

Business Forum: Free Trade is Not Free

By David Morris

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It is hard to argue against free trade. The phrase itself conspires against the critic. Free trade, free markets, free enterprise — all bear the magically seductive word “free.”

So to discuss free trade, let’s first eliminate the magic word. That will allow us all to agree. Trade is good. As Adam Smith said, humans have “an innate propensity” to exchange goods and services.

Historically, such exchange within and among countries increases no matter what the rules governing that exchange are. Outside of war, world trade has dipped only twice in the past century, each in a time of global economic convulsion — 1931 and 1981.

Having agreed that trade is good, we next should remind ourselves that for its first 150 years, the phrase “free trade” focused almost entirely on lowering tariffs. Even the most ardent free-traders recognized the right of governments to introduce rules that protect their farmers, their small businesses, their workers and their natural environment.

Only since the early 1980s has “free trade” been redefined to include a massive invasion of international law into domestic affairs. In this respect, the free-trade discussion on the international level has become the counterpart of the deregulation debate on the domestic level.

Domestically, conservatives argue against citizens having the right to impose maximum hour and minimum wage laws, rigorous environmental regulations, stringent antitrust regulations. Free-traders carry the argument to the international level. Indeed, the two increasingly work in tandem to promote international rules that severely restrict the authority of communities to act domestically.

A trade-off

Every year, the European Union publishes a compendium of U.S. violations of free trade. What constitutes a crime against trade these days? Energy-efficiency standards for cars. Recycling laws. Buy-America legislation. Laws that protect family farmers. Small-business set-asides

Free trade is not free. It involves a trade-off. We limit our right to make decisions about our futures in return for expanding the flow of goods, services and capital across borders. There is no win-win situation here. Democracy suffers while commercial mobility benefits.

Under the new definition of free trade, has the trade-off been worth it?

Free-traders rarely discuss the costs of free trade. Economists insist that any costs are temporary. If an industry goes bankrupt, investors will invest in new and better industries. Wages may drop in richer countries as factories flee, but eventually wages in the poorer countries will rise and the gap will diminish.

As John Maynard Keynes famously responded to such arguments, “In the long run we are all dead.”

After the passage of the North American Free Trade Agreement (NAFTA) in 1994, Mexico’s trade deficit with the United States changed into a trade surplus, reaching \$24.2 billion by 2000. Did Mexico as a whole benefit? The average minimum wage in Mexico lost more than three-quarters of its purchasing power from 1994 to 2000. About 8 million Mexicans fell from the middle class into poverty. The growth rate of Mexico under NAFTA has been far less than it was in the 1960s and 1970s under the old protectionist rules

Some argue that NAFTA has encouraged the end of one-party rule in Mexico. Perhaps. The irony is that



as the country moves toward democracy, it has severely restricted the ability of newly elected governments to respond to the demands of the newly enfranchised.

NAFTA and the looming Free Trade of the Americas Agreement (FTAA) have been crudely fashioned as if resource mobility is all that matters.

European model

When the European Union embraced free trade almost two decades ago, it was more responsive to a skeptical public.

Europeans understood the inherent problems involved in moving decision-making away from those affected by the decisions, and in merging poor countries and rich ones. They worked to alleviate these problems.

Richer countries poured billions of dollars into poorer countries to improve their infrastructures and raise the productivity of workers in order to reduce the economic gap between them and thus to reduce the appeal for factories to relocate.

Europe also created a continental Parliament to allow its citizens to have some say in the design and implementation of the new continental rules of the game. Finally, Europe allowed people — not just goods and capital — to cross borders.

NAFTA did none of these things. Indeed, one of the slogans of its advocates was “trade, not aid.” Giving Mexicans (or Canadians) a say in continental affairs was never even discussed. Mexico’s then-President Carlos Salinas de Gotari’s plea for open borders was ignored.

NAFTA not only diminished the rights of Mexican and Canadian and American citizens, it made corporations citizens — something no other trade agreement had ever done. NAFTA gave corporations rights it denied people. Under NAFTA, corporations have no obligations, no responsibilities. They have only privileges.

Corporations can sue governments to overturn what they feel is an unfair regulation. But individuals cannot sue corporations under NAFTA. Nor can citizens sue to force governments to enact a regulation, even when there may be overwhelming scientific evidence supporting such an action (for example, eliminating lead in gasoline).

An increasing portion of international trade consists of foreign investment, which can be useful but also can result in lack of control over key sectors and resources. For centuries, countries have regulated foreign investments in order to maximize their benefit to the host country.

NAFTA takes a major step toward abolishing the right of countries to impose any conditions. The FTAA, which Central and South American negotiators hope to have ready for signatures of heads of state by 2004, may well finish the job.

Proponents of the FTAA boast that it will be the most far-reaching trade agreement in history. Give them an “A” for honesty. But give them an “F” for ignoring the potential costs of such an agreement to our sense of citizenship, the strength of our democracies, and the cultural and social fabric of our societies.

Free trade is not free.

— David Morris is vice president of the Minneapolis and Washington, D.C., based Institute for Local Self-Reliance (www.ilsr.org).

