

The topic of 'free trade' is as current as this morning's paper – which is why this article by John Culbertson is as timely today as it was when written in 1991. Culbertson has long been a 'doubting Thomas' on the subject of 'free trade' to the irritation of the economic fraternity where such challenges are definitely not politically correct.

U.S. 'Free Trade' with Mexico: *Progress or Self-Destruction?*

by John M. Culbertson

Depending on the world-view and vocabulary used to depict it, U.S. free trade with Mexico can seem anything from an obviously progressive step to an action ruinous to the United States and damaging to human prospects. The favorable interpretation now prevailing in both the political right and left in the United States proves, on consideration, to reflect a misleading conceptualization of the subject arising from a fashionable utopian ideology.

Seeking the truth on this subject thus requires first its depropagandization. The valid name for what is called "free trade" is "foreign trade not subject to regulation by the nation's government," that is, mandatory deregulation of the nation's foreign trade — like deregulation of its savings associations, banks, airlines. The valid name for what is called "barriers to trade" is "regulation of trade." The misleading labels present an image of regulation of foreign trade as unnatural and inherently destructive, a crime against the ways of the world. In truth, foreign trade has always been regulated by governments.

The human world always has been made up of many independent, or "free," tribes, kingdoms, empires, or nations. Preserving this structure of human

life requires the regulation of foreign trade. Unregulated foreign trade undercuts the independence of nations, prevents their developing along different paths. In the absence of effective supranational government, the deregulation of foreign trade leaves mankind adrift, its diverse and discordant societies merged into impotence, dropped together into a single pot, with no government at any level that is capable of preserving a civilized level of life or preventing the destruction of the earthly habitat. Far from being obviously correct, unregulated foreign trade is revolutionary; fashionably but irresponsibly revolutionary.

The free-trade fable exercises its mind-ruling power by exploiting the human weakness for making issues a struggle between Good and Evil. It provides a stereotype of regulation of foreign trade as "protectionism," depicted as "import restrictions that damage the nation and the world but are imposed through the power of evil 'special interests'." The evil "protectionists" are portrayed as acting out of anti-social selfishness or of racism, an urge to bash some nation, or a show of indifference to foreign poverty. In the Good-versus-Evil conceptualization of foreign trade, protectionism/the Evil, commonly is depicted as the only option other than free trade/the Good. President Reagan's consistent characterization of his trade policy for the United States as one of "fighting protectionism" illustrates the pattern.

Is it true that the only options on foreign-trade policy are free trade *or* protectionism? The trade policy, through which Japan took over valuable U.S. markets, industries, and jobs through one-sided foreign trade, ran huge trade surpluses with the U.S. and

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become large owners of U.S. properties – is this free trade or is it protectionism? Of course, the answer is neither – neither the answer for Japan nor for most other nations. In reality, there are many kinds of trade policy available.

Posing the choice as “free trade *or* protectionism” illustrates a basic technique in the manipulative use of language, the misstated either-or, as in Hitler’s proffered choice: Nazism *or* Jewish communism; Stalinism’s idealized socialism *or* Satanic capitalism. The stereotype of protectionism functions as a contrived Evil to be paired with free trade as the Good. Given the effectiveness with which such propagandistic use of language has been analyzed by Hayakawa and others, it is surprising that self-respecting Americans across the political spectrum, both Ronald Reagan and the editorial writers of *The New York Times*, rely on it to support the deregulation of foreign trade – with no consideration of the actual effects of alternative trade policies. Economists commonly use the same conceptualization, contrasting the negatively stereotyped protectionism with misleading examples in which unregulated foreign trade automatically brings the best of all possible worlds – examples that do not correspond to evidence and experience.

Thus, to consider alternative trade policies in terms of their *effects* requires escaping from the whole system of deceptive stereotypes that dominates U.S. discussion of the subject. A realistic consideration of the effects of alternative systems of foreign trade can well begin with the observation of the great liberal economist, J. M. Keynes (“National Self-Sufficiency,” *Yale Review*, 1933) that the system of foreign trade must be chosen to fit the political, economic, social, and international-relations realities of the times. Keynes, deploring his own zealous earlier support of the free-trade doctrine, pointed out that it made no sense to attempt to bring about *laissez-faire* foreign trade in the political and economic world of the 20th century – whether or not it would have been reasonable in an earlier era.

Keynes recognized the all-important point that

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unregulated foreign trade implied “economic entanglement among nations.” Unregulated foreign trade subordinates the goals, standards, powers of the nation to the interests of private parties in all nations. Deregulating its foreign trade costs a nation its freedom of

action, its effective independence, its ability to chart its own course and to learn its own lessons from its successes and its failures.

The nineteenth-century vision of world-wide deregulation of foreign trade in the context of universal economic *laissez-faire* thus had no applicability to the political and economic world that arose from the First World War, in which nations explicitly adopted different theories, ideologies, and policy goals. The political and economic situation of the 20th century required policies that could bring about constructive, mutually beneficial patterns of foreign trade among independent nations operating under different political and economic agendas and goals. “We do not wish, therefore, to be at the mercy of world forces working out ... some uniform equilibrium according to the ideal principles, if they can be called such, of *laissez-faire* capitalism. We wish ... to be our own masters and to be as free as we can make ourselves from the interferences of the outside world,” wrote Keynes.

I sympathize, therefore, with those who would minimize, rather than with those who would maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel – these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national. For these strong reasons, therefore, I am inclined to the belief that ... a greater measure of national self-sufficiency and economic isolation among countries than existed in 1914 may serve the cause of peace rather than otherwise.

Keynes noted that any loss of production

efficiency from maintaining a nation's economic independence was in many cases small or trivial – and that the existence and amount of any such “inefficiency” depends on circumstances and cannot be inferred from ideologically-biased “principles”: “Experience accumulates to prove that most modern processes of mass production can be performed in most countries and climates with almost equal efficiency.”

In Keynes' valid conception of “efficiency,” for example, shifting the production of telephones for the U.S. market from a factory in Louisiana to an identical factory in Thailand does not increase efficiency; it reduces efficiency but is profitable because it replaces high-income labor with low-income labor. Shifting world manufacturing production from high-wage to low-wage nations does not increase efficiency and world output. An increase in the volume of world trade of this type is not progress; it may be ruinous.

Foreign trade of genuine efficiency would provide the means of permanently benefitting both nations rather than temporarily benefitting one nation at the expense of the other. In real-world conditions, such efficiency-based and mutually beneficial patterns of foreign trade are ordinarily attainable only on the basis of a set of constructive trade policies. That the basic distinction between efficiency-based, beneficial trade and level-the-nations-downward trade has been lost in recent discussion, even by most economists, perhaps must be explained by the dominance of propaganda in the discussion of foreign trade, which has hidden even the most basic causal relations.

Keynes thus favored a system of regulated foreign trade that would work constructively in a world of free and independent – non-globalized – nations. That is, he favored a system of constructively regulated foreign trade, which is not so-called “free trade” and is not so-called “protectionism.” But historical accidents put the path of opinion and events since the 1930s under the domination of a massive U.S. attempt to implement a peculiar version of world-wide “free trade.”

The intellectual and political father of this movement was Cordell Hull, the U.S. Secretary of State from 1933 to 1944. The rationale of Hull's pursuit of deregulation of foreign trade differed from the now-dominant one. Having conceived as early as 1916 that “unhampered trade dove-tailed with peace;

high tariffs, trade barriers, and unfair economic competition with war,” Hull and his U.S. State Department developed the concepts and the program that still underlie the U.S. campaign for the deregulation of foreign trade to attack not an alleged

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economic inefficiency of “protectionism” but asserted war-causing effects of international economic rivalries and “trade wars.”

Hull was able to gain acquiescence in his version of foreign-trade deregulation during the temporary U.S. dominance of the world at the end of the Second World War. Keynes never supported Hull's approach, referring to “the lunatic proposals of Mr. Hull.” Had Keynes' view governed the postwar arrangements for foreign trade, international economic and political developments would have taken a quite different course. It was not the inexorable march of progress but a curious set of circumstances that brought the world-trade situation to its present crisis.

Patterns of trade that benefit both of the nations involved do not arise naturally from the profit-seeking dealings of private parties of all nations. Mutually beneficial foreign trade requires a constructive framework of national trade policy that (1) prevents out-of-balance or one-way trade that shifts industries, jobs, and economic ownership from a trade-deficit to a trade-surplus nation, (2) prevents the shifting of the industries with bright futures to one nation thus leaving to the other nation only the declining and low-pay industries, (3) prevents nations from being damaged by instability imposed by the trade, such as the “dumping” of goods in a foreign market below production cost to weaken its industry and take over its market, (4) prevents the pattern of trade from unduly undermining the independence and defense capabilities of the nation, and (5) avoids the one-sidedness of trade benefit that arises when the trade on

one side is arranged on behalf of the nation by its government and on the other side is handled by firms that are competing against one another in pursuit of private profit.

The foreign-trade arrangements arising from the Hull approach were not aimed at these goals. They proved to thwart their achievement. Hull's effort to reduce average tariff levels and trade "discrimination" (in a peculiar sense) through the "most-favored-nation" policy prevented the development of managed, mutually beneficial patterns of trade between nations in different circumstances. In this approach, if the United States, say, made a certain trade concession to Mexico in order to work out a balanced and mutually beneficial pattern of trade with Mexico, the United States (to avoid "discrimination") would have to offer the same concession to Japan and other countries that already had large trade surpluses with the U.S.

One epoch-making "side effect" of the Hull-structured trade policy was to cause the United States to acquiesce year after year after year in a ruinous pattern of one-sided, one-way-benefit foreign trade that permitted its all-important home market for the rewarding-to-the-nation industries of the times to be taken over by other nations, largely on the basis of their low-wages, minimal regulations and social standards, and government management of their foreign trade. The economic decline of the United States would not have occurred as it did under a foreign-trade system that paid attention to the effects of the *patterns of trade* and provided means for nations to arrange mutually beneficial patterns of trade.

The Free-Trade/Good - Protectionism/Evil view of foreign trade thus has caused enormous mischief. It has the world headed for worsening problems. Low-wage and low-labor-standards nations around the world expect to advance themselves by taking over rising shares of the U.S. market, which is shrinking as a result of the trade-caused economic decline of the United States and its standard of living. The foreign-trade system is headed for crisis – a crisis that should have been easy to predict, but will be far from easy to cure.

A factor curiously neglected in recent trade-policy discussion is the radical effect on the process of rise and decline of human societies that would be caused

by the entanglement, amalgamation, or merger of nations resulting from the deregulation of foreign trade. It now is widely understood that the basis of constructive organic, organizational, and societal evolution is diversity, variety, copious experimentation, multiple trials in the trial and error of the evolutionary process. Advancement – perhaps even survival – requires enough variety of experiments to generate some successes. Of the human societies of the present era, many have recently conceded failure and others seem to be headed for it. But human civilization has a future *so long as there are some successes – some societies that meet the short-run and long-run requirements of their environments, providing patterns that can be copied or adapted by the failing societies.*

Biologists argue that the survival of even an obscure species of owl may be important for mankind because it affects the earth's biological diversity. How much more important it must be that there exist a large and diverse set of human societies, exploring different developmental paths, demonstrating "what happens if..." providing patterns of success that can be used to repair failures and potential extinctions of other societies. But because trade policy is discussed within misleading verbal stereotypes, these profound implications are not recognized to exist.

It is clear – as, again, Keynes took for granted – that nations that give up their power to regulate their foreign trade, in general or with particular nations, give up their independence of action and control of their future course of development. The actual implementation of "free trade" would replace many, diverse, nation-guided societal experiments with a single global experiment that presumably would be guided by no effective government.

One critically important consideration is that under a "global economy," "one world," or the rule of "free trade," the effects of overpopulation-caused poverty and joblessness would fall not on the society that causes the problem but on all nations, as competition shifts capital and production to the nation with the lowest labor-cost. In a world of independent societies, the failure of any one does not drag down the others. The failures can turn themselves around by copying the successes. In a world of one "global economy," failures anywhere drag all downward. The

expected result is universal failure and degradation. On a planet critically threatened by human overpopulation, habitat destruction, and governments too weak or delusion-based to preserve the habitat and standard of living, the prospects of mankind as one single, globalized experiment are dismal.

Most recent discussion depicts the “the global economy” or “one world” not as bringing all-eggs-in-one-basket human failure, but as fighting “nationalism” which is stereotyped as based on bigotry, racism, hatred, selfishness, or anti-progressiveness. Once again, the purported choice – ‘aggressive, bigotry-based nationalism,’ (the Evil) *or* ‘global economy,’ (the Good) — misstates the options that are available. Neither “aggressive nationalism” nor “the global economy” is a course that merits serious consideration. Success can be gained only by escaping from such misleading stereotypes (which seem rooted in their own bigotries) and realistically defining the available policy options and their expected outcomes.

The economic merger of, or free trade between, two nations makes these nations subject to the downward-levelling effect of unregulated foreign trade, diminishes national independence and diversity, and undercuts the capabilities of both national governments while providing no new forms of government to take their place. In such cases, the first-stage outcome depends on the compatibility of the two societies that enter into the economic-political merger or partnership. The more alike they are the less there is to be lost in world societal diversity and in detrimental effect on one or both nations. Thus, economic merger of the U.S. and Canada is much less threatening than that of the U.S. and Mexico, or the U.S. and China, or India.

The U.S. and Mexico differ widely in political tradition, ideology, government structure and performance, severity of overpopulation and excessive population-growth, unemployment, low-wage production, worker-protection standards, child labor laws, environmental protection attitudes and policies, cultures, values, viewpoints and language. Free trade and economic, political, cultural, social merger between two countries as different and disharmonious as these cannot be justified on the basis of an experience-based, cause-and-effect analysis of the

likely effects. The conceivable gain is, at best, trivial in relation to the conceivable loss, which is almost beyond imagining. Any real potential gain from trade between the nations could be tapped through managed and mutually beneficial trade that preserved the independence of the two nations and threatened no ruinous outcome.

The damage done by a trade-deregulation merger of two nations need not fall on them equally. Nations with bright prospects have more to lose than those with dismal prospects. Mexican workers might seem certain, at least temporarily, to gain (at the expense of American workers, and of a rising role of American capital in Mexico) from the shift of production, jobs, industries, capital from the U.S. to Mexico because of cost-savings from lower wages and less stringent regulation of child labor, worker protection, and working conditions. But when the discordant nations sat down to, as it is put, ‘harmonize’ their laws and policies in a way that is satisfactory to their diverse constituencies and found how little agreement and how much conflict exists, it would become clear that while each nation alone had a chance of finding a path to success, in their joint harness they could not agree on any path that would meet the requirements of the times and achieve success.

As the United States, despite its recent lack of realism and its self-destructive policies, still must be counted among the nations that might generate patterns of success that merit copying by other nations, it would diminish the hopes of mankind for the U.S. to enter blindly into nation-mergers that would remove it from the potential contributors of patterns of societal economic success. From the viewpoint of Americans (except perhaps of some capitalists) U.S. merger with Mexico – or with almost any other nation – would be insane.

Thus, the pursuit of “free trade,” “a global economy,” and U.S. “free trade” with Mexico seem (1) a grand and inspiring program for progress when viewed within the stereotypes now dominating U.S. discussion but as (2) a uniquely destructive human folly when viewed within the framework of cause-and-effect analysis.

Where are the voices of those who understand the second view? Is the Congress to commit the nation’s future without even an awareness that this view exists?

Extricating nations from the collapse of an ideology-based, deeply-embedded economic structure that proves a failure is being shown by the cases of collapsing Marxist communism to be very difficult and of uncertain outcome – even when models of success are available to be copied. If the United States, beguiled by its misleading stereotypes of utopian individualism and anti-nationalism, blind to the effects that actually will follow (and have followed) from its actions, commits itself, and pushes other nations, to an ungovernable, all-the-human-eggs-in-one-basket structuring of mankind in a rapidly deteriorating and increasingly overpopulated earthly habitat, the prospects of recovering from the collapse of this structure will not be favorable. ■