



FACTS & OPINIONS

On Public Interest Issues

Quotes

The effect of liberty to individuals is that they may do what they please: we ought to see what it will please them to do, before we risk congratulations.

— Edmund Burke

Government is not reason; it is not eloquent; it is force. Like fire it is a dangerous servant and a fearful master.

—George Washington

War is an ugly thing but not the ugliest of things. The decayed and degraded state of moral and patriotic feeling, which thinks that nothing is worth war is worse. The person who has nothing for which he is willing to fight, nothing which is more important than his own personal safety, is a miserable creature.

—John Stuart Mill

The Great Stampede

Conservatives are losing their nerve on Iraq

Victor Davis Hanson

In recent weeks prominent conservatives — William F. Buckley, Niall Ferguson, Francis Fukuyama, George Will, to name only a very few — have, in various ways, suggested that the war in Iraq was either a mistake or unwinnable, or both. The blowing up of the shrine at Samarra, together with subsequent sectarian killings in Baghdad and the failure so far to form an executive branch, were the most recent catalysts that apparently pushed a great number of wearied observers over the edge.

Sometimes such remorse is coupled with louder lamentations about the failed foreign policy of the Bush administration — especially the malevolent influence of neoconservatives and their mania for democracy.

There are many reasons why such pessimism, and indeed depression, is unwarranted — although I concede that very few Americans and still fewer pundits would agree with my own explanations.

Democracy

America is hardly pushing it down anyone's throat. Only in Afghanistan and Iraq have we used force to dethrone authoritarians and birth constitutional government. That's pretty much what Ronald Reagan tried in Grenada. George Bush Sr. did the same in Panama, and so did Bill Clinton in the Balkans.

What then is the real difference with this administration's effort? Taking out the Taliban and Saddam in the Middle East proved to be far more difficult and costly operations than bombing Milosevic from on high, or decapitating the Noriega regime.

So I fear that it is not the principle of occasionally spreading democracy by arms as much as the messiness of the Iraqi war that bothers most. Take away 2,300 American fatalities and envision a stable government in two or three months in Baghdad, and we would hear very few *meas magnas culpas*.

There is also the larger question of advocacy of democracy
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Dr. Don Racheter

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Focus on Iowa Wesleyan College

Jonathan Miltimore

Iowa Wesleyan College bids farewell to Student Activities Director Cindy Peck and Dr. Judith Hausner, Chair of the Division of Health and Natural Science. Dr. Hausner looks forward to devoting more time to her ten grandchildren, while Peck plans to attend graduate school at Iowa State University in the fall.

On 22 and 23 February IWC welcomed guest speaker Rev. Osagyefo Uhuru Sekou who spoke at the third annual Manning Speaker Series program. Rev. Sekou, a third generation Pentecostal preacher, addressed numerous social issues and discussed the role of Christians in today's age of "the Empire."

Both the Men's and Women's IWC basketball teams earned national tournament berths. For the men, seniors Melvin Scott and Adam Stringer enjoyed the distinction of being named to the Midwest Classic Conference 10-player First Team, while Amber Pence set an IWC single season record in steals. The IWC women's volleyball team also enjoyed a national appearance, but was defeated by Missouri Baptist University.

What's New at Public Interest Institute?

On 1-2 March Research Analysts Robert Stewart and Jonathan Miltimore travelled to Des Moines to attend South East Iowa Days. The event entailed a series of talks and panel discussions focusing on issues relevant to Iowans. Speakers included State Legislators, Department leaders, and Governor Tom Vilsack and covered a range of issues such as education, energy enhancement and expansion, and economic development.

On 3 February Institute President Dr. Don Racheter visited Regent University in Virginia Beach, Virginia to participate in a symposium considering the future of American Conservatism. Featured speakers included Bill Kristol, Michael Barone, and Harvey Mansfield. On 9-12 March Dr. Racheter ventured to San Antonio, Texas, to attend an educational event hosted by the Liberty Fund. Among other things, the conference identified the shortcomings and challenges in current state educational systems, and emphasized the need for greater accountability and choice in public systems.

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Stop Worrying About the Trade Deficit

Donald Boardeaux

America's trade deficit — in December reaching a near-record \$64.7 billion — is unfortunate, right? Wrong. Contrary to popular opinion, this so-called “deficit” is a blessing.

Consider that if Americans export lumber, sheetrock, and architectural blueprints to China so that people build a factory there, we're gleeful. “Wonderful!” we proclaim. “Exports are up and our trade deficit is down!”

But if those very same building materials are assembled by Americans into a factory situated and operated in, say, Utah and then bought by Chinese investors, we complain — led today by the likes of Senators Charles Schumer and Lindsey Graham — that “Something's wrong! Our trade deficit is higher!”

Truth is, though, that nothing economically important separates the first scenario from the second. In each case the world's stock of productive capital grows as Americans produce things for sale to foreigners. Those cases appear different from each other only because of the conventions of international commercial accounting, which records investments separately from imports and exports.

This accounting convention creates the false impression that an export of imports over exports

— called a “trade deficit” — is an ominous imbalance requiring corrective action. In fact, America's trade deficit is evidence, not of any imbalance, but of the happy fact that our economy is so strong and stable that foreigners invest here eagerly.

When foreigners sell things to Americans they earn dollars. If foreigners then spend all of those dollars on American exports, trade is “balanced.” There's no trade deficit or surplus. But if foreigners instead invest some of those dollars in dollar-denominated assets — say, by purchasing that factory in Utah, houses in Hawaii, or shares of Google — they obviously must buy fewer American exports. So the trade deficit grows as investment in the U.S. rises.

Although dollars spent by foreigners on investments are not spent on items classified as U.S. exports, these dollars nevertheless are spent in the U.S. They raise the value of American corporations and real-estate, and improve American workers' productivity. In turn, those increases in asset values and productivity enhance Americans' current ability to buy goods and services — perhaps the same goods and services that foreigners would have bought had they not invested their dollars here.

Isn't it better, though, if Americans do the investing and foreigners the consuming? No. What's important is to have lots of investment to increase worker productivity, which ultimately is the only way to raise our living standards. The nationality of investors is insignificant.

Because savings and investment are indeed so

beneficial, we should welcome rather than regret foreign savings invested in our country. If we applaud the guy across the street who forgoes that vacation in Las Vegas in order to save and invest more in the U.S. economy, we should applaud also the guy across the ocean who does the same.

But doesn't a higher trade deficit mean that Americans are sinking more deeply into debt? Not at all. A trade deficit isn't debt. My young son, for example, received for Christmas several Chinese-made toys. These were bought with cash. If the Chinese toymakers invest their newly earned dollars in, say, that factory in Utah, the U.S. trade deficit rises but no debt is created. Neither I nor any other American owes any foreigner anything as a result of my purchase of toys from China and the corresponding Chinese purchase of equity in a company located in America.

More generally, whenever foreigners buy American real-estate or equity, or when they simply hold dollars in their portfolios, our trade deficit rises without creating debt.

Nor is it true that a higher trade deficit means that Americans are selling off assets. Whenever, for example, IKEA builds a new store in the U.S., a new asset is created. No Americans had to part with assets as a pre-condition for this Swedish investment in America.

As it happens, the most prodigious borrower today is Uncle Sam. But despite self-righteous accusations leveled at foreigners by the likes of Senators Schumer and Graham, the fact remains that U.S. government

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Dispelling Five Myths About DR-CAFTA

Matthew Podgorski

DR-CAFTA is a free trade agreement that includes the U.S., Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. All member nations have ratified the agreement except Costa Rica. This wide-range agreement is designed to lower tariffs, improve telecommunications, and protect investments, intellectual property, the environment, and human rights. DR-CAFTA is not currently in effect, but the U.S. plans to honor its obligations on a rolling basis with individual signatories as each begins to comply with its provisions.

Myth: DR-CAFTA will lead to the exploitation of cheap foreign labor.

Facts: DR-CAFTA goes further than any other trade agreement in requiring improved labor standards. Five of the six nations involved with the U.S. in this free trade agreement have already ratified all eight of the International Labor Organization's core labor conventions. El Salvador has ratified six of the eight. The trade agreement includes binding dispute settlement for the strict enforcement of each state's respective labor laws. Furthermore, the agreement provides invaluable opportunities

to broaden the labor rights in each country through new business opportunities, investment, and technical assistance. In fact, the U.S. Congress has already appropriated \$20 million for labor and environmental assistance for the member nations.

The enhanced opportunities for economic growth in these countries will provide jobs at multiple levels and, of equal importance, provide their respective governments with much needed resources to fund health care, education, and other social programs. Central American groups that will be most affected by the free trade partnership agree that DR-CAFTA is a positive thing. The Labor Unions of El Salvador passed a resolution in support of DR-CAFTA last year stating, "The Trade Agreement opens the possibility for increased job opportunities, producing higher wages and better jobs, in addition to fostering greater job stability."

"Experts estimate that agricultural exports alone would increase by \$900 million per year upon implementation of the agreement, and conservative estimates indicate an overall increase in U.S. exports of \$1.9 billion in the first year alone."

Myth: Americans will lose jobs to these Central American countries.

Facts: Currently, the U.S. imposes no tariffs on 99% of agricultural products and 80% of total goods received from member nations even though those nations impose relatively stringent tariffs on imports from the U.S. The DR-CAFTA simply attempts to level the playing field. In addition to the immediate tariff reduction, the trade agreement will undoubtedly provide new market access for U.S. companies. Several U.S. companies have testified before Congress on the immense boost DR-CAFTA would bring to sales. Illinois-based Kraft Foods — North America's largest food company — and Washington-based Microsoft made compelling arguments before the U.S. House and Senate on the need for greater market access in order to maintain U.S. economic strength. Experts estimate that agricultural exports alone would increase by \$900 million per year upon implementation of the agreement, and conservative estimates indicate an overall increase in U.S. exports of \$1.9 billion in the first year alone. With the growth in U.S. companies' revenue comes domestic reinvestment; stated simply, this means more jobs for Americans.

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Have you renewed your membership with Public Interest Institute?

The Great Stampede

Victor D. Hanson

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in the Middle East itself. We have no plans to invade Syria or Iran, dethrone their autocrats, and birth constitutional governments. The pressures on others to reform are steady and insidious, but still relatively weak — given the fact that Musharraf has the bomb, the Gulf States have the oil, and the Mubarak dynasty has an aggregate \$50 billion in American aid.

Moreover, the pathology of the Middle East — whether defined by the increased stature of the Muslim Brotherhood and Hamas, the involvement of authoritarian regimes with terrorists, or vehement anti-Semitism and anti-Americanism — predated American pressure for democratic reform. One could just as easily make the argument that it was the absence of such principled American advocacy — and instead the prevailing realpolitik of the last 50 years — that helped bring us to the crisis of 9/11.

Certainly the scab of the Middle East that was ripped away on September 11 revealed an old and putrid wound of authoritarians paying blackmail to Islamists in an anti-American unholy alliance. Abruptly leaving Lebanon in 1983, not going to Baghdad in 1991, lobbing cruise missiles at Saddam and the Taliban, trading arms for hostages with Iran, Oil-for-Food, no-fly-zones, giving a pass to Saudi Wahhabism, subsidizing Mubarak and Arafat — none of this made for a more stable Middle East or a

safe America.

War

There has been a naiveté about the nature of war in the last three years, perhaps explicable by our past abnormal experiences in Grenada, Libya, Panama, Gulf War I, the Balkans, and Afghanistan. Apparently GPS-guided munitions, helicopter gunships, and fast-moving armor had convinced some that the carnage of past conflicts was now thankfully past.

But that optimism was only true if certain premises were to be enshrined as the new American way of war: One, that war is always to be waged against small countries without many assets such as Panama or Grenada; or two, that war is to be conducted largely by air, whether defined by bomber attacks against Khadafy and Milosevic or cruise missiles sent into Afghanistan and Iraq in the 1990s; or three, that war is to be solely punitive. We are to go in, defeat the enemy, and leave the ensuing mess to others, on the premise that we either cannot or should not worry about whether the populace deserved the odious regime we were obliged to end.

In other words, we should renounce the type of more holistic and ideological wars of the past, such as those waged against Italians, Germans, Japanese, Koreans, and Vietnamese, where we not only sought to defeat entire belief systems, but to stay on and craft a stable government in the hopes of stamping out fascism, Nazism, militarism, or Communism.

There is an easy logic to the first three methods of warfare, but we cannot rule out the occasional need for the tougher fourth option — one that will always

involve greater costs and casualties.

For all the tragedy of our fallen in Iraq, if a constitutional government stabilizes in Baghdad, and liberalization follows in the surrounding region, then our losses will not be measured against the far lighter casualties suffered in Panama, Gulf War I, or Grenada, but against the far worse losses of Korea and World War II.

Iraq

There are never good and bad choices in war, but only bad and worse — and Saddam Hussein's Iraq certainly is a prime example of that dilemma, whether we look at the regime's internal barbarism or its attacks on four neighbors in a mere decade. We had already fought two prior wars with him — in 1991, and in the 12 years of no-fly zones between 1991 and 2003. Despite conventional wisdom, the verdict is still out on the extent of his connection with terrorists in general and al Qaeda in particular. The painfully slow translation and release of captured tapes and documents, together with a growing anecdotal body of testimony from ex-Baathists, may well suggest things in Iraq were far worse than we thought.

We have not yet experienced a sizable antiwar movement coalescing around Cindy Sheehan and Michael Moore. Donald Rumsfeld has not done a Robert McNamara sweaty-brow resignation. And why haven't at least a few senior generals confessed that this is a hopeless task? Cannot the Congress update something like the old Cooper-Church Amendment — or won't we at least see a Eugene McCarthy-like candidacy in the

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The Great Stampede

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next Republican primary, or a bloodbath in 2006 that wipes out a war-stained Republican Congress?

There are various answers, but the chief one, besides our leaders' belief in the righteousness of the cause and our proximity to success, is that Americans themselves are still unsure about the Iraqi outcome for a variety of reasons. They are confused about the war's coverage. They cannot ascertain whether the daily drumbeat of explosions is just the media's story, and should be set against the silent counter-narrative of three successful elections and a growing Iraqi security force. For all the unease, even the most dubious citizen still thinks the United States may, in fact, win. And had we reported Okinawa minute-by-minute as we do Iraq, we might have lost that close-run encounter.

The enemy is not idealistic or egalitarian, but clearly pre-modern and fascist. The more we are told that Iraq has nothing to do with the war on terror, the more al Qaeda's methods surface in Iraq and its leadership boasts that it is the new front, after Manhattan and Afghanistan. At least some in this country still believe that victory in Iraq, and the emergence of a viable government there, would have implications far beyond Iraq, inflicting a terrible defeat and humiliation on the Islamists in their own backyard.

Americans are sensitive to charges of imperialism and ruthlessness, but less so to those of misplaced idealism or naiveté.

Whatever one believes about Iraq, the facts counter realpolitik and oil diplomacy. Petroleum skyrocketed after the invasion. Oil-for-Food was exposed, along with French and Russian petroleum shenanigans. The loss of life over the last three years must be weighed against the yearly butchery of Saddam Hussein — deaths that were not part of the struggle for a democratic future, but the annual carnage that consolidated a fascistic regime and had no end in sight.

The World Beyond

Things abroad simply are not worse after March 2003. Europe is again growing closer to the United States, in part due to its fright after the French rioting, the Danish cartoons, and murders in the Netherlands. Its multilateral alternative to the United States is in retreat, as we see from the humiliating negotiations with Iran, Hamas, and the Russians.

India and Pakistan are closer to us now than before Iraq. China is China; Japan is a military ally as never before. England and Australia are strategic partners; Canada and New Zealand are similarly beginning to follow a wiser course. The world is catching on to Iran, and the theocracy must subvert the new Iraqi democracy or itself be undermined by the nearby democratic experiment.

There is, of course, heightened anti-Americanism in places, but it is largely confined to specific areas. The Middle East Street resents deeply the humiliation of seeing Muslim leaders so easily dethroned. The European cafes abhor the spread of American popular culture and muscle, and are starting to recoil in shock that the world did not turn out to follow the rules of the Hague or the EU charter.

And then there is the trans-Atlantic elite, who, after calling for three decades for a more principled American policy, finally got it in spades — but splattered with all the gore and mess that such radical changes always entail.

The Military

Yet another misconception concerns the U.S. military. Almost all the latest grievances against it have proven to be mostly hype. It is meeting its recruiting goals. In the heart of the ancient caliphate, with great sensitivity and tact, it has trained ten Iraqi divisions, after removing a 30-year old fascistic dictatorship with dispatch. If America's was already the best equipped and disciplined military in the world, it is now also the most savvy and experienced in precisely the sort of asymmetrical war our pundits worry threaten our future. In all the post facto, self-serving, tell-all books by our ex-intelligence agents and diplomats, it is high-ranking military officers who usually escape censure.

The Critics

From the very outset, rightist critics such as those in *The American Conservative* have told us that it was a hopeless waste of America's resources to offer pre-modern people of the Middle East democratic government. Those of *The Nation* assured us that Iraq was yet another amoral attempt at postmodern imperialism. Fine, you get what you hear and read with both sides — and both, through good and bad news, have remained consistent and principled in their vehement opposition to all that we have done. But the latest criticism is more troubling, since it often comes from the "my perfect war, your lousy peace" school that, for some reason, never

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critiques the three-week removal of Saddam Hussein. Instead, it defends its evolving opposition to the war by advancing peculiar pet theories of reconstruction that were never followed. Rarely do we hear that most postbellum efforts are long, messy, and necessary, much less that the essence of war is lapse and tragedy, with victory going only to those who in the end err the least and endure. Anyone back in the United States can post facto write up a list of what ought to have been done in Iraq amid the heat and fire; but they at least need to factor in the conditions at the time that led the supposedly less bright on the ground not to anticipate their own inspired wisdom from afar.

Especially troubling are those who even before 9/11 demanded that President Clinton or Bush remove Saddam Hussein, but now consider such a move an abject blunder of the first order. Their advocacy helped us get in when there were dubious reasons to go, and their vehement criticism may well get us out when there are now better reasons to stay until Iraq is secure. So here we are — close to victory abroad, closer to concession at home.

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Dispelling Five Myths About DR-CAFTA

Matthew Podgorski

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Myth: The Environment will suffer as a result of the Agreement.

Facts: DR-CAFTA includes strong environmental prerequisites. These six nations have already adopted high standards, relative to many other U.S. preferred trading partners, to protect the environment, through both domestic laws and multilateral agreements. This trade agreement ensures enforcement of those laws, which have not necessarily been adequately enforced to this point. The agreement further stipulates that each nation agree to create a permanent agency to monitor compliance and continue to advance various environmental standards including wildlife protection, sustainable development, forest conservation, responsible solid waste treatment, and the like. In a December 2005 statement, a spokesperson for the Office of the U.S. Trade Representative announced that the U.S. is prepared to enter the Agreement into force “only with countries that have made sufficient progress in adopting new laws and regulations where necessary” and will not accommodate new entrants until “they become ready.”

Myth: The Annual U.S. Trade Deficit Will Increase.

Facts: Again, this free trade agreement attempts to level the

playing field. If anything, the U.S. Trade Deficit will decrease as a result of DR-CAFTA, holding everything else constant. Besides, a country’s trade balance is a poor measurement of economic health. National trade deficits and their economic significance are often grossly misunderstood.

First, trade deficits largely result from broad macroeconomic issues such as the size and growth rate of an economy relative to its trading partners, as well as the saving versus spending rate of its citizens. Americans do not save as much as others; this contributes to their economic vibrancy. Second, a large trade deficit is not necessarily a bad thing. In this case it demonstrates the high relative purchasing power of American consumers. The U.S. imports much more than it exports because (1) it can afford to buy vast amounts of foreign goods, (2) foreign products are often less expensive than their domestic counterparts, and (3) the domestic consumer market is so demanding that U.S. companies are less reliant on exports than any other nation.

A more useful measurement of economic vigor is the growth in exports. It cannot be argued that U.S. exports would decrease as a result of the adoption of DR-CAFTA. Instead of focusing on the disparities between imports and exports, economists and political leaders should turn their attention toward advancing free trade, and in doing so, expanding U.S. exports.

Myth: Its All About the Benjamins.

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Stop Worrying About the Trade Deficit

Donald Boardeaux

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indebtedness is not caused by foreigners buying Uncle Sam's bonds, but by Congress spending beyond its means. If government debt is a problem, then Congress should stop borrowing. Complaints about the trade deficit are a red herring.

We Americans have many real problems confronting us. The trade deficit isn't one of them.

Donald Boardeaux is Chairman of the Department of Economics at George Mason University.

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Facts & Opinions Question of the Quarter:

**Will the recent lobbying scandals result
in Congressional lobbying or earmarking reform?**

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We may publish some of your ideas in the next issue
of *Facts & Opinions* in August 2006.

Dispelling Five Myths About DR-CAFTA

Matthew Podgorski

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Facts: Not completely. It is true that increased revenues for companies and lower consumer prices are the main purposes for the DR-CAFTA's adoption, but the agreement also provides many other benefits such as friendly

relations, regional stability, new jobs and increased wages for third world citizens, greater government transparency, better environmental protections, etc. Besides, would it be such a bad thing if North and Central Americans make more money?

Matthew Podgorski is a member of the Public Interest Institute and Adjunct Professor at Northeastern Illinois University. He holds a Master's Degree in public policy from Pepperdine University and currently serves as Supply Chain Coordinator at Kraft Foods.