Neither free trade nor protection but international socialism: contesting the conservative antinomies of trade theory[1]

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Attitudes towards international trade are remarkably polarised. Most mainstream economists advocate free trade as a mainstay of national and global prosperity. Meanwhile, many critics see it as the major cause of inequality and poverty. This polarisation is remarkable given the weakness of any systematic relationship between the propensity to trade and overall economic well-being and the practical infrequency of complete openness or autarchy. The dualism of trade theory is supported by, and reproduces, a conservative worldview which tends to obscure other more determinant aspects of political economy, and directs opposition to global capital into safe, nationalistic channels.

Introduction

Debates about international trade are usually posed in terms of a simplistic antagonism between free trade and protection, or between market and state led strategies. Posing the debate in this way, however, creates a dualism that is both misleading and profoundly conservative.

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The title recalls the long-time slogan of the International Socialists, who during the cold war supported ‘Neither Washington nor Moscow but International Socialism’. The point was to argue that western capitalism and what they designated ‘state capitalism’ in the Communist countries were different versions of the same thing. It is not my intention to re-open old controversies. There were always good theoretical reasons for stressing either the similarities or differences between the two sets of political economies. However, politically, the slogan served the important purpose of orienting the left away from supporting either of the superpowers towards a different interpretation of socialism as working class self-emancipation.[2] The left should avoid arguing on a terrain not of its own choosing, arguing about which superpower was less bad rather than positively articulating its own agenda. The argument here is that the left should be similarly wary of supporting either side in contemporary debates around trade and accepting a political economy framed in terms of a choice between states and markets.

The paper was substantially written before the current economic crisis. There may now appear to be more pressing things for Marxists to worry about than trade theory. However, in at least two respects its relevance is heightened. First, conditions of crisis raise all sorts of proposals, amongst them demands for changes in trade policy, to which Marxists have to respond. Both businesses and unions have already raised demands for protection from foreign competition. Some countries have raised import tariffs, for example, India those on steel, Russian those on cars. However, this also meets opposition. By late 2008 the Russian import restrictions had provoked widespread popular protest, notably in the Eastern port city of Vladivostok.[3] The collapse of commodity prices seems likely to heighten demands from poorer countries for freer trade and greater access to rich country markets. Meanwhile, the rich country government bailouts, again notably in the car industry, have been denounced by the right wing press as another form of protection.[4] Historically, such measures have been damned with equal vehemence from the left as a form of nationalism tainted with racism.[5] Cutting through these different claims to develop a strategic politics of trade requires concrete class analyses, not resort to any simple formula of either support or opposition. Secondly, the particular asymmetries of the global trade regime have contributed to the current crisis and provide reasons to be sceptical both about claims that it could have been averted simply by more prudential financial management, and about the prospects for sustained recovery without major and traumatic restructuring.

A visit to any standard textbook will confirm a simple dualism dominates the debates around trade. On the one hand free trade dogma is asserted. On the other, national (or

2 Karl Marx, *The First International and after*, Vintage Books, New York, 1974, p. 82.

3 *Wall street journal*, 12 January 2009; *Financial times*, 21 December 2008.

4 *Australian*, 23 December 2008.

5 Thomas Bramble, ‘Interventionist industry policy: a Marxist critique’, *Journal of Australian political economy*, 33, 1994, pp. 65-89; Thomas Bramble, ‘Solidarity versus sectionalism: the social tariff debate’, *Journal of Australian political economy*, 48, 2001, pp. 73-114.

sometimes local) opposition to trade continues to be posed as the alternative.[6] The second section of this paper argues that free trade in practice has almost always been a question of degree. All states maintain some restrictions; few if any have practiced complete autarchy. The third section shows that the degree of openness or closure bears little or no relation to overall economic performance; a fact well established empirically but which seems to have impinged on trade theory hardly at all. The fourth section argues that the inadequacy of the apparently antagonistic theories can be understood by appreciating their shared conservative agenda. The rival theories actually have common interests in preserving states, markets and national (capitalist) wealth; and are therefore unable to raise crucial questions about class, production and social transformation. This critique is concretised in the concluding section, which suggests the generality of trade theories is misleading in two senses. First, they can obscure what for Marxists are more fundamental relations of production. Apart from anything else, capital investment and exploitation in production are themselves the crucial determinants of tradeable surpluses. Secondly, the generality of trade theories conceals the specific importance of trade at particular times, notably how the systematic imbalances in the global trade regime have contributed to the current crisis.

The false antinomy of free trade and protection in theory and history

The overwhelming majority of economists support free trade. Comparative advantage in particular, has occupied a crucial place in the liberal literature and remains the cornerstone of much of mainstream international economics.[7] Trade merely extends the efficiency of markets across borders. Meanwhile, a vociferous minority insists that 'free trade is unfair trade'.[8] Supporters of free trade charge this opposition with being impassioned but irrational[9] but it has been able to draw on a powerful body of scholarly literature.[10] Within this, dependency theory has become less fashionable since the 1970s but many of its central insights are still articulated particularly in relation to persistent problems of

6 See for example, Ha-Joon Chang *Kicking away the ladder: policies and institutions for development in historical perspective*, Anthem Press, London, 2002; Graham Dunkley *Free trade: myth, reality and alternatives*, Zed, London, 2004.

7 David Ricardo, *On the principles of political economy and taxation*, Cambridge University Press, Cambridge, 1951; see for example Paul R. Krugman and Maurice Obstfeld, *International economics*, Addison-Wesley, Boston, 2003.

8 *New York times*, 20 July 2003.

9 Jagdish Bhagwati, *Free trade today*, Princeton University Press, Princeton, 2002.

10 see for example Raul Prebisch, *The economic development of Latin America and its principal problems*, United Nations, New York, 1950; Hans W. Singer, 'The distribution of gains between investing and borrowing countries', *American economic review*, 40 (2), 1950, pp. 473-485; Arghiri Emmanual, *Unequal exchange: a study of the imperialism of trade*, New Left Books, London, 1972; Immanuel Wallerstein, *The modern world-system*, Academic Press, New York, 1974; Samir Amin, *Unequal development*, Monthly Review Press, New York, 1976.

development in some of the poorest parts of the world, especially sub-Saharan Africa[11] and in relation to the disadvantages of exporting primary products. While it is a liberal caricature (dating back at least to Adam Smith) to depict these critics as simple minded protectionists, they have emphasised the systematic disadvantages of the international trade regime for poorer countries and proposed national planning as an alternative. There is a tendency to see trade as a general good or bad, to emphasise the benefits or the disadvantages it brings and to pose free markets or state intervention as the alternative methods of securing national wealth.

There are, of course, exceptions. Amongst mainstream economists Dani Rodrik is perhaps the most consistent.[12] The best known, since his brief piece in The *Journal of economic perspectives* in 2004 put him firmly into the sceptics' camp, is surely Paul Samuelson.[13] Similarly, amongst the critics, several like Anwar Shaikh, Sonali Deraniyagala and Ben Fine dismantle the orthodoxy, without, as far as I am aware, attempting to erect the nationalist or anti-trade alternatives that will be criticised here.[14] However, these remain relatively isolated voices.

Abstract liberal theory takes support for free trade as axiomatic; yet in practice this can prove fragile. Few liberals would probably advocate genuinely unrestricted trade, understood in the broadest sense as an 'exchange of commodities for money or other commodities'[15]—which may therefore take place within as well as between countries. There are many market imperfections that liberals admit warrant state regulation. There are goods whose production is banned or whose trade is legitimately restricted. Protection of both consumers and corporate intellectual property is often accepted. Impeccably liberal writers from John Stuart Mill[16] to Leon Walras[17] have advocated land nationalisation

11 see Sarah Bracking and Graham Harrison, 'Africa, imperialism and new forms of accumulation', *Review of African political economy*, 95 (5), 2003, pp. 5-10; Ray Bush, 'Undermining Africa', *Historical materialism*,12 (4), 2004, pp. 173-202.

12 see for example Dani Rodrik, 'The global governance of trade: as if development really mattered', United Nations Development Programme, New York, 2001, www.wcfia.harvard.edu/ sites/default/files/529__Rodrik5.pdf, accessed 7 February 2009; Dani Rodrik, 'Growth strategies', Working Paper 10050, NBER Working Paper Series, 2003, www.nber.org/papers/w10050, accessed 7 February 2009; Francisco Rodriguez and Dani Rodrik, 'Trade policy and economic growth', Working paper 9912, 2000 http://ksghome.harvard.edu/~drodrik/skepti1299.pdf, accessed 7 February 2009.

13 Paul A. Samuelson, 'Where Ricardo and Mill rebut and confirm arguments of mainstream economists supporting globalization', *Journal of economic perspectives*, 18 (3), 2004, pp. 135-146.

14 Anwar Shaikh, 'Globalization and the myths of free trade', in Anwar Shaikh (ed.), *Globalization and the myths of free trade*, Routledge, London, 2007; Sonali Deraniyagala, 'Neoliberalism in international trade', in Alfredo Saad-Fihlo and Deborah Johnston eds, *Neoliberalism: a critical reader*, Pluto, London, 2005; Sonali Deraniyagala, and Ben Fine, 'New trade theory versus old trade policy: a continuing enigma', *Cambridge journal of economics*, 25 (6), 2001, pp. 809-825.

15 *The Concise Oxford dictionary*, Oxford University Press, Oxford, 1982, p. 1135.

16 John Stuart Mill, *Principles of political economy*, Oxford University Press, Oxford, 1998.

because of the absence of a free market. As Karl Polanyi argued, state support is always necessary to underwrite markets not just in land but also in those other ‘fictitious commodities’, labour and money.[18]

The same applies to international trade. Even the most dogmatic of contemporary liberal free-traders might allow practical exceptions, limiting for example, trade in drugs, people, and perhaps in uranium and other deadly materials.[19] Classical liberal writers like Adam Smith and David Ricardo indeed allowed many exceptions. Smith, taking the priority of national security as given, supported the Navigation Acts, by which the British Navy controlled and restricted trade. Ricardo was only a cautious and qualified opponent of the Corn Laws.[20]

Similarly, few of the earlier opponents of free trade were simple minded protectionists. Few advocated either isolation or the still common caricature version of mercantilism as the promotion of exports and restriction of imports.[21] Mercantilist theory, an ‘imaginary organon’ according to Schumpeter,[22] has often been invoked by liberals as a simple scare figure. Even early authorities like Thomas Mun and Josiah Child advocated a strategic use of trade restrictions and this becomes even clearer in the mercantilist writers after Smith like Alexander Hamilton and Friedrich List. Similarly, important post-war theorists like Raul Prebisch and Hans Singer[23] proposed particular restrictions or reforms to the international trade regime rather than blanket opposition. Amongst dependency theorists Arghiri Emmanuel does explicitly advocate autarchy, although he sees little chance of its implementation,[24] and this is perhaps also implicit in the arguments of Andre Gunder Frank and Samir Amin.[25] These writers are exceptions but trade continues to be presented as if it involved a straightforward choice between openness and closure.[26]

The practice of trade is even more ambiguous than the theory. Levels of trade have increased rapidly since WWII in both absolute terms and relative to economic growth (see table 1). The figures underestimate the increase in merchandise trade in the sense that

17 see Serge-Christophe Kolm, ‘Review: Léon Walras’ correspondence and related papers’, *American economic review*, 58 (5), 1968, pp. 1330-1341.

18 Karl Polanyi, *The great transformation*, Beacon Press, Boston, 2001.

19 Robert B. Reich, *The work of nations*, Simon & Schuster, London, 1991.

20 See Daniel R. Fusfeld, *The age of the economist*, Addison Wesley, Boston, 2002 p. 43.

21 See for example the definitions in *Concise Oxford English Dictionary;* and David N. Balaam, and Michael Veseth, *Introduction to international political economy*, Prentice Hall, New Jersey, 2001.

22 Joseph A.Schumpeter, *History of economic analysis*, Routledge, London, 1994, p. 335.

23 Prebisch, *The economic development*; Singer ‘The distribution of gains’.

24 Emmanuel, *Unequal exchange.*

25 Haldun Gulap, ‘Debate on capitalism and development: the theories of Samir Amin and Bill Warren’, *Capital and class*, 28, 1986, pp. 139-159.

26 See for example John Sloman and Keith Norris, *Economics*, Prentice Hall, Australia, 1999.

primary goods and industrial production have declined as a proportion of rich countries' GDP. Therefore the share of imports in total consumption of such physical goods may be rising even faster. However, if we attempt to evaluate the level of imported against locally produced goods the limited extent of international trade becomes clear. In a genuinely free-trading, borderless, world there should be no preference for home produced goods over imports. Table 2, comparing domestic commodity production and merchandise imports illustrates that 'home bias' remains substantial. Trade and production levels are not strictly comparable because trade figures do not measure value added and indeed exceed GDP levels in many countries. Nevertheless, if the level of imports is taken as the maximum possible level of foreign goods consumed domestically, even these exaggeratedly high levels of trade actually show substantial enduring asymmetries. Even in the largest economies, the level of local production is only a fraction of the world total, but most consumption is of locally produced goods.

Table 1 Trade Openness; exports as a percentage of GDP for leading economies

	1913	1950	1973	1987	2003
France	6.0	5.6	11.2	14.3	22.2
Germany	12.2	4.4	17.2	23.7	31.3
Japan	2.1	2.0	6.8	10.6	11.0
UK	14.7	9.5	11.5	15.3	16.8
US	4.1	3.3	5.8	6.3	6.6

Sources: David Held, *Global Transformations*, Polity, Cambridge, 1999; World Trade Organization, *International trade statistics*, 2007.

The process can be read as one of 'managed openness' in which states both promote and restrict trade.[27] Rich ones, in particular, are able to implement a range of tariffs but also non-tariff barriers and export promotion policies.[28] The number of discriminatory preferential and regional trading agreements is large—with the EU being only the most extensive. 'Managed openness' could also describe much of the policy and practice of the WTO, often involving pragmatic compromises—for example opt-outs and permission for regional and preferential trade agreements. Other key elements of its agenda, particularly protecting corporate 'intellectual property' represent a direct, if seldom explicit, limitation on trade freedom.

27 Linda Weiss, 'Managed Openness: Beyond Neoliberal Globalism', *New left review*, 238, 1999, pp. 126-140.

28 Linda Weiss, 'Global governance, national strategies: how industrialized states make room to move under the WTO', *Review of international political economy*, 12 (5), 2005, pp. 723-749.

Table 2 Domestic production (agriculture and industry) and merchandise imports in leading countries, 2004, $USb

	Imports	Domestic production	Imports as a percentage of domestic production
France	465	541	86
Germany	717	814	88
Japan	455	1433	32
UK	463	599	77
US	1525	2719	56

Source: calculated from United Nations, *Human development report 2006*, United Nations Development Programme, New York, 2006; World Trade Organization, *International trade statistics*, 2005.

A huge quantity of trade is also unfree in the sense that it is conducted within firms. Estimates for the level of this intra-firm trade vary but figures of about a third of the total are commonly cited.[29] There is a transfer of goods from one place to another but because the same firm is at both ends of the transaction there is no market, and the price mechanism operates at most indirectly. So, although goods cross national boundaries and appear in trade statistics, this is not trade at all in the sense cited earlier, with no exchange of commodities for money or other commodities.

However, these organised rather than market driven relations are hardly unique. Many inter-capitalist relations are relatively unfree; also involving significant elements of power and control. As Gary Gereffi and his co-authors have argued,[30] the bureaucratic forms of organisation within firms and market relations between them really represent only two ends of a spectrum. The relations between the clothing multinationals and their subcontractors are particularly well known. Other industries like electronics often operate on similar lines. It may be apposite to recall Leontieff's point that most trade (as against the orthodoxy of Heckscher Ohlin models) occurs within industries not between them. For most OECD countries levels of intra-industry trade have increased in recent years (see table 3). Even when conducted between independent firms, the long distance and long term nature of many trading relations means that price mechanisms are seldom the spot transactions of perfect competition. Amongst other things there are typically long-term contracts involving complex negotiations around price and quality.

29 Theodore H. Cohn, *Global political economy*, New York, Pearson 2005; Peter Dicken, *Global shift: reshaping the global map in the 21st Century*, Sage, London, 2003; David Held, Anthony McGrew, David Goldblatt and Jonathan Perraton, *Global transformations*, Polity, Cambridge, 1999.

30 Gary Gereffi, John Humphrey and Timothy Sturgeon, 'The governance of global value chains', *Review of international political economy*, 12 (1), 2005, pp. 78-104.

Table 3 Intra-industry manufactured trade as a share of the total

	1980	1990	2000	2003
France	86	87	88	87
Germany	68	74	79	77
Japan	30	38	50	51
UK	78	83	86	83
US	67	71	75	70

Source: Organisation for Economic Cooperation and Development, Statistics, 2005

If free trade has hardly been the norm, nor has autarchy. At least since the collapse of the Tokugawa Shogunate in Japan, states have not chosen isolation. The closest approximations to autarchy have been imposed by powerful adversaries rather than adopted as a strategy. Most states have employed selective protection to encourage particular industries. This finds contemporary expression in the almost universal international variations of tariff levels by commodity. Thus in practice, free trade and protection have been rare, almost imaginary ends of a spectrum of trade policy. However, the variation within this spectrum provides a basis for evaluating the relative benefits to national economies of openness or closure.

The enduring weakness of the relationship between trade and growth

At a global level the association of trade openness and economic prosperity is often asserted by contrasting the miserable experience of the Great Depression with post-war growth. There seems little doubt that competitive devaluations and increasing import restrictions exacerbated the Depression. In the post-war boom period, increasing trade openness and overall wealth coincided. Fears that the recessions of the 1970s and 1980s might lead to a renewed period of competitive closure helped to produce theories of hegemonic stability, which emphasised the importance of openness and the role of leading states in providing this supposed public good.[31]

However, on a longer term view the evidence seems less convincing. The openness and prosperity of Europe in the 1860s had already given way to the beginning of the first ‘great depression’ before Germany’s move into relative protection. The US (which had never joined the European openness) and Germany now overtook Britain and France. Indeed, the US emerged as the overwhelming economic power at the end of World War II, having

31 Charles. P. Kindleberger, *The world in depression 1929-39*, Penguin, London, 1973; Robert Gilpin, *The political economy of international relations*, Princeton, Princeton University Press, 1987.

maintained consistently high tariffs and low levels of trade. Its superpower rival, the USSR, had of course risen while remaining even more isolated from international trade. In the post-war period the US became a qualified convert to trade openness but trade growth was from a low base. If the US now grew more slowly than other countries like Japan and Germany, which opened to trade more quickly, the most open of the leading economies—Britain—did worst.

Nevertheless, in the post-war period support for free trade became a shibboleth amongst rich country economists. The focus of opposition and the practice of constructing state-led national economies shifted to poorer countries. In terms of overall growth rates the experiences of import substitution industrialisation were by no means the abject failure liberal legend now insists.[32] However, the significant successes of a few export oriented economies in Asia undermined dogmatic assertions of trade dependency and were used to reaffirm liberal arguments on the benefits of trade. The association with trade and wealth became a commonplace.

One immediate difficulty here is that despite enormous efforts to prove the benefits of trade openness, even free trade supporters admit 'there is little persuasive evidence concerning the effect of trade on [national] income'.[33] Table 4 shows some basic data. It uses the standard statistical measure of correlation. A coefficient of 1 means a 100 per cent correlation, in this case that an increase in trade openness would always correspond with an exactly proportional increase in wealth. Conversely a coefficient of 0 effectively means there is no relation between the variables. A negative sign means an 'inverse relationship', in this case that an increase in trade is associated with a decrease in wealth and vice versa. There are various problems connected with the use of correlation. It is always possible that two variables are associated just by chance and the likelihood of this increases with smaller samples. Therefore it is usual to add an indicator of 'statistical significance', the probability that the results are reliable. Conventionally, asterisks are used to indicate when we can be * 90 per cent, ** 95 per cent and *** 99 per cent confident that the correlations are not just chance associations. Those series left unmarked are reckoned not statistically significant at this level of confidence—but even the apparently significant associations would, by definition, occur by chance one in 10, 20 and 100 times that such tests were applied. Furthermore, correlation does not allow us to draw conclusions about causation. Countries may be rich for other reasons and then trade more. Nevertheless, with suitable qualifications, such data may provide a useful starting point for evaluating whether, or to what extent, trade makes a difference to a country's wealth or growth.

32 Dani Rodrik, 'Globalisation, social conflict and economic growth', *The World Economy* 21 (2), 1998, pp. 143-158; David Harvey, *A brief history of neoliberalism*, Oxford University Press, Oxford , 2005.

33 Jeffrey A. Frankel and David Romer, 'Does trade cause growth?', *American economic review*, 89 (3), 1999, pp. 379-399.

Table 4 Correlation between country wealth and trade openness, 1960-2004

		population					
	all	<1m	1-5m	5-10m	10-20m	20-50m	>50m
1960	0.08	0.46	-0.05	0.11	-0.03	-0.16	0.09
(number)	(98)	(9)	(20)	(21)	(17)	(14)	(17)
1970	0.15*	0.05	0.03	0.27	0.34	-0.14	0.02
	(153)	(36)	(34)	(24)	(22)	(19)	(18)
1980	0.20**	0.07	0.13	0.42**	0.40**	0.04	0.04
	(157)	(39)	(34)	(24)	(22)	(19)	(19)
1990	0.30***	0.25	0.32	0.55***	0.46**	0.08	-0.21
	(169)	(38)	(40)	(25)	(25)	(20)	(21)
2000	0.34***	0.31*	0.38***	0.52***	0.33*	0.44*	-0.27
	(188)	(40)	(49)	(30)	(27)	(20)	(22)
2004	0.34***	0.48	0.32	0.55**	0.33	0.32	-0.51*
	(81)	(12)	(20)	(17)	(10)	(9)	(13)

Source: Alan Heston et al., *Penn world table version 6.2*, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, September, 2006.

Intuitively, it might make a difference whether one considers large countries, which might more easily be self-sufficient and in which there might be more ‘internal trade’; or small ones, which might be expected to struggle if they were isolated. The sample is not constant. Nevertheless, in these series more signs were positive than negative, and only one of the negative series appeared to be statistically significant: there may be a weak association between the propensity to trade and national wealth. There is also a hint of an increasing correlation over time. However, comparative advantage, in particular, is an argument about change, about opening to trade and increasing wealth. It requires several more predicates (absent in Ricardo and seldom articulated by subsequent supporters) to make any assertion about absolute levels of wealth or trade openness.

Table 5 therefore shows data for economic and trade growth. It shows time series comparisons, with the data again organised by decade and by country size. There are a few quite strongly positive and statistically significant associations. Again, correlation does not demonstrate causation and most of the values for the association of growth and wealth were low. Many were negative (implying greater trade may coincide with slower growth). Nevertheless, here too there are more positive than negative signs and more likelihood that the positive correlations were significant. If the figures do not convince as a general case for openness they certainly do not support one for closure either. Data for the 153 countries, which were available across the three decades from 1970, broadly confirm this result. There is perhaps a hint of an increasing association, but this remains very weak.

Table 5 Correlation between country per capita growth and changes in trade openness, 1960-2004, by country population

		population						
Countries by population in 1990	all	<1m	1-5m	5-10m	10-20m	20-50m	>50m	All (const sample)
1960s	0.03	0.35	-0.11	-0.12	-0.18	0.59**	0.11	
(number)	(98)	(9)	(20)	(21)	(17)	(14)	(17)	
1970s	0.11	0.04	0.04	0.21	0.52**	0.29	0.36	0.11
	(153)	(36)	(34)	(24)	(22)	(19)	(18)	(153)
1980s	0.13	-0.07	0.23	0.79**	0.17	-0.10	0.34	0.17**
	(156)	(38)	(34)	(24)	(22)	(19)	(19)	(153)
1990s	0.17**	0.36**	-0.05	-0.11	0.16	0.54**	-0.06	0.23***
	(169)	(38)	(40)	(25)	(25)	(20)	(21)	(153)
2000s	-0.02	0.18	-0.40*	0.16	-0.37	0.19	0.19	
	(107)	(38)	(20)	(17)	(10)	(9)	(13)	

Source: Alan Heston et al., *Penn world table version 6.2*, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, September, 2006.

Of course, dependency arguments never made a general case for closure but claimed more specifically that trade systematically advantaged rich countries and hurt poorer ones. The same data sample can be cut differently to test this hypothesis. In Table 6, countries are ranked according to their per capita wealth relative to that of the US. ‘Poor’ is taken as less than a tenth US GDP per capita, ‘lower middle’ as between a tenth and a fifth, ‘upper middle’ as between a fifth and a half and ‘rich’ as greater than a half. It is perhaps possible to understand why in the 1960s the dependency argument gained a certain resonance. Rich countries that opened did well, very poor ones tended (albeit weakly and not statistically significnatly) to do badly. Later, however, there were few indications of any systematic relationship.

Table 6 Correlation between country per capita growth and changes in trade openness, 1960-2004 by country wealth

	all	Poor	Lower middle	Upper middle	Rich
1960s	0.03	-0.17	0.08	0.06	0.56***
(number)	(98)	(33)	(19)	(25)	(21)
1970s	0.11	0.17	0.24	0.27	-0.38**
	(153)	(48)	(39)	(31)	(35)
1980s	0.13	0.37***	0.13	-0.10	0.15
	(157)	(52)	(28)	(40)	(37)
1990s	0.17**	0.29**	-0.10	0.08	0.29*
	(169)	(58)	(36)	(37)	(38)
2000s	-0.02	-0.10	0.50	-0.36*	0.02
	(81)	(16)	(11)	(23)	(31)

Source: Alan Heston et al., *Penn world table version 6.2*, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, September, 2006.

There are different versions of dependency theory. For Emmanuel high wages in the North were the independent variable and the nature of the commodities being traded was irrelevant.[34] Others, from Prebisch and Singer to Immanuel Wallerstein and Amin[35] through to more recent writing on the ‘resource curse’ have particularly identified the role of primary product exports in poorer countries’ dependency.[36] So one final result to report is that of the correlation between growth and the level of primary product exports. Data were available for a somewhat smaller sample of 109 countries. For these, the correlation between the level of primary exports (calculated as overall openness multiplied by the proportion of primary products in exports) as of 1990 and growth in the subsequent decade was -0.16.[37] The sign is negative but not strikingly so and significant only at the 90 per cent confidence level.

34 Emmanuel, *Unequal exchange* p. 146.

35 Prebisch, *The economic development*; Singer ‘The distribution of gains’; Wallerstein *The modern world-system*; Amin *Unequal development*.

36 Jeffrey D. Sachs and Andrew M. Warner, ‘Natural resource abundance and economic growth’, NBER Working Paper 5398, 1995.

37 Calculated from United Nations, *Human development report 2006*, United Nations Development Programme, New York, 2006.

The weak relationship between trade openness and growth should not be surprising. A variety of theoretical and empirical problems are now well known.[38] Assumptions of rational individualism contrast with the way trade is orchestrated by powerful firms and states. Assumptions of one-off or 'static' gains fail to capture the dynamic processes, often including the deepening of inequality, encouraged by trade specialisation. Writing of Ricardian theory, Frank claimed to have 'identified over thirty underlying assumptions each of which is historically and empirically unfounded and several of which are mutually contradictory'.[39] He did not elaborate, but other authors provide substantial lists.[40] A few problems of commission and omission bear repetition.

Factor endowments are never simply 'given'.[41] Even land today is seldom in its original state. It is usually the product of past management. Labour and capital are more obviously social constructions. Moreover, specialisation involves change, meaning that post-specialisation 'endowments' cease to correspond to the initial bases of specialisation. Land, for example, might be over-farmed. Ricardo explained why the rate of profit in agriculture should be expected to decline as new, poorer land was brought into cultivation.[42] Industrial capital, on the other hand, might be more intensively and productively invested. More industry tends to mean economies of scale; more agriculture means diseconomies. Inequalities may thus become entrenched. Moreover, since capital can move we may repeat the scenario where 'Portugal did export wine, *a la* Ricardo, but English capital came to control the vineyards'.[43]

Furthermore, the theory of comparative advantage predicts only a one-off gain.[44] Even if specialisation initially brings increased productivity it does not explain why, having specialised, countries should continue to grow more quickly. Of course, with infinite commodities and infinite countries there might always be more appropriate specialisms. But even if adjustment costs are ignored, the marginal improvements seem likely to decline. The differences seem likely to be greater, for example, between cloth and wine, or cloth and semiconductors, than in subsequent shifts from red to white wine or from memory to microprocessor production. Estimates of the static gains from trade (or the costs of closure) are at most 3 per cent of GDP, hardly the basis of fundamental economic transformation.[45] Acknowledging this, mainstream economists switch their argument away

38 See for example Rodriguez and Rodrik, 'Trade policy'; Rodrik, 'The global governance'; and Samuelson, 'Where Ricardo and Mill'.

39 A. Gunder Frank, *Dependent accumulation and underdevelopment*, Macmillan, London, 1978, p. 94.

40 See for example see Dunkley, *Free trade.*

41 Karl Marx, *Selected writings* Oxford University Press, Oxford, 1977 pp. 269-70; Frank *Dependent Accumulation*; Immanuel Wallerstein , *The essential Wallerstein*, The New Press, New York, 2002.

42 Ricardo, *Principles.*

43 Dunkley, *Free trade,* p. 73.

44 Deraniyagala, 'Neoliberalism'.

45 Deraniyagala and Fine, 'New trade theory'; Dunkley, *Free trade*.

from factor endowments to dynamic gains, implicitly abandoning comparative advantage. But this means the theoretical basis becomes much less certain and the extent of any gains or losses becomes essentially an empirical question.[46]

It would be possible to add to the data discussed above. Francisco Rodriguez and Dani Rodrik[47] use more formal econometric modelling than is applied here but arrive at similar conclusions about the weakness of any relation between trade openness and growth. Supporters of free trade like Jagdish Bhagwati respond by saying that it makes no sense to deal with these gross aggregates and that if, instead, we group countries more carefully in terms of their attributes the sorts of positive correlations liberal theory predicts do emerge.[48] However, this is really the point. The trade theories are constructed at the general level but this is inadequate. It is necessary to look at the specifics. Trade, or restrictions on trade, are not good or bad in themselves but depend on the circumstances.

In short, there is very little evidence of any systematic relationship between trade and wealth or growth, nor of differences in the experiences of rich countries and poor. The weakness of the relation suggests that the primary causes of growth, and of wealth and poverty, lie elsewhere.

The conservatism of general trade theories and the inadequacy of the objective of the wealth of nations

In *Capital*, Marx criticised vulgar economics for the priority it gives to exchange relations over production relations. In exchange everything appeared a world of 'freedom, equality, property and Bentham'.[49] We need to look behind the veil of exchange relations to reveal the dynamics of exploitation in production.

Critics of the contemporary trade regime, including Marxist critics, have pointed out that exchange relations are not actually equitable. Nestlé and Phillip Morris do not confront peasant coffee growers as equals. The US and the EU have power in both formal and informal structures by means of which they gain at the expense of poorer and weaker states. Identifying these inequalities is entirely proper and useful.

However, what often happens next is that the argument shifts back to trying to make these trade relations more equitable without challenging the exploitative dynamics in production that ultimately underlie them. Analysts criticise the wide range of practical restrictions on trade introduced by powerful states. For example Oxfam and Nancy Birdsall of the Centre for Global Development attack the farm subsidies in the US and the EU Common

46 Deraniyagala and Fine, 'New trade theory'.

47 Rodriguez and Rodrik, 'Trade policy'.

48 Bhagwati, *Free trade*.

49 Karl Marx, *Capital: a critique of political economy: volume I*, Penguin, Harmondsworth, 1976, p. 280.

Agricultural Policy, and demand the effective implementation of free trade.[50] At this point the critics and the mainstream trade theorists, like Bhagwati, in fact converge.[51]

Other writers like Ha-Joon Chang recall Friedrich List's phrase about 'kicking away the ladder'; showing how rich states which got rich while restricting trade now seek to prevent others from following the same course.[52] So, they suggest, to make trade relations more equitable it is necessary to have more state intervention in trade by poorer country governments. The agenda remains focussed (or re-focuses) on trade. The classic understanding of political economy as states plus markets (or perhaps in a normative sense of states or markets) is reproduced. As Michael Kidron suggests in his critique of theories of unequal exchange, the apparent radicalism conceals a naive nationalism. 'Slap a tax on exports… Go for autarky and diversification. Use the North's own weapon against it by forcing through high wages in the South'.[53]

This conservative dualism of trade theory can perhaps be understood as an example of what Pierre Bourdieu describes as *doxy* and *doxa*.[54] The idea is that the orthodoxy—in this case liberal trade theory—and the heterodoxy—in this case mercantilist and dependency theories—between them constitute a terrain of debate or *doxy*. The sound and fury of this debate draws attention to these perspectives and effectively conceals the *doxa*. This is the universe of the unexplored, a universe that potentially includes more radical critiques which quite literally remain out of the question. Longstanding Marxist emphases on production are pushed out of sight and so too, for example, are questions of the potential gender and ecological impacts of trade. Apparent antagonisms thus actually mask shared assumptions, which go unchallenged.[55]

A striking symmetry emerges between the pro and anti-free-trade camps in terms of shared methodology and shared normative objectives. Probably the easiest way of explaining this is by reference to Adam Smith. Erik and Sophus Reinart have recently claimed him as a 'misunderstood mercantilist'.[56] This may seem shocking. But they emphasise that the one reference to the 'invisible hand' in Smith's great work was actually made in the context of opposing government intervention in trade because people had a natural preference for

50 Oxfam, *Rigged rules and double standards*, 2002, www.oxfam.org.uk, accessed 2 March 2007; Nancy Birdsall, 'Rising inequality in the new global economy', *International journal of development issues*, 5 (1), 2006, pp. 1-9.

51 Jagdish Bhagwati, 'Reshaping the WTO', *Far eastern economic review*, 168 (2), Jan/Feb, 2005, pp. 25-30.

52 Chang, *Kicking away.*

53 Michael Kidron, *Capitalism and theory*, Pluto, London, 1974, p. 114.

54 Pierre Bourdieu, *Outline of a Theory of Practice*, CUP, Cambridge, 1977, pp. 164-171.

55 See also Steven Lukes, *Power: a radical view*, Macmillan, London, 1974 and John MacLean, 'Philosophical roots of globalization and philosophical routes to globalization', in Randall D. Germain (ed.), *Globalization and its critics*, Macmillan, Basingstoke, 1999.

56 Reinart and Reinart 'Mercantilism'.

home over foreign produce. Smith's objective is precisely the 'wealth of nations'. The country should get rich. Henceforth (to simplify only slightly) if class, gender or other specific interests are recognised they are indicted for 'rent seeking behaviour', which should be overcome for the national good. And this view is essentially shared by both sides of the trade debate, by free traders but also by the mercantilists and dependency theorists. Both liberal and nationalist perspectives on trade conceive the fundamental issues as those of acquisition and distribution between countries, and so naturalise the nation state as the basis for discussions of welfare and common good. So, for example, Robert Brenner and Theda Skocpol developed now familiar criticisms of Wallerstein's World Systems Theory. Its focus on the transfer of value rather than its production leads to a static, rather trans-historical view of the world that blurs the distinctive features of its specifically capitalist nature.[57] Powerful sectional interests conceal themselves behind 'national oppression' while attention is shifted from class relations to the arena of trade competition between states. Much of the argument around trade thus sits, more or less knowingly, in the state-centric realist tradition; offering advice to rulers, whose concerns about poverty and inequality are secondary at best.

Mainstream theories, which are usually taken as the basis of explanations of 'rent seeking' may actually emphasise just how conservative and anti-democratic a blanket support for, or opposition to, trade can be. The Heckscher Ohlin theory predicts that countries' comparative advantage depends on 'factor endowments'—that is, it lies in producing goods by using most intensively the land, labour or capital of which they have most compared to the other two factors. It is reasonably straightforward to extend the model to more specific factors, to different types of land or skill levels of labour, for example. By extension, the Stolper-Samuelson theorem predicts that owners of those factors in which a country is well endowed will favour free trade, whereas those that own the relatively scarce factors, in which a country's comparative advantage does not lie, will be threatened by foreign competition and will demand protection. Ronald Rogowski has used this formula to map a series of historical political coalitions in terms of their attitudes to trade.[58]

Rogowski's history is contestable but his discussion prompts a useful observation. Orthodox theory suggests that where labour is relatively poorly endowed it should oppose free trade. Despite being relatively scarce compared with other countries, labour may nevertheless be a majority of the population in such countries, in which supporting free trade is therefore necessarily anti-majoritarian. Even if we assume that only 'unskilled' labour in rich countries loses from trade, as Adrian Wood and Robert Reich suggest, their understanding of this group as those without tertiary education implies that they remain a

57 Robert Brenner, 'The origins of capitalist development: A critique of neo-Smithian Marxism', *New left review*, 104, 1977, pp. 25-92; Theda Skocpol, 'Wallerstein's World Capitalist System: a theoretical and historical critique', *American journal of sociology*, 82 (5), 1977, pp. 1075-1090.

58 Ronald Rogowski, *Commerce and coalitions: how trade affects domestic political alignments,* Princeton University Press, Princeton, 1989.

national majority.[59] Similarly, relatively autarchic strategies like import substitution industrialisation are precisely attempts to develop national capitalisms in countries where capital is weak. They commonly involve transferring wealth from often already desperately poor, small rural producers to capital. Here the Stolper-Samuelson theory would predict that existing labour forces, at least in the less populous of these countries, would benefit from protection and would rationally support it. But workers were not numerous at least at the start of such processes. The point was precisely to create a new labour force through dispossessing the peasantry. Again the aims of trade theory, and of national development, were necessarily anti-majoritarian. It would appear that trade theorists cannot take their theory too seriously without the snake eating its own tail, without it clashing with the ostensible liberal principles of democracy, and undermining its own claims to enhance welfare. However, trade does not actually have the dramatic impact, for good or ill, that trade theories usually suggest.[60] There are usually more fundamental determinants of growth and class conflict.

Growth, for example, can be achieved by making people work harder and longer. This has worked in relatively open economies like South Korea in the 1970s and 80s[61] and in relatively closed ones like those of the USSR and other former communist countries. A switch from subsistence to cash crop farming may improve the trade balance but undermine welfare. Different economic activities like building yachts or social housing have consequences not captured by aggregate measures of national income or the current account. The commodification or state organisation of previously private labours, particularly by women, may add to measures of national wealth but not to wellbeing. At least in the short term, growth can often be achieved at the cost of environmental destruction. All of this tends to remain invisible to trade theoretic debates in which both sides typically advocate strategies for capitalist growth, the desirability of which is assumed, and see national 'development' as a technical, unquestioned desideratum.[62] The agenda is set and allegiance demanded by one side or the other in pursuit of the supposed national good. The methods and consequences of obtaining growth are at best secondary.

Beyond the generality of trade theory?

The sweeping claims of trade theories mask other crucial aspects of social life and political economy; particularly processes of capital accumulation and of exploitation in production as the *sine qua non* of the production of surpluses that can be traded profitably. Trade is a

59 Adrian Wood, *North-south trade, employment and inequality: changing fortunes in a skill-driven world*, Clarendon, Oxford, 1994; Adrian Wood, 'Globalisation and the rise in labour market inequalities', *The Economic journal*, 108, 1998, pp. 1463-1482; Reich *The work.*

60 Deepak Nayyar, 'Globalization and free trade: theory, history and reality', in Anwar Shaikh (ed.) *Globalization and the myths of free trade*, Routledge, London, 2007.

61 Alice Amsden, *Asia's next giant: South Korea and late industrialization*, Oxford University Press, New York, 1989.

62 Dunkley *Free Trade*; Makuwira 'Development?'.

redistributive not a generative process. There is nothing inherently wrong with moving goods from one place to another, an ancient practice that would presumably continue even in a communist society; albeit in a very different form. The division of labour so celebrated in liberal visions of efficiency is part of the problem of a capitalist society, amongst other things making for alienated work. If work ceased to be a curse then least cost would not determine who made what. Increasing locally based production might also be more ecologically sustainable. But different preferences about what to make and consume might still lead to the movement and exchange of goods. Some things like particular minerals are only available in specific places; some products are much harder to make in some places than others. It might still be irrational, as Adam Smith insisted, to grow grapes in Scotland using glasshouses and heaters when the French vineyards were so close.

The generality of theories of trade masks the particular character of trade in the capitalist world economy and the specific importance of trade in particular places and at particular times. For example, the general fallacy of trade based dependency, the argument above that there is little if any systematic disadvantage to poorer countries from international trade in general in no way lessens the specific impacts on those places which have suffered catastrophic falls in the prices of their commodity exports as in the familiar cases of Zambian copper or Caribbean bananas. However, the problems, although grave, may be time, place and commodity specific. Some commodity prices fell much less than others, a few even rose over the course of the 20th century.[63] Meanwhile, for several countries like Mexico, China, Pakistan and Thailand, which 'successfully' shifted out of reliance on primary product exports, the terms of trade also fell sharply.[64]

Many poorer countries established and sustained substantial trade surpluses to generate export earnings in order to repay debts or to accumulate foreign currency reserves as a security against speculation. Many countries were also pushed into export oriented restructuring at the expense of local consumption by the IMF and World Bank. Here it would appear to be the financial regime, rather than trade policies *per se*, which provided the fundamental rationale for increasing export competition, which helped to drive down prices.

The other side of these lower export prices and trade surpluses is the imports and trade deficits of many rich countries, particularly the US. These deficits also, at least in part, underlie the current financial crisis and raise questions of the sustainability of current patterns of trade.

The US has long been able to run deficits because it enjoys advantages of 'seigniorage'. The role of the dollar as the key international currency means the US can buy goods from foreigners with its own money, while other countries hold dollars as foreign currency reserves. Unlike gold reserves, the dollars accumulated by trade surplus countries, notably

63 Jose A. Ocampo, and Maria A. Parra, 'The terms of trade for commodities in the twentieth century', *ECLAC review*, 79, 2003, pp. 35.

64 UN *Human development*.

China, are then lent back to the US at interest but—befitting the lowest risk economy—at rates lower than those offered elsewhere. This cheaply borrowed money is then churned on the US domestic market, contributing to the growth of corporate and household debt. Borrowing within the US sustains economic growth (including the growth of the US import market so vital for many poorer countries) while international debt covers the trade deficits and the circuit is apparently happily completed.

However, this was always a destabilising spiral rather than a closed, virtuous circle. Several years ago Robert Brenner described how the Fed was caught in a 'double bind', needing

> to reduce interest rates to provide liquidity to keep the economy ticking over and defend the value of US assets; but… need[ing] to raise interest rates so as to attract a continuing inflow of funds from abroad to maintain the dollar, thus making it possible for the US to fund its historically unprecedented current account deficit.[65]

From $75b in 1995, the US deficit reached $358b in 2000 and blew out to $722b by 2006, even as the dollar fell. Finally, in 2007 as this fall accelerated, it appeared at last to have stimulated exports and the deficit narrowed, albeit only to $700b.[66] This export growth came primarily at the expense of, and undermined the fragile recoveries in, Europe and Japan rather than though new sales to poorer countries like China from which the US was importing. China, in particular had substantially reduced the proportion of its imports from rich countries.

As the crisis deepened in 2008 it reversed the situation for the dollar. Claims on the US state were reasonably seen by currency speculators as the safest in an uncertain world, even when that state lay at the centre of all that was uncertain. If they are maintained, such high dollar values make imports cheaper and exports more expensive to foreigners, and so can only exacerbate the trade deficits; as, almost certainly, will recession and further manufacturing decline within the US. A rising dollar helps secure its role as a reserve currency but also the need for the US to borrow them back. The original problem takes a deeper turn.

Alternatively, the dollar might eventually be sent downwards by lower interest rates and a relative loss of confidence in the US economy (and the increasingly indebted US state). This might stimulate economic recovery and increase exports at the expense of its competitors. However, more expensive imports would further limit domestic consumption already shot to pieces by the sub-prime meltdown, while a falling dollar would threaten to undermine the privileges of seigniorage, reducing the prospects for borrowing. The

65 Robert Brenner , *The boom and the bubble: the US in the world economy*, Verso, London, 2003, p. 283.

66 United States Census Bureau *US international trade in goods and services—annual revision for 2007*, 2007, http://www.census.gov/foreign-trade/Press-Release/2007pr/final_revisions/07final.pdf, accessed 7 February 2009; United States Census Bureau *Statistical abstract of the United States 2008*, 2008, at http://www.census.gov/compendia/statab/, accessed 7 February 2009.

pressure would be to sell dollar reserves so sending the currency spiralling downward. In theory this might eventually return the world trading system to some kind of balance—Marx after all saw crises as momentary and forcible solutions to the contradictions of capitalism—but this would require a truly momentous upheaval.

Some form of muddling through is probably more likely than fundamental restructuring but this cannot resolve the basic problems of a global political economy in which trade relations have become systemically asymmetrical and destabilising. In the mean time, socialist strategy will need to look beyond the pro-capitalist assumptions that underpin the urgings both of liberal free-trade economists and the protectionist proposals of their more state-oreinted critics in the developed and developing world. Trade relations are an important aspect of contemporary capitalism's contradictory totality but these can only be understood as part of a broader global political economy.

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