Trade Isolationism and the Politics of Populist Paranoia

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“Demagogue: One who preaches doctrines he knows to be untrue to men he knows to be idiots”—H.L. Mencken

Pat Buchanan recently announced that he will once again be running for President. Ross Perot is giving signals which indicate that we many also be seeing more of him again in the next few years. The loony populist right is getting ready for the 1996 political campaign.

Isolationism is the major product these politicians are dusting off and readying for the political market. It is a product that has always sold well in America, especially in troubled times. For many Americans, despite the current booming economy, these are troubled times, since their real standard of living has been declining for several decades.

The basic philosophic concept behind populist isolationism is that the United States would be doing fine if only foreigners and other evil, outside forces would leave us alone. Populists believe this could be achieved by not participating in international politics and by closing our borders to foreign goods. Populists see that something is wrong with our economy, but instead of looking for real solutions, they blame “outsiders” and “foreigners,” who they believe are conspiring against them. The villains in this paranoid scenario differ, depending on the individual populist and the year, but they generally include the British royal family, big business, international bankers, the World Bank, the International Monetary Fund, Jews, African-Americans, and the Tri-Lateral Commission.

America has gone through populist isolationist periods several times in its history. The last round was sixty years ago, under the guidance of such people as Father Coughlin, Huey Long, Charles Lindbergh and Henry Ford. World War Two had many complex causes, but certainly American isolationism ranks high on the list.

If 1930s populist isolationism was foolish and short-sighted, the 1990s version is an irrational wish for the current American economy to commit suicide. In a world where a fax can be delivered in seconds and where one can get on a plane and go virtually anywhere in well under a day, the isolationists ask us to sell only in our home market. In a world where over 80% of the demand for goods and services exists outside of the United States, they ask us not to participate in an almost completely interdependent world economy.

A few countries in the world have tried and tested policies like these for us. You might ask the Albanians and the Burmese how well they did with them.
The populist isolationists are right about one thing, and one thing only. There is something very wrong with the American economy. The standard of living for working class Americans has fallen, and no standard of living increase is in sight. While some populists are really trying to find a scapegoat for their own failures and shortcomings, others correctly see fewer opportunities for themselves, their family, and their friends.

Since they are not trained economists, are right-wing oriented rather than left-wing oriented, and therefore unwilling to blame the capitalist system in general, populists are at a loss as to whom they should blame their economic suffering on. International trade at first seems like a logical target.

Economists have recently studied this issue in detail. The good news is that international trade deserves little, if any, of the blame for the decline in the standard of living of working-class Americans. High-paying manufacturing jobs represented 38% of all employment 25 years ago. Today they are 16%. Most of this decline is not due to international trade, since, if our entire balance of trade deficit were turned into salaries in the manufacturing sector, the percentage of jobs in our economy would climb only to 17%. It would not return to 38%.

Economists tell us that most of the decline in the manufacturing sector is a result of Americans' spending more of their income on services and less on products, because production efficiency has made products cheaper than ever, while services have not benefited from similar productivity increases and therefore remain relatively expensive. Since manufacturing jobs pay substantially more than service sector jobs, the shift in consumer spending has caused more and more working-class Americans to trade high-paying manufacturing jobs for low-paying service jobs.

The ultimate cause of all this is computerization and automation in the manufacturing sector, without similar productivity increases in the service sector. The manufacturing sector is still strong and is turning out as many products as ever. They are just doing it with fewer and fewer workers. Increasing productivity in the service sector, on the other hand, is easier said than done.

I am not sure I have an easy solution to the real problem facing the American economy. However, I know that focusing on the real problem is smarter than finding an irrational scapegoat. The demagogues who run the isolationist movement think otherwise. Unfortunately, too few Americans have training in economics. I hope enough of them take the time to learn something about it before they decide who to vote for in the next national election.