# Free Trade Does Not Work

A Review of Ian Fletcher's book

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Theme: Global Economy

What would the world be like if economists paid attention to the actual histories of national economies? We cannot say. Unfortunately, they have wanted to model their discipline on physics rather than history. Hence they have developed an equilibrium model that explains much but also conceals much. They have also encouraged the view that one set of economic policies is right for all peoples at all points in their history. One of these policies is free trade.

Some economists will grudgingly acknowledge that there may be some small place for the protection of infant industries. But this does not lead to extensive studies of how those nations that have become economically successful have actually done so. The historical fact is that hardly any nation has become successful through truly free trade. Trade may indeed have been important in many instances, although even this is often exaggerated. But successful economic development normally involves the development of national policies that direct it and do not subordinate it to global flows.

These historical facts are not hard to learn, but it seems that they are also easy to ignore. Generations of economists have been socialized to ignore history and to deduce economic theory from their ahistorical models. From their point of view, the failure of fact to conform to theory means that extraneous factors have been introduced. The goal must be to press the application of theory harder. The fact is that those countries that have followed their recommendations most fully have not been successful whereas those that have been successful have learned how to exploit the commitments of others to free trade without making such commitments themselves. But this fact does not affect adherence to the theory.

The nearly uniform commitment of professional economists to free trade is remarkable even in this context. The adherence to free trade is typically based on appeal to the doctrine of comparative advantage. But the author of that doctrine himself said that comparative advantage is inapplicable if capital is mobile. Obviously, economists who adopt his theory know that he made this point and that in fact capital is mobile. They have developed various ways to defang this objection and continue on their way as if it required no significant modifications of the ideal of free trade. But this displays more their socialization into affirming the virtues of free trade than any serious examination of the effects of capital mobility.

Against this background, Ian Fletcher's book is indeed a breath of fresh air. Rather than imposing on reality a fixed view of how it should function, he describes the economic realities of our time and how they have come to be. He points out that over time adherence to the doctrine of free trade damaged Great Britain, and how important protectionist policies were to the industrialization of the United States.

Fletcher does not deny that the theory of comparative advantage is illuminating of some aspects of the real world, but he makes it very clear that there is also much that it obscures. I have noted one obvious flaw. This is only one of six that he identifies and carefully describes. In other words, his critique of free trade is not simply in terms of its negative historical consequences but also in terms of the theory itself. Instead of supposing that the failures of free trade have been due to its poor implementation, economists should recognize that even perfect implementation would not have the consequences they promise.

An especially interesting case study is NAFTA. Fletcher points out that in this instance, those responsible for its implementation were just the people economists would want to have in that role. Yet the effects of NAFTA, both in Mexico and in the United States, have been negative.

Globally, as free trade has expanded, the gaps between the economically successful nations and the economic failures have become greater. Those countries once seen as in between have, for the most part become failures. Subjecting their once promising industries to global competition has destroyed them.

This book is not, of course, the first to criticize free trade. However, it is the most thorough and convincing. Also, the global experiment in moving in that direction has been continuing long enough that facts and figures about its results must now be taken seriously. Fletcher has done his homework. Of course, those committed to the goal of free trade will pick other examples and find promise here and there. But anyone who approaches the historical facts in openness to learning from them will be forced to reconsider.

It is encouraging that around twenty-six people, occupying positions of recognized influence, have provided positive comments on Fletcher's work. It seems that the time should be ripe for a serious discussion. It is disappointing to see that none of these supporters are members of graduate faculties of economics in American universities. It seems that members of the economic guild are unfazed by the dramatic harm that has been the result of policy makers accepting their authority. One would hope that members of this guild would undertake to refute the facts and arguments of this book. That would open up the needed debate. However, it is more likely that Fletcher's work will be ignored. This has in the past proved the most effective means of silencing criticism and maintaining the purity of the theory.

As long as the policies supported by this guild also align with the interests of the leading figures in industry and finance there is likelihood that governmental and intergovernmental policies will not change. Fletcher points out that the industrialists who appeal to the theories of the economic guild do not necessarily believe them or accept their guidance in their own corporate policies. But they continue to use them to influence governments to adopt policies that benefit them. Whether they would be able to have so much control if large numbers of economists withdrew their support is an open question. Fletcher suggests that economic theory does have considerable influence on public policy, although he certainly knows that decisions reflect other forces as well.

Much of Fletcher's argument centers on the failure of free trade to promote economic growth. He barely notes a more radical question. Does it make sense in a world of limited resources and limited capacity to absorb wastes to make increased production and consumption the primary goal of economic policy? I think not. One solution is to redefine "growth" as sustainable growth, so that the exhaustion of resources and pollution are subtracted alongside many other unwanted consequences of increasing economic activity. At one point Fletcher notes that if all the losses were considered, China's vaunted growth might disappear. A more radical solution would be to adopt Bhutan's goal of gross national happiness!

However, Fletcher is wise not to complicate his discussion with such issues. The world is so devoted to increasing consumption that regardless of its unsustainability or its contribution or lack of contribution to human happiness, economic policies will continue to aim at that increase. Fletcher has shown that without challenging this goal of economics, the arguments in favor of free trade collapse under examination. That is a contribution of immense theoretical importance. May it also have practical effects!



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