

COPYRIGHT NOTICE:

**Roberto Mangabeira Unger: Free Trade Reimagined**

is published by Princeton University Press and copyrighted, © 2007, by Princeton University Press. All rights reserved. No part of this book may be reproduced in any form by any electronic or mechanical means (including photocopying, recording, or information storage and retrieval) without permission in writing from the publisher, except for reading and browsing via the World Wide Web. Users are not permitted to mount this file on any network servers.

Follow links for Class Use and other Permissions. For more information send email to: [permissions@pupress.princeton.edu](mailto:permissions@pupress.princeton.edu)

## Themes and Scope of this Book



The idea of free trade combines theoretical interest with practical significance. It takes us into the heart of economic theory and into the midst of contemporary debates about the world economy. It has become much more than a slogan to conjure with; it has turned into a promise or a menace, a nearly self-evident truth or a source of bafflement, the pride of the hardest of the hard social sciences and the bugbear of those who resist its conclusions.

If countries specialize in what they produce, the whole world can reap the benefits. It is a simple message of enormous power, promising both greater riches and more freedom.

As a subject of theoretical concern, free trade leads into the inner sanctum of economic theorizing. Belief in the gains to be secured through free trade, on the basis of established or constructed comparative advantage, has long been recognized as one of the most counterintuitive and characteristic of the notions of economics. It is a conception embodying the most pervasive theme in economic analysis: the idea of exchange, for reciprocal benefit, among specialized producers in a division of labor and of the market as a form of cooperation among strangers who are neither friends nor enemies and who need only the cold calculus of interest to establish a common practical bond. The deepest source of the appeal of free trade arises from the conviction that it is not a device but rather, as Alfred Marshall claimed, “the absence of any device.”

As an issue of practical significance, free trade stands in the middle of contemporary debates about globalization: the emergent world trading system is as much the centerpiece of the present

regime of globalization as the doctrine of free trade is the simplest and sharpest expression of economic analysis put to practical use. If we can change what free trade means and how it is organized, we can do the same, more generally, to globalization. And if we can have globalization on our terms, rather than on those of the supposedly irresistible forces that its contemporary form is claimed to represent, all bets are off: we are freer than we suppose to rethink and to reconstruct.

The doctrine of free trade, as it has been understood, is fundamentally defective. Its flaws cannot be remedied by a series of localized qualifications of analysis and policy. The alternative is not to embrace a theory justifying protectionism but rather to reject and to revise the terms on which the debate between free trade and protectionism has long taken place. Such a revision has implications for the method of economics.

The point of largest theoretical significance to emerge from my argument is that a system of free trade will be the more advantageous to those who engage in it (whether or not they are sovereign countries) if it allows them the greatest possible experimental freedom to change their practices and institutions of production. This freedom of revision, however, may conflict with what free trade has traditionally been understood to be and to require.

The point of greatest practical relevance, intimately related to that theoretical conception, is that it makes no sense to organize the world trading system around the goal of maximizing free trade, in the sense in which we are used to defining free trade. A single-minded insistence on the maximization of free trade gives too little weight to an imperative that turns out to be of vital, indeed of increasing significance: the need of every country, richer or poorer, to avoid lasting confinement to a particular place in the international division of labor and to the styles of production, the strategies of development, and the sets of institutions that may exert this confining influence.

If the immediate topic of this book is the contest over free trade and over the form of an open international economy, its ultimate subjects are the world division of labor and the method of economics. We cannot escape the confines of the traditional debate

about free trade and protection and do justice to the possibilities of globalization without changing some of our most fundamental assumptions about market economies and the division of labor. That the future of economic growth lies with permanent innovation rather than with the coercive extraction of a social surplus, that freedom experimentally to combine people, ideas, and things must therefore be liberated from all unnecessary institutional restraints and dogmas, that the best market economy is the one that gives the greatest opportunity to the most people in the most ways, that a free economic system must be based on free labor, and that the capacity to use governmental power for the purpose of broadening opportunity can be exercised to advantage only insofar as the state ceases to be in the pocket of privileged and moneyed interests—all these are platitudes of contemporary discourse, embraced with the greatest enthusiasm by those who collaborate with the dictatorship of no alternatives under which the world is now bent.

The words of this litany, however, belong in the mouths of revolutionaries. To think these words through is to revise our ideas concerning what is most important about market economies and the division of labor in the workplace, the national economy, or the whole world. To make these words real is to rebel against the institutions in which market economies and the division of labor remain embodied.

It is an intellectual task for which the present methods of economics are inadequate. It would be tempting to adopt a strategy of caution, insisting that economics, purged of abusive applications and restored to analytic purity, provides help, and imposes no obstacles, to such a campaign. In this book I reject that claim: its modesty does not make up for its falsehood. The practice of economic analysis inaugurated in the late nineteenth century by Walras, Jevons, and Menger, which came to be labeled “marginalism” and which guided the mainstream of subsequent economic theory and culminated in the theory of general equilibrium, is not only insufficient to the execution of the task. It is also, in certain decisive respects, incompatible with it.

If economics continues to swing between purity of analysis, retreating from all controversial explanatory and prescriptive

ideas, and abuse of application, unjustifiably equating abstract conceptions like the idea of a market economy with particular contingent sets of economic arrangements, it will not open the way. It will stand in the way. There are many past and present varieties of economic analysis, from the old institutional economics to the new behavioral economics, that suggest different methods and directions. However, they have not developed—and maybe they cannot develop—into ways of dealing with the problems that are central to the argument of this book. Their characteristic inability to imagine the possible forms of economic life cramps their insight into its actual forms.\* For these reasons, the attempt here to revise the terms of the traditional controversy about free trade and protection and to reconsider the nature and prospects of the world division of labor leads as well into an argument about the method of economics.

Chapter One explains why there is intellectual as well as practical trouble with the doctrine of free trade. It begins by enumerating a series of puzzles about the nature and benefits of free trade that the development of economic ideas has deepened rather than solved. It goes on to discuss the failure of history to confirm doctrine: never has a practical program enjoyed so much prestige with so little justification in historical experience. It ends by discussing

\*The “new institutional economics” of the late twentieth century, unlike the German institutional economics or the American institutional economics of the late nineteenth and early twentieth centuries, is not an example of such an arrested departure from the mainstream of thinking. Wedded to ideas of institutional convergence and functionalist determinism, it explains the institutional framework of economic activity, including the institutions of the existing market economies, in a way that makes these arrangements seem the natural or necessary setting of the advanced economies. As a result, it squanders the intellectual opportunity presented by the study of institutions and comes to represent an anti-institutional economics. There are few more striking instances of the right-wing Hegelianism—the real is rational—that pervades the social sciences today.

why a doctrine with feet of clay has been able to cut so imposing a figure in the debates of the modern world.

Chapter Two addresses the intellectual core of the argument for trade: the doctrine of comparative advantage. This doctrine turns out to be incomplete in a series of connected ways. To interpret correctly what it says, we have to combine it with much that it fails to say. The meaning of the part that we have, however, depends on the missing part. Criticism of the theory of comparative advantage leads directly into criticism of the dominant style of economic analysis; latter-day statements of that theory are among the most characteristic expressions of this style.

Chapter Three responds to the incompleteness of the doctrine of comparative advantage. It does so by presenting ideas—about international trade and, more generally, about the market economy and the division of labor—that can do justice to the puzzles and the facts explored in the first two chapters. In particular, these ideas provide building blocks for an approach to free trade. We cannot develop a better approach to free trade—one capable of transcending the conventional terms of the debate between free traders and protectionists—without questioning and revising the premises on which the traditional doctrine relied.

Such assumptions concern some of the most fundamental ideas in economics: the nature of a market economy and of the alternative institutional forms it can take; the reasons why some of the central problems of an economy must be solved outside the economy, in politics, and why the organization of politics is therefore decisive for the character of economic life; the features of a division of labor—in the workplace, in a country, or in the whole world—that are most important to innovation and growth; and the way we should think about the division of labor once we rid ourselves of the tyranny of the ideas for which Adam Smith's pin factory and Henry Ford's assembly line have been made to stand. Rethinking free trade turns out to depend on much more than ideas about commerce.

These views form the backdrop to the development and defense of three theses about free trade advanced in Chapter Four: first, about the economic circumstances in which free trade is likely to

be most beneficial or most dangerous; second, about the political circumstances in which restraints on trade are likely to serve broader or narrower interests; and third, about the paradoxical and misunderstood relation among the different ways in which free trade—or, more generally, a free economy—can be free. Taken together, these theses form the elements of a way of thinking about free trade. They also provide the rudiments of an approach to the building of an open world economy. It is a way of thinking that neither reaffirms nor repudiates the traditional commitment to free trade as an indispensable part of the road to global progress. What it has to say cannot be adequately captured within the terms of the familiar disputes between free traders and protectionists.

Chapter Five explores the programmatic implications of the analysis, its consequences for the reformation of the world trading system as well as for the redirection of national development strategies. Free trade forms the kernel of the theory and practice of globalization. We have become accustomed to the idea that all we can do with globalization is to have either more or less of it, or to have it either more slowly or more quickly. The argument of this book leads to the conclusion that we can and should have free trade and globalization on terms different from those in which we now encounter them. We need not merely dose them or pace them; we can rethink and remake them. Ideas alone are powerless to produce such a reorientation. However, we cannot bring it about without ideas.