Free trade is no panacea; It impoverished workers

By Dr. AL ECKES
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For centuries enthusiasts have exaggerated the advantages of free trade. Anti-corn law crusader Richard Cobden depicted it as a "grand panacea" for achieving global peace and prosperity. Economic soothsayers claim it benefits consumers and creates thousands of export-related jobs.

Time for a reality check. Free trade may be an appealing slogan, but history shows it is no wonder drug. In the mid-19th century Britain removed its tariffs, pursuing unilateral free trade. America practiced protectionism with high tariffs averaging 40 percent on dutiable imports.

A surprising thing happened. From 1871 to 1913, America's gross national product grew 4.3 percent annually, twice the pace in Britain and well above the U.S. average in the 20th century. U.S. exports soared and consumer prices fell. Meanwhile the British economy stagnated, and thousands of workers emigrated, seeking jobs in America.

No wonder U.S. leaders once associated protectionism with prosperity and free trade with ruin. Abraham Lincoln warned that "abandonment of the protective policy ... must produce want and ruin among our people." William McKinley predicted that free trade would bring "widespread discontent." He said "free trade results in giving our money, our manufactures, and our markets to other nations."

After World War II America listened to economic soothsayers, not historians. During the Truman and Eisenhower administrations, neo-Cobdenites resumed the crusade for free trade, opening the U.S. economy to foreign competition. Preoccupied with Cold War security concerns, Washington encouraged economic adversaries to feast on the American market while they discriminated against U.S. exports. In effect, we acquiesced to one-sided free trade.

Even close allies like Great Britain took advantage of American generosity. In 1959 a Cabinet member confided to Prime Minister Harold Macmillan: "... by and large the Americans have kept their doors wide open to our trade," at a time when Britain was shutting out U.S. goods by quotas. "The Americans have put more into GATT (the world trade institution), and got less out of it, than any of the other big trading countries."

The results were predictable. Like Britain a century earlier, the U.S. became the locomotive for the world economy. From 1950 to 1992 our imports of manufactures rose 19 percent annually, twice as fast as U.S. exports. America's merchandise trade deficit skyrocketed. In sectors sensitive to international competition the U.S. generated no jobs net in the last 20 years. Instead, pay stagnated, and 2 million job opportunities fled overseas in pursuit of cheaper labor.

One-sided free trade benefited well-educated professionals and Washington lawyers. The losers were low-skilled factory workers, ordinary Americans, forced to ride the downward escalator in competition with the world's cheapest labor.

Among scholars there is growing recognition that free trade has a dark side. British economist Adrian Wood argues that the removal of trade barriers in northern hemisphere industrial countries has reduced demand for unskilled labor and aggravated "social corrosion." He attributes surging crime, drug abuse and racial tension partly to soaring imports from low-wage-cost countries.

For high-income democracies free trade may hold benefits. But extension of the Mexican free trade agreement (NAFTA) to include lower-wage countries, like Chile, will only aggravate America's internal problems.

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