



There's No Such Thing As Free Trade

The Illusion of Free Trade

"There's no such thing as a free lunch," says Milton Friedman, economist and Noble Prize winner. Nevertheless, Milton Friedman is the most prominent champion of "free" trade and it is difficult to find any economist¹ that disagrees. His position is very straight forward:

Our market is open to you without tariffs or other restrictions. Sell here what you can and wish to. Buy whatever you can and wish to. In that way cooperation among individuals can be worldwide and free.²

Friedman sees this as way to open markets and at the same time eliminate foreign aid to developing counties, which he sees as only strengthening dictatorships and political elites. For Friedman, "protection really means exploiting the consumer."³ In his view, the sum of all the individual consumption decisions will produce the maximum good and any interference with free trade will harm individual consumers and hence the entire society.

The negative effects to free trade are dismissed by Friedman by monetary adjustments. A country with a favorable balance of trade will have money that becomes more valuable and a country with an unfavorable balance of trade will have money that becomes less valuable. Hence, in the long run, both economies will be equal and peace and contentment will reign.

Friedman acknowledges that even though most countries do not practice free trade, rather they are protective of their established industries. Despite this, Friedman argues the United States is a great nation and rather than give foreign aid, "Few measures that we could take would do more to promote the cause of freedom at home and abroad than complete free trade."⁴

Friedman's argument might be termed the "utopian free trade" argument that pointedly ignores very real consequences of free trade. Further, his arguments are mainly based on "political" arguments that free trade is better than foreign aid that encourages political concentration of power.

The Cato Institute is a libertarian think-tank in Washington that is devoted to the notion of free trade, but at least it recognizes the harmful side effects of free trade.

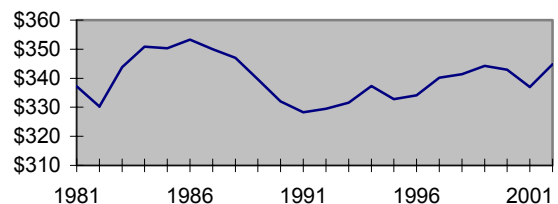
"Of course, the dislocation caused by trade does eliminate jobs in less competitive industries, but it also creates as many new jobs. The impact of trade is not on the number of jobs but on their quality. By allowing Americans to specialize in what they produce best, free trade raises productivity, wages and living standards of the large

majority of workers. Like technology, it leads to new products and new industries while enabling workers to produce more an hour."⁵

The "dislocation" of thousands of workers who are put out of work by importing lower cost goods from overseas is somehow magically cured by "it also creates as many new jobs."⁶ How exactly, importing goods causes the creation of domestic jobs is left unanswered by the wizards at the Cato Institute.

In other words, the Institute will say something like 10,000 jobs were lost to Mexico due to NAFTA, but at the same time 20,000 jobs were created in the U.S. economy and therefore the job loss does not matter. This it ignores that 30,000 jobs would have been created, if the 10,000 had not been lost. Second, it does not give the specifics of what jobs were created versus what were lost. If high paying union jobs on a factory line in Detroit were replaced by low paying jobs at Wal-Mart, then the economy in total is much worse off. These are two of the prominent failures in economic thinking of both Friedman and the Cato Institute. The result of U.S. free trade policies has been a virtual stagnation of wages in industry.

Manufacturing Wages Constant 1982 Dollars
(Bureau of Labor Statistics)



If only one industry suffered a loss because of foreign competition, perhaps those unemployed could find equivalent employment. However, when hundreds of companies begin to lay off factory workers because of foreign competition the result is catastrophic. Stanley J. Mihelick, vice president for production at Goodyear says,

"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."⁷

Free trade is a race to the bottom.

¹ A notable exception to this is John M. Culbertson's, *International Trade and the Future of the West*, 21st Century Press, Madison, WI. This small print book succinctly demolishes Adam Smith and other Free Traders as having their economics based on wishes rather than observable realities.

² Milton and Rose Friedman, *Hoover Digest*, 1997, No. 4.

³ Ibid.

⁴ Ibid.

⁵ Daniel T. Griswold, *Free Trade Empowers Americans to Better Their Lives*, Cato Institute, November 6, 1997.

⁶ Ibid.

⁷ David Morris, "Free Trade the Great Destroyer," *The Case Against 'Free Trade*, Earthland Press, 1993.

Kodak vs. Fuji Film

In the early 1970's Kodak film held about 90% of the U.S. photo film market. The company continually gained efficiencies in making film and could have lowered its prices and driven its foreign competition out of business. Instead, U.S. trade policy encouraged Japan to enter the market with Fuji Film to compete against Kodak. The free trade idea was to let both companies compete in Japan and United States and this would produce the best result for consumers.

In the United States, Fuji Film has reached a market share of about 30% of the United States film market. It is consistently priced about 20% lower than Kodak's main line of film. Kodak does not have a brand in the economy sector of the film market, and by law, it is barred from producing its own private label. (An example of how U.S. monopoly laws work against U.S. firms, even those facing foreign competition.)

In Japan, cut its tariff on film to 18% in 1983, and Kodak has about 8% market share. The market in Japan is dominated by a number of distributors who either simply refuse to distribute Kodak film or give it spotty distribution at best. Thus, in the case of Kodak vs. Fuji, our trade policies versus Japan's trade policies have allowed Fuji to gain about 30% of a market comprising 200 million people, while Kodak has now a market share of 8%⁸ of a foreign market of 125 million people. In rough terms, Fuji has gained a foreign market of 60 million customers, while Kodak has gained a foreign market of 10 million customers. The Japanese obviously made a trading decision to give token entry to a U.S. filmmaker in return for access to a much larger more profitable foreign trading market. Japan benefited by a margin of 6:1 on this trading agreement.

"This means in practice that the Japanese economy buys only the goods it simply cannot make: fuel, food, raw materials, and certain advanced products (notably airplanes) in which its industries cannot yet compete."⁹

The Kodak Company was formerly a shining example of American inventiveness, technology and marketing skill. The main industry was founded in Rochester, New York, in 1888. United States employment in Rochester at its height was 60,406¹⁰ workers; in 2001, its workforce in Rochester was 23,600¹¹. USA Today reports:

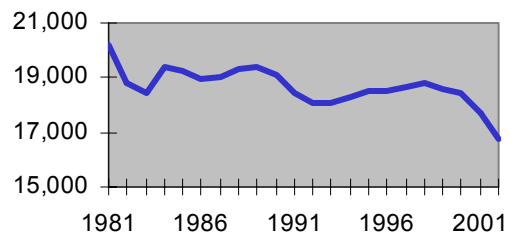
"Last month, film giant Eastman Kodak—the largest employer in Rochester and the central focus of the community since the company was founded by George Eastman in 1888—announced it was shutting down an area plant and laying off the 500 employees who make single-use, sometimes called "throwaway," cameras. The work will now be done in China or Mexico, two countries where the company has operations."¹²

Milton Friedman, the Cato Institute and other economists claim the unemployed workers will find other work, possibly

higher paying jobs, in the growing U.S. economy. The reality as reported by USA Today is quite different:

"After leaving Kodak (he) found work at another manufacturer, but was laid off after 1½ years. He's since worked a bit for his son-in-law's plumbing business and is now collecting unemployment benefits."¹³

USA Manufacturing Jobs in Millions
(Bureau of Labor Statistics)



Milton Friedman and the Cato Institute's world-view is so removed from the average factory worker and their attitude so dismissive of the economic pain and suffering of blue-collar workers, that one can only wonder what planet they live on. In addition, their economics are just plain lousy. Perhaps, Friedman should return his Nobel Prize.

Friedman's economic view is mired in a nineteenth century notion of industrialized countries trading technology for bananas from underdeveloped nations. It does not account for underdeveloped countries producing high tech products at minimal wages with the capital and technical expertise of the developed country, and then selling them back to the developed country. In other words, for the developed country, this is economic self-cannibalization. Although there is almost thirty years of practical experience with the U.S. being a more free-trading country than its trading partners, the disastrous consequences are blithely glossed over by the Free Traders.

The Invention of the Multinational Company

Prior to the 1970's, there were no multinational companies. There were American companies who had overseas companies in other countries. From the early 1900's, the Ford Motor Company had companies in Europe. The company took its production techniques abroad and built cars in another country both to the benefit of the inhabitants and to the profit of the Ford Motor Company as profits flowed back from abroad. It was cheaper for Ford to build cars in England and sell them in England, than to build them in Detroit and then transport them to England. The Ford Motor Company never considered, nor was it possible, for it to build cars in England and then turn around and import them back for sale in the United States.

The Ford Motor Company thought of itself as an American company with overseas operations. Ford, as other companies, have now changed their orientation to being multi-national companies, where their objective is to make the cars wherever it is cheapest and import them back to the U.S. In today's world, Ford opens a division to manufacture, or assemble cars in Mexico, using American organizational skills and technology and then imports the cars back to the United States. Under this

⁸ Will World Trade Organization Be Sunk?, National Center for Policy Analysis, <http://www.ncpa.org/pi/internet/opdwto.html>, February 2003.

⁹ James Fallows, *What Is An Economy For?*, The Atlantic Online, <http://www.theatlantic.com>.

¹⁰ "Kodak Workforce Timeline," *Democrat Chronicle*, Sept. 26, 1997.

¹¹ Kathy Quinn Thomas, "Manufacturing Loses Muscle in Local Economy," *Rochester Business Journal*, March 15, 2002.

¹² Barbara Hagenbau, "Manufacturing Jobs Fading Away Fast," USA Today, www.usa.today.com, February 2003.

¹³ Ibid.

scenario, every manufacturing concern in America can be labeled by free market economists as “less competitive.”

Obviously, the motive for doing this is profit. Ford does not have to contend with unions, high paid workers, and the additional profit goes straight to its bottom line.

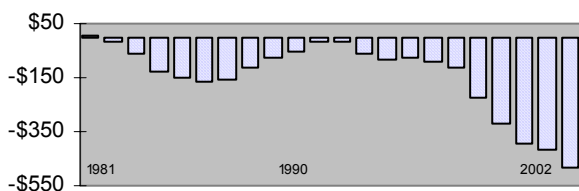
For free-marketeer economists such as Milton Friedman and the Cato Institute, this is a wonderful example of free trade. In a view where the consumer is king, the American consumer can now purchase lower price cars and the Mexican, world economy, has a new factory instead of foreign aid. For the American autoworker, the situation is grim. Now unemployed, he must seek other employment, most likely lower paying work. Multiplied a thousand times over dozens of industries, America is watching its industrial base being destroyed, not only by foreign competition, but being destroyed by American, now “multinational companies.”

Of course, the key economic competitors to the United States, Japan and China engage in no such self-cannibalization. Japan does not set up factories in the United States to make cars to import back to Japan. It does as Henry Ford did; it makes cars to sell in the host country. In addition, when given a choice, it imports components for its cars from Japan, and does not purchase them from U.S. manufacturers, so the benefits of having a foreign company producing in the United States are not as great as is imagined.

GATT, NAFTA and American Surrender

The negative legal implications of the GATT treaty and more recently of NAFTA are so ominous that it is almost impossible to believe that Senators of the United States, most trained lawyers, could have possibly agreed to such a surrender of American sovereignty. Mexico has received billions of dollars in American foreign investment as United States companies proceed to build plants just across the Texas border to manufacture goods that they will sell in the United States.

U.S. Balance of Trade \$ Billions
(Bureau of Economic Analysis)



Of greater danger is that the United States gives up its sovereignty to these foreign bodies because “trade disputes” are arbitrated by an international body operating in secret. As an example, let us suppose that the United States as standards as to the amount of lead that can be contained in milk. This prevents Canadian producers who have looser standards from importing milk into the United States. The Canadian milk producer then appeals this to WTO, GATT or NAFTA declaring that the United States has set up a “barrier to trade.” If the decision is for the Canadian milk producer, United States law is voided.

The country with the lowest standards can nullify laws for consumer safety or environmental protection. The United States and other signers to these trade pacts have surrendered their sovereignty.

The protestors against international globalization at various World Trade Organization meetings are primarily interested in the environmental impact of such rulings. They see a giant, unaccountable conspiracy between international business and friendly governments to overturn all environmental laws. They are right.

The Growing Deficit Horror

The United States is awash in consumer goods. Televisions are not repaired because it is cheaper to buy new ones. Clothing is so cheap that Americans regularly throw away perfectly serviceable clothes simply to empty their closets for new fashions. Radios, compact disc players, DVD’s, and computers are so cheap that most houses can have more than one. Video games are purchased, played a few months and tossed in the trash. America has become a consumer’s paradise.

But, where are all these fabulous goods manufactured? When you read the labels you find, Sri Lanka, Pakistan, Malaysia, China, Honduras, Mexico, Guatemala and India. When was the last time anyone read a label on clothing that read “Made In The USA.”

This consumer binge is supposed to be wonderful for the free trade economists. With the satisfaction for every consumer as the goal for the American nation, nirvana has now been reached. Of course, they ignore the fact that one cannot be a consumer, unless one is first a producer, a worker. It does not matter how cheap goods are, if one does not have a job to produce money to buy those goods.

The result of this unparalleled increase in imports is a staggeringly high trade deficit and a corresponding drop in the value of the American dollar. Eventually, Milton Friedman might have his wish and the American dollar will have as much purchasing power as the Pakistan rupee.

Karl Marx and the Arrogance of the Elites

A surprising supporter of free trade was Karl Marx. In contrast to the utopian view of Milton Friedman’s and other current free trade economists, Karl Marx saw free trade as a way of destroying capitalism and establishing his dictatorship of the proletariat.

“The Free Trade system works destructively. It breaks up old nationalities and carries antagonism of proletariat and bourgeoisie to the uttermost point...the Free trade system hastens the Social Revolution. In this revolutionary sense alone...I am in favor of Free Trade.”¹⁴

Can anyone who is awake in the United States doubt that the last two decades have gone further than any other generation in creating disparities between the blue collar worker and the manager (not even owner) of the factory. In 1965, company presidents’ salaries were 44 times the average pay of a worker; in 1996, salaries were 212 times a worker’s pay. Rampant greed on Wall Street has multi-millionaires who should properly be serving long terms behind federal bars, instead paying minor fines (in fact, their companies paid them). In 1949, the richest 1% of Americans controlled 21% of the wealth; by 1997, they controlled 40 percent.¹⁵

¹⁴ Pat Buchanan, *Address to the Chicago Council on Foreign Relations*, November 18, 1998.

¹⁵ *Ibid.*

Move factories to Mexico, import foreign workers to replace American workers, outsource internet jobs to foreign countries (call for technical help at American On Line in the evening and you end up speaking to someone in India), register your company overseas to avoid paying taxes, invest capital in defunct countries such as Russia that can only be justified by a U.S. government bailout when they go sour, this is all done in the name of free trade and international globalization.

The elites economic professors, MBA's, analysts in financial institutions, college professors, doctors, lawyers, CEO's and other such are insulated from the decline in the lives of the blue-collar production workers. Thus, they describe massive disruptions and impoverishments of their fellow citizens as 'dislocations in the market place,' 'non-competitive industry' and 'adjustment of capital spending' to mask the true destruction their policies wreck on working class Americans. The operators on Wall Street do not care whether they build a factory in Mexico that displaces American workers or a factory in Tennessee that hires them. They will go wherever the return is the greatest. Of course, as much credence as they pay to the capitalistic ethic, they are quick to turn to the government when things go sour for their investments, such as the 50 billion dollar bailout of Mexico. Their risk capital is actually the capital of working class paid in taxes.

But then, this elite class no longer considers itself to be American. They have joined a multi-cultural, international group that has no roots in any national soil. Gilbert Williamson, president of NCR commented:

"I was asked the other day about U.S. competitiveness, and I replied that I don't think about it at all. We at NCR think of ourselves as a globally competitive company that happens to be headquartered in the United States."¹⁶

If this is so, one can only wish that Mr. Williamson would quickly move himself, his wife and his children to a global spot such as Bangladesh.

Alexander Hamilton

Milton Friedman, the Cato Institute and other such free marketeer economists might be well served by taking another look at the first financial genius of this country, Alexander Hamilton. Hamilton was the bastard son of a West Indies planter. Orphaned at the age of eleven, he was sent to New York to study. He became a colonel under George Washington and was the First Secretary of the Treasury. His image now graces the American ten dollar bill.

Alexander Hamilton restored the credit of the young nation by having the country make good 100% upon the dollar its debt to foreign nations and internal creditors. He placed tariffs on foreign goods and these were the primary source of revenue for the nation. They remained the principal source of revenue for the U.S. government until after World War I.

Hamilton was a self-taught economist and financier, who was a voracious reader on economics. He also founded the New York Stock Exchange and the newspaper, *The New York Post*. Without Hamilton's farsighted economic policies, there is little doubt that the new nation would have soon been insolvent and the ensuing financial chaos would have destroyed it.

Hamilton was a pragmatist about using tariffs as a source of revenue. He quite rightly saw that direct taxation, such as on

land would be met with great resistance. Therefore, he favored in-direct taxes such as tariffs on imported goods. He observed that the United States had only one border to guard, the eastern seaboard, which made enforcement far easier than in Europe. He also saw that tariffs were a benefit to emerging industry and believed that thriving industry was would be key to the prosperity. Always the pragmatist, Hamilton realized that tariffs could be too high, and encourage smuggling.

Hamilton's point of view led him to workable financial and economic policies. He essentially saw economics from the bottom up. (Undoubtedly, his views were shaped by his childhood stigma and practical experience as a young clerk.) That is, how did the economic policies affect the working farmer, merchant and manufacturer in America? The positive aggregates were for Hamilton what would produce financial stability and wealth for the citizens and hence the nation. As Robert Wright describes him, "No other Founding Father played leading roles in both the creation of the Constitution and the creation of the modern American economy."¹⁷ Hamilton was a patriot who was concerned with the prosperity of his country and the people in it. He was a man who understood both the law and the functions of government and the relation of the financial health of the nation to its trade and tax policies.

In contrast to Alexander Hamilton, the United States now has financiers and economists who are the privileged elites. In secure, comfortable positions in academia and intellectual institutions, they espouse utopian economic philosophies with pre-set worldwide, political agendas that have ruined the working people of this country.

Alexander Hamilton's practical economics were the basis of building both a great democracy and wealth for the United States. The United States should return to the policy of doing what is best for the United States, not engaging in ruinous, utopian free trade policies.

Recommendations

- Throw the theories of "free trade" in the wastebasket.
- Adopt a nationalistic economic policy that protects the welfare of the citizens of the United States.
- Install tariffs that protect American workers and manufacturers.
- Stop American companies from registering offshore to avoid paying American taxes.
- Install American taxes and tariffs on foreign out-sourcing of Internet jobs.



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¹⁶ Ibid.

¹⁷ Robert E. Wright, *Hamilton Unbound*, Greenwood Press, Westport, CT, 2002.

