



MARKETPLACE: Shlomo Maital

The Free Market Delusion

AMERICAN ECONOMIST CLYDE Prestowitz's new book, "The Betrayal of American Prosperity: Free Market Delusions, America's Decline and How We Must Compete in the Post-Dollar Era," is scary.

It recounts in painful detail how America, with sweat, brains and imagination, rose from 1800 to 1950 to become the world's wealthiest nation and how, since then, American political leaders have betrayed that prosperity with massive folly. Also scary is the possibility that Israel may be blindly marching down the same path of folly, which is based on "free market delusion."

The book opens by describing how indolent Romans imported cartfuls of goods from the empire, while slaves did their labor. The carts left Rome carrying dung, and the fat and lazy Romans were easy prey for barbarians and their own slaves, who easily took over.

Cut to Long Beach, California, today. Containers from China carrying sophisticated electronic goods are unloaded. They return to China carrying waste paper to be recycled. The comparison is intentional. Like the Romans, Prestowitz implies, Americans let others do their work and make their goods.

Prestowitz knows what he is talking about. He is fluent in Japanese, Dutch, German and French, worked as a global manager for Scott Paper long before the word "globalization" was coined, and served former president Ronald Reagan as chief trade negotiator. He is also a friend of Israel. I worked with him on the Israel 2028 project, which created a long-term strategic plan for the country.

Recently I asked him what Israel can learn from America's mistakes.

The Jerusalem Report: In an interview last week you said: "Think of the US as Greece, the only difference being we print the world's money and Greece doesn't. Like Greece, we really don't have much to

sell." America doesn't have much to sell because it has sent its manufacturing offshore. You note that Wal-Mart annually imports \$30 billion worth of goods from China. Most Wal-Mart jobs are close to minimum-wage jobs, while the American manufacturers who used to supply Wal-Mart were paid twice as much or more. Why, and when, did America give away

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such wealth creation to China? What lessons should Israel learn from this?

Clyde Prestowitz: "This transfer of wealth began a long time ago and it has not been only to China. It began in the 1950s with Japan, continued with the 'Asian Tigers' in the 1980s and 1990s, and now, of course, with the Chinese Dragon. There are two main 'why's.' First, the main US priority is geopolitics. The US wanted to rebuild Japan as a bulwark against the Soviet Union and wanted to maintain a forward military position around the world necessitating bases and all kinds of diplomatic arrangements. To obtain these, the US has been willing to make economic concessions. It opened its markets even when those in Asia were closed, and it agreed to all kinds of requirements for technology transfer as a condition for obtaining access to foreign markets or base use, etc.

"But the second 'why' is even more important, because it rationalized the first one. The US embraced the simplistic

Ricardian/Heckscher-Olin concept of free trade and comparative advantage under which free trade is always understood to be a winning proposition, even if it is unilateral. This concept was, and is, based on the assumption of the absence of economies of scale and of cross-border flows of capital and technology.

"Obviously, this is a ridiculous assumption in an age of globalization. Nevertheless, that is the doctrine that has driven US international economic policy for the last 60 years. It is a doctrine that holds foreign industrial policies and export promotion policies to be of no consequence to US industry, and something for which the US should not bother to have a policy response; it is a doctrine that holds that currency manipulation and undervaluation is nothing to be concerned about and not something to which the US should respond. So we haven't responded and, as a result, we have seen a steady erosion of US wealth-producing capacity over a period of 30 or 40 years, mainly due to the embrace of a catastrophically false doctrine that has been made into a sacred orthodoxy by our high priesthood of economists.

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TJR: Israel's economy is closely linked to that of the US. Last year, of Israel's \$47.9 billion in total exports, \$16.8 billion went to the US, and \$12.4 billion to the European Union. In other words, 61 percent of Israel's exports go to two major markets that are each in deep trouble.

Israel's economic growth is export-driven. As a trade strategist and negotiator, and as a new member of the advisory board of Israel's Ministry of Industry, Trade and Labor, what would you advise the government of Israel?

C.P.: "I would say two things. One is that Israel has a high disparity between the incomes of the top 20 percent of the