawa conference by establishing the imperial preference system to favor trade within its empire and discourage trade outside of it. Similarly, France tried to restrict within its empire. Fascist Italy already was trying to keep out foreign goods and investments. And when Germany went fascist it followed a similar policy.

Unlike a trading bloc, NAFTA does not establish significant new barriers to non-NAFTA members. Rather, it opens markets and, it is hoped, will lead to more free trade areas.

REASON #4: Conservatives understand the need for institutional checks on government abuses of freedom. NAFTA provides such a check.

To explain this point, I call your attention to one of the principal reasons why Mexico wants NAFTA. The Mexican government over the past seven years has taken major steps to convert its socialist economy into a free market economy. It has joined the General Agreement on Tariffs and Trade and, as a result, already lowered many of its trade barriers. It has controlled the runaway inflation of its currency. It has sold off many government-owned enterprises.

But the free market advocates in Mexico understand that these reforms could be undone by a future government. And the Leftist opposition in Mexico that might control or influence such a government is indeed anti-American and anti-free market. Two Leftist critics of the government of Mexican President Carlos Salinas, for example, recently suggested that in place of NAFTA, Mexico levy a 100 percent tariff on American imports while allowing Japanese and European imports into the country duty-free.

Thus, to make it difficult or impossible for a future government to scrap the free market reforms, Mexican reformers understand the need to integrate their country's economy with the economy of a relatively prosperous, more free market country. For Mexico, the obvious candidate for economic partnership is the U.S. If Mexico is more integrated with America's economy, what would happen, for example, if the government of Mexico decided to nationalize and run enterprises that belong in the private sector?

Naturally such companies would run inefficiently. But with a free trade area, American firms would provide alternatives to the high-cost, low-quality government goods or services. The Mexican government enterprises would lose millions of dollars and require massive government bailouts even larger than those normally required by such enterprises. Mexico would have a very hard time affording such an economically irrational policy in a NAFTA with the U.S. and Canada.

But the same controlling effect on government can work on America from closer economic ties with Mexico. For example, many of America's environmental laws have little or

nothing to do with protecting the public health and safety, and everything to do with empowering bureaucrats. With NAFTA, the U.S. will have a strong incentive to replace these senseless laws with a more efficient and just form of environmental protection based on private property rights. America would have a strong incentive to clean up its own competitiveness act.

REASON #5: Conservatives examine new arrangements closely and base their decisions on facts.

Conservatives know well not to trust the words and assurances of governments when they propose new policies. This does not mean that conservatives oppose all change, only change that limits freedom and expands government power.

Some conservatives fear that the labor commissions and especially the environmental commissions set up by the NAFTA side agreements might take away American sovereignty or give radical environmentalists in America more power. These concerns are legitimate and reflect the kind of care and attention to the potential dangers of new government bodies that is a hallmark of conservatives. But I'm happy to report that while the commissions are unnecessary, they do not pose a danger to Americans.

Let me review briefly what the commissions can and cannot do. The first function of the commissions is fact-finding.

Each commission consists of representatives of the three NAFTA governments and a Secretariat. The secretariat of the environmental commission is empowered to investigate cases called to its attention of **a country's failure to enforce its own laws**. The commissions cannot search for cases on their own.

Further, the commissions have no subpoena powers for collecting evidence.

What the commissions can do, in the end, after an arduous process that weeds out nuisance complaints, is issue reports of their findings. These reports, like other reports by international bodies, might be informative or they might be useless. But they have no effect whatsoever on the power of the American people to conduct policy as they see fit.

The second function of the commission is dispute resolution.

If a NAFTA member government believes that another member is engaging in a "persistent pattern of failure to effectively enforce" its own environmental or labor laws where a tradeable good or service is involved, it can request consultations and, on the agreement of the other NAFTA member, have a dispute resolution panel convened. But if a country is found to be engaging in such a pattern, its sovereign powers still cannot be overridden by the panel.

If the guilty country does not agree to change its practices, the panel can levy a fine of no more than \$20 million. If the country refuses to pay the fine, the worst the panel can do is allow the aggrieved country to restore certain limited tariffs to pre-NAFTA levels to collect the fine. This is similar to retaliation under GATT. It does not limit sovereignty.

It is critical to note that nothing in NAFTA prohibits a country from changing its own laws. Often critics cite Article 1114 of the accord which states that "it is inappropriate to encourage investment by relaxing domestic health, safety or environmental standards."

But NAFTA contains no mechanism by which member governments can act against an alleged violator. The lip service paid by NAFTA to these standards does not confer upon any international body legal authority over U.S. domestic affairs. The U.N. charter, for ex-

ample, calls for the peaceful solution of all international disputes. Has this produced world peace? Has an American weapons manufacturer found itself answering to an international tribunal for violating such policies?

The environmental agreement makes clear that, while NAFTA countries are urged not to reduce environmental standards, they still retain the right to make their own policies. Beginning the side agreement is a preamble "Reaffirming the sovereign right of States to exploit their own resources pursuant to their own environmental and development policies...."

Article 3 of the side agreement, while calling for high levels of environmental protection, does so while "Recognizing the right of each Party to establish its own levels of domestic environmental protection and environmental development policies and priorities, and to adopt or modify accordingly its environmental laws and regulations...."

Free market advocates need not fear that American special interest groups will use the commissions to impose more regulations on the U.S. economy. According to Article 2021 of NAFTA, **private parties do not have a right of action in U.S. courts based on Commission findings.**

REASON #6: Conservatives understand that free trade areas breed more free trade areas, that NAFTA is a means to spread economic liberty throughout the hemisphere and the world.

The U.S. often complains about trade barriers in other countries. American firms face restrictions when they try to sell computers in Brazil or rice in Japan. Of course, the U.S. has many trade barriers as well.

The U.S. government often uses the threat of trade retaliation as a means to force other countries to remove trade barriers. This approach does not work very well.

But consider the economic dynamics set up by a free trade area. Brazilian firms, for example, want to compete with American firms selling products in Mexico. But under NAFTA, American products enter Mexico duty-free. Brazilian products, however, are subject to an average ten percent duty.

How can Brazil make up for this disadvantage? By raising trade barriers on Mexican or American products? No! Such an approach would not make their goods more competitive in Mexico.

Brazil would have a strong incentive to follow the strategy "If you can't beat 'em, join 'em." Only by seeking membership in the free trade area, could a country place itself again on an equal footing with their competition.

This phenomenon in fact is already occurring. The Japanese, for example, were concerned about the U.S.-Canada FTA and are now concerned about NAFTA. NAFTA gives the U.S. more leverage to open the markets of Japan and Europe.

REASON #7: Conservatives understand that only through free exchange can American living standards continue to rise. NAFTA expands such exchange.

Rising material living standards result from rising productivity. To be more productive, American businesses must produce more goods and services with given amounts of labor, capital, land, and raw materials. The only way workers can trade their labor for more real purchasing power is if their labor is more valuable, that is, if they produce more goods and services.

But to prosper we cannot simply produce more of the same old things. The history of economic development over the past two centuries is one of creating new goods and services never before dreamt of. This development included introduction and/or mass production of everything from trains, planes, and automobiles, to skyscrapers and assembly lines, to penicillin, anesthetics, heart transplants, to telephones, radios and televisions, microchips, and personal computers.

The world's leading industrial countries are those that pioneer the new products. How can we assure ourselves that America will remain on the economic cutting edge? How can we give American entrepreneurs the strongest incentive to continue in our pioneer economic spirit? How can we make America competitive in the future? Simple. Allow Americans to compete.

By creating a huge free trade zone, NAFTA will allow for a more efficient division of labor. Mexicans and Americans respectively will put more resources into the production of goods and services at which they are most efficient. The combination of greater competition and a larger market will help guarantee that America will remain the world's most productive economy.

REASON #8: Conservatives are optimists who seek to expand economic opportunity, and not cower behind trade barriers.

The motivation of many opponents of NAFTA seems to be simply fear. While none can demonstrate exactly what the dangers of freer trade are from NAFTA, they want us to take their emotions as a reason to deny freedom of commerce to Americans. It is embarrassing to hear Americans fear that they just can't compete.

But America is the one country in the world built on the attitude of optimism and the expectation of opportunity. This country was settled by pioneers who risked everything to move to a new land, faced physical dangers, left countries that offered no avenues of advancement for a country that offered absolutely no guarantees but one: the guarantee that every American be free from repressive government, that every American be free to rise to whatever level they could through his own hard work and efforts, and to trade freely based on mutual consent.

The result was the most prosperous country in the world.

Again, while some concerns about NAFTA are legitimate, some fears manifestly are not.

- X NAFTA opponents should not fear free trade when America has the most productive economy in the world.
- X NAFTA opponents should not fear free trade when America is the largest exporter in the world.
- X NAFTA opponents should not fear free trade with a country whose economy is only one twentieth the size of America's.
- X NAFTA opponents should not fear free trade when the history of American enterprise, when unshackled from government taxes and regulations, is one of meeting and winning every economic challenge.

REASON #9: Conservatives understand that if this country abandons free trade and free markets, it could indeed become a second-rate power.

It is instructive to consider the example of Argentina. Earlier in this century, Argentina was one of the top ten richest countries in the world. Its living standards were comparable to those in Europe. It is a country blessed with incredible natural resources, for example, the pampas, which is one of the most fertile wheat and cattle producing parts of the world, and its own oil reserves. British investors built what was then a state-of-the-art railroad. It had power plants, factories, and other facilities.

But in the 1940s it followed the anti-free trade, anti-foreign investment, pro-central planning approach of Juan Peron. It closed its markets. And over the decades it joined the ranks of less developed countries. Today, Argentina is engaged in a great national struggle to transform its economy and to rejoin the world market.

REASON #10: Conservatives understand that with NAFTA, America can enter the 21st century as the preeminent economic power in an economically expanding hemisphere.

I conclude my talk by observing that America truly has the opportunity to enter the 21st century as the preeminent economic power in an economically expanding hemisphere. NAFTA is an agreement that is good for America. But it is an agreement that especially should be favored by conservatives. NAFTA reflects the optimism that is basic to the American character and the search for opportunity that made America great and will make it greater still in the future.

If we abandon NAFTA, Republicans run the risk of ceding the intellectual high ground of free trade and allowing Pat Buchanan and Ross Perot to put a stamp of protectionism on the party. But this party stands for ideas, for individual freedom and for economic opportunity. When Reagan followed this formula, the result was seven years of economic growth and prosperity. We cannot abandon our principles and a winning formula for the purposes of an apparent political expediency that will politically damage our party and our country in the future.

