The Great Confusion: A Conservative's Response to Pat Buchanan's *The Great Betrayal*

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Dr. Weidenbaum is known for his research on economic policy, taxes, government spending, and regulation. He is the author of eight books, the latest being *The Bamboo Network: How Expatriate Chinese Entrepreneurs Are Creating a New Economic Superpower in Asia* (1996). *His Small Wars, Big Defense: Paying for the Military After the Cold War* was judged by the Association of American Publishers to be the outstanding economics book of 1992. He has written several hundred articles in publications ranging from the *American Economic Review* to the *Wall Street Journal*. He is a Fellow of the National Association of Business Economists, Honorary Fellow of the Association for Technical Communications, and a past president of the Midwest Economics Association.

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Pat Buchanan has run up against economic reality and he doesn't like it. In his new book (the one with the scholarly title, *The Great Betrayal*[1]), he flails out against those who advocate the policies on international trade that he formerly supported but now opposes. Yet, as a former colleague of his (in the Nixon Administration) who continues to support those earlier and still prevailing policies, my response is written more out of sadness than anger.

It is more than just silly for Pat to write that free trade is killing America. It is so fundamentally wrong that it overwhelms any other message that he is trying to communicate.

As someone who has had the opportunity of working with Mr. Buchanan, I can vouch for the fact that he does not have horns and a tail. Indeed, he is a patriotic American who cares deeply about the future of our country. On quite a few specific issues, ranging from foreign aid to global warming, we take very similar positions.

Nevertheless, when he enters complicated areas of economic policy, Pat is a fish out of water. Even when he raises pertinent questions, he has the tendency of jumping to easy—and wrong—conclusions. Therefore, this response to his latest writing is going to be rather critical. Too much is at stake to gloss over the great confusion and fundamental shortcomings of Pat Buchanan's current approach to public policy.

A key section of *The Great Betrayal* is labeled, "Who Lost America?"[2] As Buchanan is fond of writing in dealing with the views of others, "intending no disrespect, this is nonsense." It is more than just silly for Pat to write that free trade is killing America. It is so fundamentally wrong that it overwhelms any other message that he is trying to communicate (his reference to the crushing burden of inheritance taxes on small business is right on the mark). Of course, this nation has problems and some of them are serious. But frantic responses generated by hysterical counsels of despair are simply not what this country needs.

By any objective criteria, the United States is the pacesetter of our time. The citizens of other nations are trying to copy our economic system, business practices, culture, fashions, and positive attitude toward freedom. They don't send their young people to Tokyo University or Beijing University or Berlin University—but off to get an American MBA! I am reminded of the advice given to a young diplomat by the great statesman Talleyrand, "Pas de zèle." (In today's English, he'd probably say to Buchanan, "Cool it, man.")

Surely, any traveler beyond the borders of the continental United States quickly finds that our economy is the envy of the rest of the world. The United States regularly creates more jobs, income, and wealth than any other comparable part of the planet. This nation is enjoying the lowest unemployment rate in more than a quarter of a century, together with a happy combination of low inflation and growth rates above those of Western Europe and Japan.

Pat has great difficulty accepting the hard fact that any major change in national policy will benefit some people and hurt others. By focusing on those relatively few who may be hurt by traditional international trade policy, he ignores the great many who benefit from more open worldwide competition. It is not a matter of the economic glass being either half full or half empty—it's more than 90 percent full!

Buchanan's myopic approach results in his advocating policies that would harm many more Americans than they would benefit. But he gives no attention to that important, flip side of his proposals. Worse yet, Pat deludes himself by contrasting the inevitably imperfect present time with a supposedly near-perfect past ("we all prospered together, as in the 1950s. . . . America will never again be the country they grew up in").[3] The reader is reminded of Thomas Wolfe's conclusion, "You can't go home again."

For a great many Americans, the 1950s were very good times. While our overseas competitors were struggling to recover from the devastation of World War II, the United States enjoyed unusual supremacy in the global marketplace. At home we were spending their war-accumulated savings to buy homes, furnishings, appliances, and automobiles.

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But even that golden decade had its bad times. We did not all prosper together. The unemployment rate reached 6.8 percent in 1958 (the non-white unemployment rate hit 12.6 percent that year). The average worker's compensation in "real" terms (boiling out the effects of inflation) was more than a third lower in 1959 than it is today. The national total of savings deposits—a good measure of consumer wealth—was a modest $146 billion in December 1954. It is almost eight times that amount now. Total industrial production in the 1950s was half of today's rate. So much for the subsequent "destruction" of U.S. manufacturing by foreign competition.

On the other hand, Buchanan's concern with those who are left behind in the wake of economic progress is commendable. Contrary to popular wisdom, a rising tide does not raise all boats. In fact, some leaky vessels sink under such circumstances. Public policy should not and does not ignore the losers in economic change. The social safety net available to Americans in financial distress is very substantial (unemployment compensation, food stamps, job training, and so on).

The most surprising aspect of Buchanan's position is his failure to deal with the role of training and education in helping people adjust successfully to the changing challenges of an increasingly global economy. We can and should share his genuine anguish over the plight of the people whose jobs are lost when factories close. But it is surprising that he ignores the positive possibilities that are generated by people who try to improve their job skills.

The most surprising aspect of Buchanan's position is his failure to deal with the role of training and education in helping people adjust successfully to the changing challenges of an increasingly global economy.

It is especially sad to note that virtually every mention of education in his new book is negative (I recall no exception). Snide references to Ivy League schools and elite Eastern education abound. Intending no disrespect (that Buchananism is contagious), I note that Pat's undergraduate alma mater, Georgetown University, is located on the East Coast (in Washington, D.C.). Moreover, according to the elitist publication, *Who's Who in America*, Pat Buchanan also earned a master's degree at that Ivy League institution in New York City, Columbia University.

Like so many of us to whom life has been kind, Pat has benefited from fine schooling. Yet, in a 16-page index, there is not a single entry for "education." Along with his many proposals to try to help people by restricting international commerce, there is no suggestion for dealing with the high dropout rates in central city high schools (in the neighborhood of 50 percent, and that's a tough neighborhood). This is surely the most serious sin of omission in the 376-page book.

Unfortunately, rather than dealing with the difficult aspects of economic reality, Pat tends to content himself with attacking those he characterizes as "the new class." Ironically, he himself fully qualifies—and more than once in his diversified career—for that varied assortment of journalists, politicians, academics, and government officials. Sorry, Pat, you should look in the mirror every once in a while. You're an idea merchant like most of your former colleagues.

By the way, for an author who constantly berates economists, Pat has a love affair with economics that is surprisingly hard to cover up. His new book contains enough statistical tables and charts (25)—and 31 pages of supporting footnotes, a total of 684—to rival most doctoral dissertations. Yet much of this effort must reluctantly be labeled "forensic" economics; little of the material truly illuminates matters for the reader.

For example, Pat reports that real employee earnings rose rapidly in Germany while they were essentially flat in the United States (his data show a 0.9 percent decline for the period 1990-1996).[4] However, he omits a closely related and vital set of numbers—the statistics showing that, at the same time, employment in the United States was growing rapidly while jobs were disappearing in Germany. Over the extended period 1980-1995, the economy of the United States generated 27 million new jobs (after deducting job losses) while the total number of jobs in Germany declined by almost 2 million.

Buchanan also repeats the widely held myth that the main reason that American companies invest overseas is low labor costs. That sounds reasonable—until you look at the data. Aside from Canada (not a nation of low-paid workers), the largest U.S. overseas investments are in the high-cost countries of Western Europe—the United Kingdom, Germany, France, the Netherlands, and Switzerland. American producers of medical equipment do not open factories in Holland because of any great cost advantages. Rather, the main motive is to secure a more enlightened regulatory system—and to locate in markets with great consumer potential for high-quality products.

The overseas location of most U.S. firms is primarily market-driven. The acid test is that U.S. companies located abroad sell most of their production overseas. Also, they buy far more U.S.-made components and capital equipment than the local companies they compete against.[5] Pat surely stands the facts on their heads when he writes that "Too much of the seed corn of the U.S. economy [he's referring to business overseas investments] is now being exported all over the world."[6] More than 95 percent of the assets Americans own are domestic assets.[7] Moreover, we've become one of the world's major importers of capital.

Buchanan loves to go after some vague "transnational elite."[8] Of course, if he came out against the specific companies that are covered under that rubric, readers would react with laughter rather than the anger he hopes to arouse. Yet KFC and McDonald's—and Coca-Cola and Pepsico—are our typical "transnational" enterprises.

What is the fuss all about? Does Pat really expect consumers in other countries to import cooked hamburgers, fried chicken, or cold soft drinks from a U.S.-based store? His criticism of a vague target is reminiscent of the politician who attacked a college for matriculating women on the campus. The politician was hoping that his constituents, not knowing the correct meaning of matriculating, would jump to the conclusion that it was immoral if not illegal.

Pat sets up the caricature of the free-trade purist who "worships the market" to the exclusion of other broader values.[9] Perhaps this reflects his limited interaction with the field of economics. As a result, he skirts the central issue of maintaining personal economic freedom. Protectionists like Pat are trying to limit the freedom of individuals and families to buy and own the goods and services that they desire. Why should politicians make those decisions for us? Pat may think of himself as a staunch opponent of big government (indeed, in many ways, he still is), but inevitably he would give the federal government tremendous power over what are now private choices.

Pat repeatedly berates foreigners for selling their products to Americans. To belabor the obvious—which he frequently overlooks—there is no compulsion involved. Neither the Japanese nor the Chinese force us to buy their products. The purchasing decisions that he doesn't like were freely made by Americans. In that spirit, I feel obliged to report that my wife and I have *never* purchased a foreign car. But no government policy—as Buchanan would have it—pushed us to make those decisions. Those were voluntary choices that Phyllis and I made as free Americans who like to make our own decisions as to the products we buy and use.

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In his repeated assaults on American corporations, Buchanan forgets who are the basic owners of U.S. companies. The "upper crust" that he constantly attacks are a small part. The largest blocs of stock are held by the broad middle class through pension funds, life insurance, and individual savings plans, such as the widely held 401(k) plans.[10] When Pat says that "America's elite is prospering as never before," he may not realize that he's describing the typical working American.[11] Buchanan is a little hasty in dismissing 401(k) plans as limited to the "elite." In 1993, the most recent year for which complete data are available, over 23 million people participated in such plans.[12]

An NBC/*Wall Street Journal* survey conducted in 1997 reported that 51 percent of the respondents owned at least $5,000 worth of common stock or mutual funds.[13]

Poor Pat. He's such a voracious albeit selective reader. He asks some good questions, but he tends to start with a firm answer and then only look for supporting evidence. Despite his numerous historical allusions, he shows great gaps in basic knowledge of American economic history. In his critique of the activities of the World Bank and other multilateral agencies that finance developing nations, he states that, "If these governments have worthwhile projects, let them finance the projects themselves."[14] On the surface, that almost sounds sensible.

But Pat doesn't leave well enough alone. He goes on to ask a rhetorical question, "Didn't we when we were a developing nation?"[15] The answer apparently would surprise him. It is a clear "No." Almost by definition, a developing country lacks the financial base to fund major undertakings. Indeed, European capital financed a very large portion of our turnpikes, canals, and railroads in the first half of the nineteenth century when we were a developing country.

It is interesting to note that Buchanan justifies protectionism today by quoting Alexander Hamilton, who two centuries ago advocated trade restrictions to jump-start "the vulnerable infant republic."[16] Pat, we still teach the "infant industry" argument to our economics students. But there's no way of describing our steel or textile companies as infant industries, or even as teenagers. Their challenge is to ward off the flabbiness often associated with advanced middle age. The last thing these companies need is some special treatment to shield them from the rigors of competition. Indeed, the new minimills that have started up in this country in recent years are now exporting steel.

Moreover, the specific basis he would use to set a protective tariff—equalizing costs of production between the United States and abroad—is a very slippery slope.[17] The difference between domestic and overseas costs varies product by product, industry by industry, country by country, and over time. Calculating those rates would require a cadre of economists to set them and an even larger army of lawyers and accountants to enforce them. There goes Buchanan's crusade against Ivy League bureaucrats and intellectuals.

Buchanan is floored by the standard economic notion of comparative advantage.[18] That would be OK if he just ignored the concept, rather than mangled it. So here goes an explanation for him: Let us make the reasonable assumption that Pat is a far better writer than his research assistant and, as an experienced journalist, also somewhat better at digging out facts and figures (that is, Pat enjoys an "absolute advantage" in both endeavors). Comparative advantage, however, says that Pat should probably stick to writing. Buchanan economics says he should fire his assistant to avoid becoming dependent on him or her.

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Some of Pat Buchanan's vivid writing is very humorous, although often unintentionally. He berates free trade as the "utopian nonsense of idiots savants of the Paris salons."[19] Those "salons" were hardly friendly to the doctrines of David Hume, Adam Smith, David Ricardo, and the other English builders of free-trade concepts. If anything, Paris generated many of the protectionist ideas that Pat now so enthusiastically supports. Pat can't resist a good line, whether or not the facts are in accord.

He also manages to fire off a few below-the-belt shots. Thus, he compares—unfavorably, of course—the profitseeking actions of world-ranging, U.S.-based corporations in peacetime with the patriotic sacrifices made in wartime by an earlier generation of American businessmen. But there is a proper comparison to be made. Henry George, writing a century ago, presented a more relevant contrast of peacetime and wartime policies governing international commerce:

> Protective tariffs are as much applications of force as are blockading squadrons: The difference between the two is that blockading squadrons are a means whereby nations seek to prevent their enemies from trading; protective tariffs are a means whereby nations attempt to protect their own people from trading. What protection teaches us to do to ourselves in time of peace, enemies seek to do to us in time of war.[20]

I reluctantly have to note that Harry Truman would probably have liked the Buchanan style of writing. Old Harry was famous for calling for a one-armed economist who would not respond, "On the one hand . . . but on the other hand. . . ." Pat's writing is very straightforward and forceful, unfortunately reflecting his tendency to ignore complications that do not support his conclusions. He presents a vision of the United States as an island of free trade in a world of protection: "Having declared free trade and open borders to be America's policy . . ."[21]

Buchanan conveniently forgets what other nations are quick to remember: In practice, this country has never followed a pure free-trade approach. Our official government policy includes trade barriers of every sort, ranging from selective high tariffs on clothing to absolute quotas on the import of specific products (peanuts, cotton, mittens, brassieres, and pillowcases) to requirements for government agencies to purchase domestic products (buy American steel, buy Iowa coal, and buy New York food).

Unfortunately, Buchanan's preoccupation with keeping out imports causes him to neglect the many self-inflicted wounds in terms of U.S. barriers to our own exports.

These special-interest provisions range from the ban on timber exports from federal lands west of the 100th meridian to the prohibition on exporting oil from the North Slope of Alaska. Eliminating such archaic obstacles to our exports would be a more constructive way than trade to help Americans adjust to the reality of the global marketplace.

Often, Pat gets his facts wrong. For example, he contends that, by 1986, the United States had begun to run deficits in the trade of high-technology goods.[22] The data show exactly the reverse. We run a steady trade surplus in aircraft and other high-tech goods.[23] That is why export-oriented industries have higher pay scales (about 15 percent more) than non-trade-related jobs.[24]

The fact is that an increase in our trade deficit is linked with lower *unemployment in the United States because a strong domestic economy attracts additional imports. Nothing will curb our trade deficit quite like a recession.*

Not too surprisingly, Buchanan makes a big fuss about our large trade deficits. The excess of imports over exports has been rising, but that's only the start of the analysis. The fact is that an increase in our trade deficit is linked with *lower* unemployment in the United States because a strong domestic economy attracts additional imports. Nothing will curb our trade deficit quite like a recession. Moreover, we have a very high living standard compared to the majority of the world. Most Americans can afford to buy large quantities of domestic products *and* imports. Many people overseas are too poor to buy our products in similar quantity.

To put international trade into context, the United States has the largest population in the industrialized world. That has a powerful bearing on our balance of trade. Thus, it may be a surprise to most people to learn that the average Japanese spends more on U.S. products ($538 in 1996) than the average American spends on Japanese products ($432 in 1996). But we run a large trade deficit with Japan because we have far more people than Japan does.

Most fundamentally, Buchanan ignores the fact that this country is both the world's largest exporter as well as the largest importer. We have a powerful stake in healthy, expanding international commerce. Any reasonable analysis would show that, on balance, the United States is benefiting from the competitive forces of a relatively open economy. It is unreasonable to expect, as Pat seems to, that any set of economic policies will only generate winners and no losers. In practice, the Buchanan approach would mean jeopardizing the benefits to the far more than 90 percent of our people who are participating in the national prosperity in a misguided effort to respond to the concerns of the far less than 10 percent who are not.

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Although he loves to quote historical precedent, Buchanan totally ignores the most compelling example of the great damage to a society brought about by isolationism and protectionism. For most of the last two thousand years—up to about the year 1500—China was the world's leading nation. It was the most advanced, powerful, and innovative. Chinese were the first to invent gunpowder, the magnetic compass, the clock, the wheelbarrow, paper, moveable type, the rear rudder, and cast iron.

Then, one emperor of China decided to cut off "foreign" influences. That nation soon became a poor backwater of the globe. Despite its recent rapid rate of economic development, China has not caught up yet. If the United States were to adopt the dead emperor's misguided approach, that would be far more than a "great confusion" in public policy. Such a move to isolationism would surely be the "Great Betrayal" of America's vital interests

Notes

1 Patrick J. Buchanan, *The Great Betrayal: How American Sovereignty and Social Justice Are Sacrificed to Gods of the Global Economy* (Boston: Little Brown, 1998).

2 *Ibid*., pp. 15-17.

3 *Ibid*., pp. 6-7.

4 Buchanan, p. 10.

5 See Charles Taylor and Witold Henisz, *U.S. Manufacturers in the Global Marketplace* (New York: Conference Board, 1994).

6 Buchanan, p. 314.

7 Alan Blinder, "The Hyping of 'Globalization,' " *The International Economy*, September/October 1995, p. 8.

8 Buchanan, p. 284.

9 *Ibid*., p. 288.

10 See Richard J. Mahoney, *The Employee As Stakeholder*, CEO Series 15 (St. Louis: Washington University, Center for the Study of American Business, April 1997), p. 2.

11 Buchanan, p. 111.

12 James Poterba, Steven Venti, and David Wise, "401(k) Plans and Future Patterns of Retirement Saving," *American Economic Review*, May 1998, p. 179.

13 Michael Barone, "Voters Are Ready For Social Security Reform," *Wall Street Journal*, May 7, 1998, p. A22.

14 Buchanan, p. 316.

15 *Ibid*.

16 *Ibid*., p. 54.

17 *Ibid*., p. 302.

18 *Ibid*., pp. 66-67.

19 *Ibid*., p. 17.

20 Henry George, *Protection or Free Trade*, 1886 (reprinted by Robert Schalkenbach Foundation, New York, 1980), p. 47.

21 Buchanan, p. 16.

22 *Ibid*., pp. 318-19.

23 "U.S. Trade in Advanced Technology Products," *Statistical Abstract of the United States, 1996*, p. 798.

24 Testimony of U.S. Trade Representative Charlene Barshefsky, *Renewal of Fast Track Authority* (Senate Finance Committee,

September 17, 1997), p. 1.

25 Murray Weidenbaum, *The Case for America's Role in the Global Marketplace* (St. Louis: Washington University, Center for the Study of American Business, 1998), p. 15.

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