**FREE TRADE: THE GREAT DESTROYER**

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Free trade is the religion of our age. With its heaven as the planetary economy, free trade comes complete with comprehensive analytical and philosophical underpinnings. Higher mathematics are used to prove its basic theorems.

But in the final analysis, free trade is less an economic strategy than a moral doctrine. Although it pretends to be value-free, it is fundamentally value-driven. It assumes that the highest good is to shop. It assumes that mobility and change are synonymous with progress. The transport of capital, materials, goods, and people takes precedence over the autonomy, the sovereignty and, indeed, the culture of our local communities. Rather than promoting and sustaining the social relationships that create a vibrant community, the

free trade theology relies on a narrow definition of efficiency to guide our conduct. **The Postulates of Free Trade**

For most of us, the tenets of free trade appear almost self-evident.

\* Competition spurs innovation, raises productivity, and lowers prices.

\* The division of labor allows specialization, which raises productivity and lowers prices.

\* The bigger the production unit, the greater the division of labor and specialization, and thus the greater the benefits.

Today this adoration of bigness permeates all political persuasions.

The Treasury Department proposes creating 5 to 10 giant U.S. banks. "If we are going to be competitive in a globalized financial services world, we are going to have to change our views on the size of American institutions," it declares. The vice-chairman of Citicorp warns us against "preserving the heartwarming idea that 14,000 banks are wonderful for our country." The liberal *Harper's* magazine agrees, "True, farms have gotten bigger, as has nearly every other type of economic enterprise. They have done so in order to take advantage of the economies of scale offered by modern production techniques." Democratic presidential adviser Lester Thurow criticizes anti-trust laws as an "old Democratic conception [that] is simply out of date." He argues that even IBM with $50 billion in sales is not big enough for the global marketplace. "Big companies do sometimes crush small companies," Thurow concedes, "but far better that small American companies be crushed by big American companies than that they be crushed by foreign companies."

*In These Times*, which until recently called itself an independent socialist weekly, concluded, "Japanese steel companies have been able to out-compete American steel companies partly by building larger plants."

\* The infatuation with large-scale systems leads logically to the next postulate of free trade: the need for global markets. Anything that sets up barriers to ever-wider markets reduces the possibility of specialization and thus raises costs. Which makes us less competitive.

\* The last pillar of free trade is the "law of comparative advantage".

Comparative advantage comes in two forms: absolute and relative. The easiest to understand is absolute. Differences in climate and natural resources suggest that Guatemala should raise bananas and Minnesota should raise walleyed pike.

Relative comparative advantage is a less intuitive, but ultimately a much more powerful concept. As the 19th century British economist David Ricardo, the architect of free trade economics, explained: "Two men can both make shoes and hats and one is superior to the other in both employments; but in making hats he can only exceed his competitor by one- fifth or 20 percent, and in making shoes he can exceed him by one-third or 33 percent. Will it not be for the interest of both that the superior man should employ himself exclusively in making shoes and the inferior man in making hats?"

Thus even if one community can make every product more efficiently than another, it should specialize only in those items it produces most efficiently, in relative terms, and trade for others. Each community, and ultimately each nation, should specialize in what it does best.

What are the implications of these tenets of free trade? That communities and nation abandon self-reliance and embrace dependence. That we abandon our capacity to produce many items and concentrate only on a few. That we import what we need and export

what we produce.

Bigger is better. Competition is superior to cooperation. Material self-interest drives humanity. Dependence is better than independence. These are the pillars of free trade. In sum, we make a trade. We give up sovereignty over our affairs in return for a promise of more jobs, more goods, and a higher standard of living.

The economic arguments in favor of free trade are powerful. Yet for most of us it is not the soundness of its theory, but the widely promoted idea that free trade is an inevitable development of our market system that makes us believers. We believe economies, like natural organisms, evolve from the simple to the complex, from the lower to the higher phyla.

From the Dark Ages, from city-states to nation-states to the planetary economy, and soon, to space manufacturing, history has systematically unfolded. Free trade supporters

believe that trying to hold back economic evolution is like trying to hold back natural

evolution. The suggestion that we choose another developmental path is viewed, at best, as an attempt to reverse history, and, at worst, as an unnatural and even sinful act.

This kind of historical determinism has its own corollaries. We not only move from simple to complex economies. We move from integrated economies to segregated ones, separating the producer from the consumer, the farmer from the kitchen, the power plant from the appliance, the dump site from the garbage can, the banker from the depositor and, inevitably, the government from the citizenry. In the process of development we separate authority and responsibility. Those who make the decisions are not those who are affected by the decisions.

Just as homo sapiens is nature's highest achievement, so the multi-national and supranational corporation becomes our most highly evolved economic animal. The planetary economy demands planetary institutions. The nation-state itself begins to disappear, both as an object of our affection and identification, and a major actor in world affairs.

The planetary economy merges and submerges nations. Yoshitaka Sajima, vice-president of Mitsui and Company, USA, asserts, "The U.S. and Japan are not just trading with each other anymore- they've become a part of each other." Former Republican Governor of Tennessee, Lamar Alexander, agreed when he declared the goal of his economic development strategy was "to get the Tennessee economy integrated with the Japanese economy."

In Europe, the Common Market has grown from six countries in the 1950s to 10 in the

1970s, to 16 today, and barriers between these nations are rapidly being abolished. Increasingly, there are neither Italian nor French nor German companies, only European supra-corporations. The U.S., Canadian and Mexican governments formed NAFTA to merge our three countries economically.

Promotion of exports is now widely accepted as the foundation for a successful economic development program. Whether for a tiny country like Singapore or a huge country like the United States, we come to see exports as essential to a nation's economic health.

Globalism commands our attention and our resources. Our principal task, we are told, is to nurture, extend, and manage emerging global systems. Trade talks are on the top of everybody's agenda, from Yeltsin to Clinton. Political leaders strive to devise stable systems for global financial markets and exchange rates. The best and the brightest of this generation use their ingenuity to establish the global financial and regulatory rules that will enable the greatest possible uninterrupted flow of resources among nations.

This emphasis on globalism rearranges our loyalties and loosens our neighborly ties. "The new order eschews loyalty to workers, products, corporate structure, businesses, factories, communities, even the nation," the New York Times announces. Martin S. Davis, chairman of Gulf & Western, declares, "All such allegiances are viewed as expendable under the new rules. You cannot be emotionally bound to any particular asset."

We are now all assets.

Jettisoning loyalties isn't easy. But that is the price we believe we must pay to receive the benefits of the global village. Every community must achieve the lowest possible production cost even when that means breaking whatever remains of their social contract and long standing traditions.

The revised version of the American dream is articulated by Stanley J. Mihelick, executive vice-president for production at Goodyear. "Until we get real wage levels down much closer to those of the Brazils and Koreas, we cannot pass along productivity gains

to wages and still be competitive."

Wage raises, environmental protection, national health insurance, and liability lawsuits - anything that raises the cost of production and makes us less competitive - threatens our economy. We must abandon the good life to sustain life itself. We are in a global struggle for survival. We are hooked on free trade.

**The Doctrine Falters**

At this very moment in history when the doctrines of free trade and globalism are so dominant, the absurdities of globalism are becoming more evident. Consider the case of the toothpick and the chopstick.

A few years ago I was eating at a Saint Paul restaurant. After lunch I picked up a toothpick wrapped in plastic. On the plastic was printed the word 'Japan'. Now Japan has little wood and no oil. Nevertheless it had become efficient enough in our global economy to bring little pieces of wood and barrels of oil to Japan, wrap the one in the other and send them to Minnesota. This toothpick may have travelled 50,000 miles. But never fear, we are now retaliating in kind. A Hibbing, Minnesota factory now produces a billion disposable chopsticks a year for sale in Japan.

In my mind's eye I see two ships passing one another in the northern Pacific. One carries little pieces of Minnesota wood bound for Japan; the other carries little pieces of Japanese wood bound for Minnesota. Such is the logic of free trade.

Nowhere is the absurdity of free trade more evident than in the grim plight of the Third World. Developing nations borrowed money to build an economic infra-structure in order to specialize in what they do best, ["comparative advantage"] and thereby expand their export capacity. To repay these debts, Third World countries must increase their exports.

One result of these decisions has been a dramatic shift from producing food for internal consumption to producing food for export. Take the case of Brazil. Brazilian per capita production of basic foodstuffs (rice, black beans, manioc, and potatoes) fell 13 percent from 1977 to 1984. Per capita output of exportable foodstuffs (soybeans, oranges, cotton, peanuts, and tobacco) jumped 15 percent. Today, although some 50 percent of Brazil suffers malnutrition, one leading Brazilian agronomist still calls export promotion "a matter of national survival". In the global village a nation survives by starving its people.

What about the purported benefits of free trade, such as higher standards of living?

It depends on whose standard of living you're talking about. Inequality between and in most cases, within, countries has increased. Two centuries of trade has exacerbated disparities in world living standards. According to Swiss economist Paul Bairoch, per capita GNP in1750 was approximately the same in the developed countries as in the underdeveloped ones. In 1930 the ratio was about 4 to 1 in favor of the developed nations. Today it is 8 to 1.

Inequality is both a cause and an effect of globalism. Inequality within one country is a cause of globalism because it reduces the number of people with sufficient purchasing power. Consequently, a producer must sell to wealthy people in many countries to achieve the scale of production necessary to produce goods at a relatively low cost. Inequality is an effect of globalism because export industries employ few workers who earn disproportionately high wages and because developed countries tend to take out more capital from Third World countries than they invest in them.

Free trade was supposed to improve our standard of living. Yet even in the United States, the most developed of all nations, we find that living standards have been declining over the last fifteen years. Most dramatically, according to several surveys, in 1988 we were working almost a half-day longer for lower real wages than we were in 1970. We have less leisure time in the 1990s than we had in the 1970s.

**A New Way of Thinking**

It is time to re-examine the validity of the doctrine of free trade and its corollary, the planetary economy. To do so we must begin by speaking of values. Human beings may be acquisitive and competitive, but we are also loving and cooperative. Several studies have found that the voluntary, unpaid economy may be as large and as productive as the paid economy. There is no question that we have converted more and more human relationships into commercial transactions, but there is a great deal of question as to whether this was a necessary or beneficial development.

Let me review the basic assumptions of free trade that I described at the beginning, only this time critically.

If price is to guide our buying, selling and investing, then price should tell us something about efficiency. We might measure efficiency in terms of natural resources used in the manufacturing and the amount of waste produced in converting raw material into a consumer or industrial product.

Price itself may not be measure of efficiency. The prices of raw materials, labor, capital, transportation, and waste disposal are all heavily subsidized. But today wage rate inequities among comparably skilled workforces can be as great as 30 to 1. This disparity overwhelms even the most productive worker. An American worker might produce twice as much per hour as a Mexican worker, but is paid ten times as much.

In Taiwan, for example, strikes are illegal. In South Korea unions cannot be organized without government permission. Many developing nations have no minimum wage, maximum hours, or environmental legislation. As economist Howard Wachtel notes, "Differences in product cost that are due to totalitarian political institutions or restrictions on economic rights reflect no natural or entrepreneurial advantage. Free trade has nothing to do with incomparable political economic institutions that protect individual rights in one country and deny them in another."

The price of goods in developed countries is also highly dependent on subsidies. For example, we decided early on that government should build the transportation systems of the country. The public, directly or indirectly, built our railroads, canals, ports, highways and airports.

Heavy trucks do not pay taxes sufficient to cover the damage they do to roads. We provide water to California farmers at as little as five percent of the going market rate. We provide huge direct subsidies to corporate farmers. And we allow the costs of agricultural pollution to be picked up by the society as a whole. Having intervened in the production process in all these ways we then discover it is cheaper to raise produce near the point of sale.

Prices don't provide accurate signals within nations. We tend to confuse price and cost. Price is what an individual pays; cost is what the community as a whole pays. Most of our economic programs result in an enormous disparity between the price of a product or service to an individual and the cost of that same product or service to the society as a whole.

When the utility company wanted to send electricity across someone's property, and that individual declined the honor, we gave the private utility governmental authority to seize the land needed. This is exactly what happened in western Minnesota in the late 1970s. We argued that since bigger power plants produced electricity more cheaply than smaller ones, it was therefore in the public interest to erect these power lines. If we had allowed landowners to refuse to sell, the price of electricity would be higher today, but it would reflect the cost of that power more accurately.

Another example: Because we consider the benefit of unrestricted air transportation to outweigh any damage to our health and sanity, we have eliminated the authority of communities to regulate flights and noise. As a consequence, we allow planes to awaken us or our children in the middle of the night. By one survey, some 4 million people in the United States suffer physical damage due to airport noise. If communities were given the authority to control noise levels by planes, as they already control noise levels from radios and motorcycles, the price of a plane ticket would increase significantly. Its price would be more in line with its actual cost to society.

It is often hard to quantify social costs, which doesn't mean they are insignificant. Remember urban renewal? In the 1950s and 1960s we leveled inner city neighborhoods to assemble sufficient land area to rebuild our downtowns. Skyscrapers and shopping malls arose, the property tax base expanded, and we considered it a job well done. Later sociologists, economists, and planners discovered that the seedy areas we destroyed were not fragmented, violence-prone slums, but more often cohesive ethnic communities

where generations had grown up and worked, where children went to school and played.

If we were to put a dollar figure on the destruction of homes, the pain of broken lives, and the expense of relocation and recreation of community life, we might find that the city as

a whole actually lost money in the urban renewal process. If we had used a full cost accounting system, we might never have undertaken urban renewal.

Our refusal to understand and count the social costs of certain kinds of development has caused suffering in rural as well as urban areas. In 1944 Walter Goldschmidt, working under contract with the Department of Agriculture, compared the economic and social characteristics of two rural California communities that were alike in all respects, except one. Dinuba was surrounded by family farms; Arvin, by corporate farms. Goldschmidt found that Dinuba was more stable, had a higher standard of living, more small businesses, higher retail sales, better schools and other community facilities, and a higher degree of citizen participation in local affairs. The USDA invoked a clause in his contract forbidding him to discuss his finding. The study was not made public for almost 30 years. Meanwhile the USDA continued to promote research that rapidly transformed the Dinubas of our country into Arvins. The farm crisis we now suffer is a consequence of this process.

How should we deal with the price versus cost dilemma as a society? In most cases we can protect our way of life from encroachment by the global economy, achieve important social and economic goals, and pay about the same price for our goods and services. In some cases we might have to pay more, but we should remember the higher prices may be offset by the decline in overall costs. Consider the proposed Save the Family Farm legislation drafted by farmers and introduced in Congress several years ago by Iowa Senator Tom Harkin. It proposes that farmers limit production of farm goods nationwide at the same time as the nation establishes a minimum price for farm goods that is sufficient to cover operating and capital costs and provides farm families with an adequate living. The law's sponsors estimate such a program would increase the retail cost of agricultural products by three to five percent, but this would be more than offset by dramatically reduced public tax expenditures spent on farm subsidies. And this doesn't take into consideration the benefits of a stable rural America. The loss of that stability entails the trauma of people leaving farms that have been in their families for generations, and the influx of jobless rural immigrants into already economically depressed urban areas, and the resulting increased expenditures for medical bills, food stamps, welfare.

Economists like to talk about "externalities". The costs of job dislocation, rising family violence, community breakdown, environmental damage, and cultural collapse are all considered "external". External to what, one might ask?

The theory of comparative advantage itself is fast losing its credibility. Time was when technology spread slowly. Three hundred years ago in northern Italy, stealing or disclosing the secrets of silk-spinning machinery was a crime punishable by death. At the beginning of the industrial revolution Britain protected its supremacy in textile manufacturing by banning both export of machines and emigration of men who knew

how to build and run them. A young British apprentice, Samuel Slater, brought the industrial revolution to the U.S. by memorizing the design of the spinning frame, and migrating here in 1789.

Today, technology transfer is simple. According to Dataquest, a market research firm, it takes only three weeks after a new U.S.-made product is introduced before it is copied, manufactured and shipped back to the U.S. from Asia. So much for comparative advantage.

Which brings us to the issue of scale. There is no question that when I move production out of my basement and into a factory, the cost per item produced declines dramatically. But when the factory increases its output a hundredfold, production costs no longer decline proportionately. The vast majority of the cost decreases are captured at fairly modest production levels.

In agriculture, for example, the USDA studied the efficiency of farms and concluded, "Above about $40-50,000 in gross sales - the size that is at the bottom of the end of medium sized sales category - there are no greater efficiencies of scale". Another USDA report agreed, "Medium sized family farms are as efficient as the large farms".

Harvard Professor Joseph Bain's pioneering investigations in the 1950s found that plants far smaller than originally believed can be economically competitive. Further, it was found that the factory could be significantly reduced in size without requiring major price increases for its products. In other words, we might be able to produce shoes for a region rather than for the nation at about the same price per shoe. If we withdrew government subsidies to the transportation system, then locally produced and marketed shoes might actually be cheaper than those brought in from abroad.

Modern technology makes smaller production plants possible. For instance, traditional float glass plants produce 550-600 tons of glass daily, and cost $100 million to build. With only a $40-50 million investment, new mini-plants can produce about 250 tons per day making glass for a regional market at the same cost per ton as the large plants.

The advent of programmable machine tools may accelerate this tendency. Fifteen years ago industrial engineers developed machine tools that could be programmed to reproduce a variety of shapes so that now a typical Japanese machine tool can make almost 100 different parts from an individual block of material. What does this mean? Erich Bloch, director of the National Science Foundation, believes manufacturing "will be so flexible that it will be able to make the first copy of a product for little more than the cost of the thousandth." "So the ideal location for the factory of the future," says Patrick A. Toole, VP for manufacturing at IBM, "is in the market where the products are consumed."

When we abandon our ability to produce for ourselves, when we separate authority from responsibility, when those affected by our decision are not those who make the decisions, when the cost and the benefit of production or development processes are not part of the same equation, when price and cost are no longer in harmony, we jeopardize our security and our future.

You may argue that free trade is not the cause of all our ills. Agreed. But free trade as it is preached today nurtures and reinforces many of our worst problems. It is an ideological package that promotes ruinous policies. And most tragically, as we move further down

the road to gigantism, globalism, and dependence we make it harder and harder to back up and take another path. If we lose our skills, our productive base, our culture, our traditions, our natural resources, if we erode the bonds of personal and familial responsibility, it becomes ever more difficult to recreate community. It is very, very hard to put Humpty Dumpty back together again.

Which means we must act now. The unimpeded mobility of capital, labor, good, and raw materials is not the highest social good. We need to challenge the postulates of free trade head on, to preach a different philosophy, to embrace a different strategy. There is another way. To make it the dominant way, we must change the rules, indeed, we must challenge our own behavior. And to do that requires not only that we challenge the emptiness of free trade, but that we promote a new idea: economics as if community matters.