ECONOMICS, LABOR & BUSINESS

After Free Trade

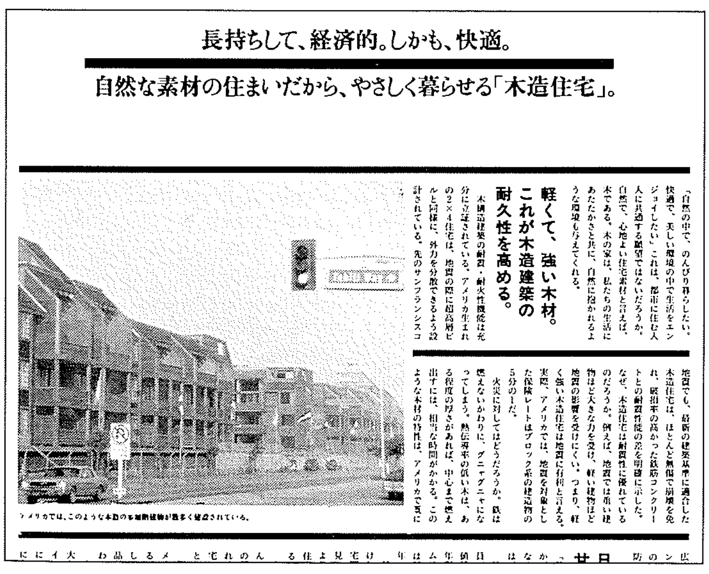
"How to Save Free Trade—and Still Trade With Japan" by Irwin M. Stelzer, in *Commentary* (July 1990), 165 E. 56th St., New York, N.Y. 10022.

For Irwin Stelzer, a Fellow at the American Enterprise Institute, Japan's high wall of protectionism poses a special problem. As a strong believer in free trade, he should oppose retaliatory U.S. trade barriers. After all, he argues, "if the Japanese choose to rely on high-cost homemade products rather than on more efficient American-made alternatives, why should we retaliate by denying ourselves their well-priced, low-maintenance automobiles?"

Still, he recognizes that a "unilateral" free trade policy is not possible. Tokyo's unwillingness to open its doors to American goods—computers, satellites, wood products, rice—translates into a permanent $50 billion annual U.S. trade deficit with Japan.

At the same time, however, Stelzer rejects calls by American protectionists to retaliate. There is little evidence backing up their hysterical warning that Japan is "buying" America, he says: "In most industrial nations, foreign-owned capital comes to about 10 percent of the value of all goods and services. In the United States, that figure is only 7 percent." Moreover, he writes, "foreign firms employ only three percent of American workers and own less than one percent of American land." And while protectionists are quick to point out that "voluntary" import restrictions on Japanese automobiles in the 1980s saved American jobs, Stelzer notes that they did so at an annual cost of $240,000 per job saved.

Stelzer concedes that economic models recently developed by MIT's Paul Krugman and others have destroyed the old truism that free trade is always a nation's best policy. American "managed protectionism" could work. In theory. But it would be so complex that an army of bureaucrats would be required to implement it.



Japan has no lumber industry, but Tokyo discourages imports of American wood with high tariffs and warnings that wood buildings are unsafe. This U.S. ad argues for lower trade barriers by promoting the virtues of wood construction.

What *can* be done to force Japan's hand? Stelzer favors a retreat from the usual doors-open-to-all multilateralism and a new emphasis on the principle of reciprocity, permitted under the post–World War II General Agreement on Tariffs and Trade (GATT). "GATT provides that a country injured by the tariffs or subsidies of another nation . . . is permitted to retaliate" in kind. If used only often enough that it remains a credible threat, reciprocity can be an effective deterrent against new barriers. This sort of toughness paid off in 1988, when China and South Korea made large trade concessions, and when Japan agreed to negotiate a new trade pact after U.S. threats of retaliation under the "Super 301" provision of the 1988 Trade and Competitiveness Act. It may not be as pure as the free traders would like, Stelzer concludes, or tough enough for the protectionists, but reciprocity allows trade to be "as free and open as is possible in a real world of competing economic and political interests."

Parting Company

"The Takeover Wave of the 1980s" by Andrei Shleifer and Robert W. Vishny, in *Science* (Aug. 17, 1990), 1333 H St. N.W., Washington, D.C. 20005.

The words "hostile takeover" evoke images of ruthless billionaires tearing apart helpless companies and firing workers for sport. By 1989, 143 huge corporations that belonged to the mighty Fortune 500 of 1980 had been swallowed up by other companies. All told, $1.3 trillion in corporate assets changed hands during the 1980s. What should have been done to stop the takeovers? Nothing, argue Shleifer and Vishny, professors of finance at the University of Chicago. American business, they say, is all the better for them.

Four times in this century booming stock markets have made corporations itchy to take over other companies. After buyout waves at the turn of the century and in the 1920s resulted in huge new steel and tobacco monopolies, however, Congress passed the 1950 Celler-Kefauver Act barring corporations from buying businesses in related industries. As a result, merger-hungry tycoons in the 1960s bought companies in diverse industries, giving rise to huge conglomerates.

The conglomerates were failures. According to one estimate, by 1989 they sold off 60 percent of unrelated businesses acquired between 1970 and 1982. When President Ronald Reagan relaxed anti-trust enforcement and loosened credit restrictions, he sparked the century's fourth buyout binge. It allowed many corporations to focus on their core businesses. Conglomerates—of-

Ignoble Nobel

The Nobel prize for economics is supposed to be awarded for work that confers "the greatest benefit on mankind." Instead, contends journalist Robert J. Samuelson, in the *New Republic* (Dec. 3, 1990), each year it goes to economists whose work is "more obscure than the year before."

Probably the only people left who think that economics deserves a Nobel Prize are economists. It confirms their conceit that they're doing "science" rather than the less tidy task of observing the world and trying to make sense of it. This, after all, is done by mere historians, political scientists, anthropologists, sociologists, and (heaven forbid) even journalists. Economists are loath to admit that they belong in such raffish company....

The Bank of Sweden [which created the award in 1968] could remedy the defects of its bauble in two ways. The first would be to make it a more fitting memorial to Alfred Nobel: give it to people, not necessarily economists, who have improved a nation's—or the world's—economic well-being. Among Americans, why not ennobel former Federal Reserve Chairman Paul Volcker for ending double-digit inflation, Ralph Nader for making corporations more responsive to consumers, or engineer Jack Kilby for co-inventing the integrated circuit? Under this scheme, a few economists might occasionally win for genuinely significant contributions. The late Simon Kuznets, who helped create the national income and product accounts (the statistics that give us the gross national product) received a Nobel in 1971. He would have deserved a prize even under this more demanding standard.

The other approach would be to admit error. Hey, we goofed. Economics is not like chemistry, medicine, or physics. Portfolio theory is nice, but it's not comparable to the discovery of DNA, or even to good literature.

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