

What Is Free Trade? Where Is Trade Free?

By George Kent

What is free trade? In our Economics 101 courses, we learned about the benefits of free trade. Based on Ricardo's insight regarding comparative advantage, we would be better off if we focus on what we do best and exchange things. In terms of material well-being, we would then be better off than if we isolated ourselves and tried to do everything on our own. Under the principle of comparative advantage, the factors of production—land, labour and capital—should be allocated in accordance with market forces, so that they are used most efficiently. This efficient allocation of resources would produce the greatest overall benefit.

In Economics 101, we learned some basic concepts; however, we should not get stuck there. We should refine our thinking about economics by appreciating the limitations and qualifications to be taken into account when these ideas are applied in the real world.

1 While economic theory says that all factors of production should be allowed to move freely according to market forces, in reality we generally do not allow labour to move freely. There is high labour mobility in the European Union and the economic union we call the United States, but globally such mobility is highly constrained by immigration laws, visa requirements, travel costs and discrimination.

2 Free trade theory assumes that we enter the marketplace with similar levels of economic power. It implies that after finding our separate niches, we still have comparable levels of power, and the differences among us have to do with accidents of nature and differences in taste. It does not acknowledge that free trade necessarily leads to a steadily widening gap between the rich and the poor. The process steadily increases the power of the rich over the poor.

3 Free trade theory assumes the seller is in direct contact with the buyer, negotiating terms of trade at arms length. It does not anticipate the middlemen, whose only comparative advantage is that they can facilitate or block the connection between buyer and seller. This comes at a price, often with the seller getting only a small share of the amount paid by the ultimate consumer. Innovative "fair trade" programmes for products can be viewed as attempts to restore connectedness between sellers and buyers.

4 Free trade theory is based on the idea that there are many independent actors with different initial endowments and preferences, interacting freely in the marketplace. It does not anticipate that many individual actors will be combined in more inclusive units called States, which will make trading policies on behalf of the elementary units. In market terms, the State often functions as a kind of middleman, widening the price gap between seller and buyer.

5 Free trade theory recognizes the fact that free markets are efficient mechanisms for producing wealth, but does not acknowledge that they are also excellent devices for concentrating wealth. Large enterprises may be more efficient than small ones, but even if they are less efficient, they are still attractive because they concentrate the fruits of the labour of many different people into the hands of a few.

6 Trade benefits are systematically concentrated among those who are better off. In a normally functioning market system, there is a steadily widening gap between rich and poor, and that we also find steady consolidation as larger businesses absorb smaller competitors.

7 Free trade theory assumes that people may choose to become farmers, shoemakers or barbers and function as independent entrepreneurs. It does not anticipate, however, that with increasing economic growth, the cost of entry into many enterprises becomes prohibitive for all but a very few. As wealth becomes more concentrated, the opportunities for independent entrepreneurship shrinks.

8 The high barriers to entry into many businesses mean the range of alternative opportunities is narrowed. In many places, the only opportunities are to work in subordinate positions in which a large share of the fruits of one's labour benefits others.

9 Free trade theorists suggest that reducing obstacles to trade would more or less benefit everyone equally, but in an unequal world, in fact, it is of far greater benefit to those who have greater capacity to reach out. Freedom to travel and invest, etc. are not of much use to those who do not have the means; it is no wonder that the rich, not the poor, advocate free trade most vigorously.

Economics 101 assumed a world with no real power differentials. While that might be a reasonable conceptual starting-point, there is a need to move closer to the real world by studying political economy. There is no reason to believe that the so-called "free trade", which is supported by the dominant members of the World Trade Organization, would result in freedom and prosperity for its weaker members. Growing differences in bargaining power, which are the inherent result of the functioning of free markets, inescapably makes those markets unfree. Economic thinking seems to have suffered from arrested development—arrested at a point that is convenient for the powerful. □

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