Some Thoughts on "Free Trade," "Fair Trade," and “Protectionism”

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by

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Introduction

As the World Trade Organization delegates were about to convene in Seattle on November 30 of last year, *The Nation* magazine ran a "special WTO issue" on the expected "battle in Seattle." The opposing forces were depicted on the cover as two human arms on either side of the Space Needle, one holding a placard reading "free trade" and the other a placard reading "fair trade." Indeed, with the tacit if not explicit support of the American Left, the debate over the WTO, International Financial Institutions (IFIs) and global trade policy, has become one of "free trade" versus "fair trade." "Protectionism," the term that used to stand for *any* view antithetical to "free trade," has in the new scheme of things become a *third* position in the debate. This division has by now become sufficiently entrenched in the American media and the American psyche that polls are run based on it. In the wake of the IMF and World Bank meetings in Washington D.C. in mid-April, a Business Week/Harris poll was conducted on Americans' views on trade during April 7-10, 2000. The poll's menu of choices to respondents, the meaning of each choice as given by the pollsters, and the respondents' choices were as follows:

Trade Position	Percent of Respondents
1. **Free Trader** (Believes in free trade or trade without any restrictions)	10%
2. **Fair Trader** (Believes in fair trade, or trade with some standards for labor and the environment)	51%
3. **Protectionist** (Believes there should be rules to protect U.S markets and workers from imports)	37%

Source: *Business Week*, April 24, 2000, p.44.

But do the "free trade" or "fair trade" positions truly involve no "protectionism"? And are the issues that separate "free traders" from "fair traders" truly of the sort that pit justice against freedom?

Mainstream economists are prone to uncover a tradeoff or two under every rock. So they would have no difficulty accepting the WTO battle in Seattle (as well as the skirmish in Washington DC over the roles of the IMF and the World Bank last week) as another instance of the famous "equity versus efficiency" dilemma. The *Nation*'s April 24 special issue with the cover title of "Raising a Ruckus For Global Justice" seems to confirm this view. But is this the case? Is the one side only for "free trade" while the other only for “fairness”? Are the opponents to "free trade" as currently practiced, methodologically and tactically correct in ceding the notion of freedom to the WTO and IFI supporters, thus limiting their arguments to those of fairness?

What, one might ask at this point, does "free trade" *really* mean? The meaning of the concept is often taken as being self-evident. Thus, many International Economics texts offer no explanation of precisely how the word "free" qualifies the word "trade." (For example, it is absent from my own grad school international economics teacher Peter Kennen's text). Many Principles textbooks also avoid defining free trade -- even though they love to talk about it.[1] In the few instances where the concept is explicitly defined, "free trade" is understood from what constitute governmental "barriers" to it -- governmental "protectionist" policies in the form of tariffs, quotas, export subsidies, multiple exchange rates, and the like. Thus, McConnell and Brue state that "free trade" is "the absence of artificial (government imposed) barriers to trade among individuals and firms in different nations."[2] In his own textbook, former chairman of president Clinton's Council of Economic Advisors as well as former World Bank chief economist George Stiglitz states almost tautologically that "free trade [is] trade among countries which occurs freely, without barriers such as tariffs or quotas."[3] Samuelson and Nordhaus define it in the glossary of their Principles text as "a policy whereby the government does not intervene in trading between nations -- by tariffs, quotas, or **other means**" [Emphasis added].[4]

Can Trade Without Government Limits Be Free Trade?

The above definition of "free trade" provided by Samuelson and Nordhaus which to them implies non-governmental intervention *by any means*, shows the depth of the naivete regarding the notion of freedom which characterizes much of the ideological debate on the issue. It has been over a century-and-a-half ago that John Stuart Mill developed the "harm principle" in his essay *On Liberty*, identifying a crucial limit to individual freedom:

> As soon as any part of a person's conduct affects prejudicially the interests of others, society has jurisdiction over it, and the question whether the general welfare will or will not be promoted by interfering with it becomes open to discussion.[5]

Even Milton Freedman recognizes the need to impose limits to an individual's freedom -- as when it is necessary to protect the freedom of others. In his *Capitalism and Freedom*, he quotes approvingly a Supreme Court Justice's famous dictum that "My freedom to move my fist must be limited by the proximity of your chin.[6] And as the most ardent libertarian recognizes, the very existence of capitalism -- and thus of "free trade" -- requires, as a minimum, government intervention to define the legal rights to property upon which any trade is based, and then enforce these rights. When rights are in conflict, the laws must aim to strike a balance among competing rights to life, liberty and property. They cannot always or even usually be specified *a priori* on the basis of "self-evident truths," or universally accepted deontological principles. Typically, they require an evaluation of the particular circumstances, including perhaps (when the grounds for evaluation concern the general welfare rather than the Constitution) the economist's familiar cost-benefit analysis.

The lengths to which the U.S. government has gone to protect "intellectual property rights" (i.e., patents and copyrights) from Asian factories producing bootleg copies of compact disks and computer software, shows how trade in practice, just as in theory, can never be "free" from all government intervention. The issue of protecting intellectual property rights was the number one

issue in the agenda of the WTO's failed Seattle Round. Opposed to such protection of intellectual rights to property are many underdeveloped nations who view its consequences as amounting to economic imperialism. For example, the term "plant imperialism" is used to describe pharmaceutical companies who develop drugs from tropical plants often identified for their medicinal properties by indigenous people. The companies gain international patents over their production, and subsequently charge exorbitant prices for "their" drugs to the very same indigenous people who helped in their development.

From Adam Smith on, national defense issues have been assumed to be another important exception to the rule of non-governmental intervention among proponents of "free trade." Presumably, it is on such national defense grounds that trade embargoes have been imposed on countries like Cuba and Iraq -- even if the embargoes appear to have had less of an effect on the leaders' grip on power and more on the wealth and health of the population. Based on demographic changes in Iraq since the embargo there, al UN study has concluded that over 1 million Iraqi children have died as a consequence. But trade issues and human rights violations have been de-coupled by official decree some years now. Embargoes on Iraq that kill children and open trade with China that merely exploits them (and is opposed by 79% of Americans based on the poll mentioned above) are apparently policies consistent with accepted exceptions to "free trade" principles – a child's freedom to live and flourish notwithstanding.

Unquestionably, globalization and the concomitant increase in economic and cultural interdependency (read: the rising likelihood of negative externalities activating Mill's "harm principle"), require setting national and international limits to fully unfettered and unregulated trade in order to *enhance* freedom. In other words, truly *free trade* requires that it be framed by a harm principle extending from the local all the way to the global level.

Negative and Positive Freedom

The textbook view of "free trade" in economics rests on a very limited view of freedom, corresponding fully to what philosophers call "negative freedom."[7]

"Freedom" however, is a triad. It involves not just two but three elements: "A" is free from "X" to do or be "Y." Emphasis on the freedom of "A" *to* do or be "Y" is "negative freedom" in the sense that its existence requires the *absence* of interference to it (e.g., by the government).[8] As any "liberation" movement would attest, however, freedom also -- and often -- requires an extra ingredient, provided by "positive freedom": "A" being *free from* "X," a condition which generally demands the intervention of some agent (e.g., perhaps again by government). The "X" which an individual or a whole culture may seek to be "free from" may be the ecological degradation of the physical environment, as in air and water pollution and the extinction of species; the depletion of key natural resources; the international trafficking in nuclear weapons; the uglification of space; poverty in the form of hunger, homelessness, illiteracy, and lack of sanitation; cultural degradation in the form of loss of a sense of community, loss of self-esteem, dysfunctional families, and rising crime rates; exploitation in the form of forced labor and child labor (including child pornography and prostitution for the tourist trade); economic dependency and discrimination; macroeconomic instability and its effects on employment, prices, and incomes. The possible list of factors activating a "harm principle" and requiring protection *on the grounds of freedom* is endless.

Lack of positive freedom affects adversely the *worth* of exercising negative freedoms. What is the worth of the freedom to speak when one's stomach is growling? What is the worth of the freedom to enjoy beauty when ugliness is everywhere? What is the worth of the freedom to move anywhere one pleases when one has lost the sense of place?

It is not possible to state *a priori* whether someone's negative freedom that requires an "outside" agent like government to *abstain from action* is more or less important than someone else's positive freedom that *requires some such action*. Certainly, however, negative and positive freedoms are often in conflict, requiring a "balancing" or, as philosopher John Rawls might suggest, a "lexicographical ordering" of rights and interests -- another hierarchy of some sort.

The exercise of certain negative freedoms could lead to pervasive negative externalities -- as those that follow a transnational behemoth's right to harvest vast acreage of old-growth forests or that same company's right to lay off its workers whenever it chooses. But the notion of externalities and economic "solutions" to them only partially addresses the issue of the effects of one's exercise of negative freedom on the positive freedoms of others. For example, in the U.S. the negative *freedom to* sell or lease real estate to whomever one wishes conflicts and needs to be balanced by the positive *freedom from* racial discrimination in the purchase or renting of such real estate. The exercise of this negative freedom to sell does not generate a harmful and uncompensated "side effect," or a "negative externality" upon "third parties." Its exercise adversely and directly affects the negative freedom to buy or the positive freedom from discrimination -- the rights of a party to the transaction itself. (Note that in its treatment of non-citizens, a culture may set the negative freedom of foreigners to *buy* its nation's real estate lexicographically inferior to its citizenry's positive freedom from foreign control. Different cultural settings may require different orderings of freedoms).

The freedoms of any individual or group must be limited by the requirements for stability or long-term sustainability of the social system within which they operate. Individual corporations' negative *freedom to* trade any way they wish must always be subordinate to the whole society's *freedom from* conditions leading to its disintegration -- otherwise, the worth of exercising these negative freedoms would itself be jeopardized.

The question that needs to be addressed concerns what sort of trade practices could threaten a social system's *freedom to* maintain its identity overtime, or *freedom from* instability that threatens that system's long-term sustainability. Three major trade-induced effects generating systemic instability readily come to mind: (1) ecological effects; (2) equity effects, and (3) cultural effects. Below, I provide a brief sketch of the issues involved. The thesis of this paper is that, erroneously, in each of these cases the mainstream economics profession ends up viewing the nature of the problem as involving *a trade-off between competing interests or objectives.* Thus, the discussion becomes one of "free trade versus the environment," "free trade versus equity," and "free trade versus cultural integrity." In each case, "free trade" is a proxy for economic growth, efficiency, and progress.

It is seldom admitted that the freedoms associated with environmental, social, and cultural sustainability are *prerequisites* to the worth of freedoms associated with trade. A sound

environment, an equitable distribution of income and wealth, and viable, diverse cultures are important social goals and ends in themselves. Trade, however, is not an end in itself but only a means to promoting these ends. In our times, no "growth-promoting" effects of trade are meaningful or sustainable if they come at the expense of ecological, social, and cultural sustainability.

"Free" Trade Versus Equity

In The December 11th cover of *The Economist*, under the headline "The real losers from Seattle" was the picture of an emaciated African child. Thus, the magazine was warning us, opposition to "free trade" is not only dangerous to world wealth, but to world health as well. Through powerful "trickle down" processes, it is not only the rich shareholders of multinationals that prosper from globalization, but practically everybody -- even starving African children. Is this really so?

We may begin by looking at events in First World nations -- particularly how globalization affects labor as compared to owners of capital. Consider the effect of unfettered capital movements. Since First World labor is relatively immobile, free capital mobility appears to offer the latter an advantage, boosting rates of return on capital relative to returns on labor. As a consequence, studies show that "trade accounts for roughly one-quarter of the rise in U.S. income inequality since the 1970s."[9] Commerce department statistics imply that close to 1 million workers lose their jobs each year due to imports or to jobs moving abroad. Of those who lose their jobs 25% are still looking three years later or retire early, according to Princeton economist Henry S. Farber. And the ¾ who do find a new job suffer an average 6% pay cut.

One does not have to indulge in economic doom scenarios to find fault with current trends of globalization. A slim volume written by fundamentally pro-trader Harvard University economist Dani Rodrick titled *Has Globalization Gone Too Far?* and published in 1997, isolates one major negative effect on social and cultural stability that occurs when "free trade" is coupled with international capital movements: it widens the gap in bargaining power between employers and employees, as the latter have to compete with world labor at large. In the postwar era, this author claims, the Welfare State was created partly to stabilize the effects of trade on domestic wages. And there has been a strong correlation between industrial countries' government social outlays (as a percent of GDP) and relative import exposure. But in the past two decades, as globalization has increased the political power of business relative to labor, the relationship seems to be reversing -- undermining the basic social compact between the classes. The consequence, professor Rodrick fears, may be a political backlash against trade altogether, or else social disintegration.

Indeed, the power of labor unions over wage rates and working conditions has been affected adversely by free capital movements. This is so not only because of the reduced demand for domestic labor that outsourcing creates, but also because of the reduced bargaining and recruiting power of labor in the face of mere threats to such outsourcing. Cornell University's Kate Bronfenbrenner found in a 1996 study that 62% of manufacturers facing union recruitment drives threatened to close plants and move them abroad.[10] And if, as some studies indicate, labor supply in the Third World proves fairly elastic, there may be few, if any, counterbalancing gains for the Third World's labor. In the short run at least, it is First World capitalists only who clearly benefit.

While waiting for benefits to "trickle down" and for developing economies to slide down the second leg of Kuznets' "inverted U" (the supposed ultimate decline in income inequality following an initial increase), freedom *from* relative poverty is sacrificed at the altar of some private interests' positive freedom *to* rake it in.

Thus, international capital movements and privatization may have been largely responsible for the fact that the assets of "the world's 200 richest people increased from $ 440 billion to more than $1 trillion in just four years from 1994 to 1998." In the process, the assets of the world's three richest people became more than the combined GDP of the 48 least developed countries.[11] This same “free trade” may account for the fact that only one out of 19 OECD countries showed a slight improvement in income inequality during the eighties and nineties. In that period, the number of families below the poverty line in the United Kingdom increased by 60% and in the Netherlands by 40% -- while in the US, Australia, Canada and the U.K., over half of all single-parent households with children fell below the poverty line.[12]

In the case of Mexico, "privatization" (meaning the sale of state assets to a powerful oligarchy) and $50 billion of direct foreign investment raised the number of that country's billionaires from 2 in 1991 to 28. This happened during the term of the ignominiously expired Salinas regime—just before Mexico's 1994 peso devaluation and economic crash.[13] "Free trade" and privatization have yet to raise the overall standard of living in the former communist bloc nations. According to the European Bank for Reconstruction and Development, the vast majority of the 25 nations comprising the former Eastern European bloc had a GDP level by the end of the 1990s that still lagged behind the GDP level attained in 1989.[14]

Data from the United Nations Conference on Trade and Development suggest that inequality between industrial and developing nations is on the rise. Since 1965, the share of world income of the richest quintile has increased from 69% to 84% in 1990. And while in 1965 the richest 20% in the world earned 31 times the income of the poorest 20%, by 1990 they earned 60 times that.

Inequality has also increased within countries. In East Asia as well as in Latin America, the wage gap between skilled and unskilled workers has risen significantly in recent years. In some cases (as in Bolivia, Brazil, Colombia and Mexico), real wages have actually declined from 20 to 30% between 1990 and 1994.[15] In Eastern Europe and the Commonwealth of Independent States the Gini coefficients increased by an average of 40% since the breakup of the Soviet Union, surpassing even OECD levels. In Russia and Ukraine, the Gini coefficient is currently 3-4 times higher than in the U.S., whose index of income inequality is among the highest in the developed world.[16]

Actually, according to the *1999 Human Development Report*, world inequalities have been rising for nearly two centuries. The distance between the richest and poorest country was about 3 to 1 in 1820, 11 to one in 1913, 35 to 1 in 1973 and 72 to 1 in 1992. Yet, an annual contribution of just one percent of the wealth of the world’s richest 200 people would provide access to primary education for all of the world's poor.

What are the implications for economic and cultural stability of a "freedom" that generates such extreme inequality within and between nations? Can economies avoid "crises of overproduction"

when "growth" is based upon a rising disenfranchisement of vast segments of the population from the marketplace for lack of correspondingly rising incomes? And what amount of "cultural waste" does the expanding "freedom" of a few generate in the process, affecting not just ecological but also social sustainability?[17]

The same individuals who preach "free trade" are also the ones who in practice encourage government and IFI intervention in global capital movements -- with the underdeveloped world getting help under stringent “structural adjustment” and "conditionality" rules, while culprits in the developed world are being simply bailed out . Thus, when the Third World debt crisis in the 1980s appeared to threaten the economic stability of the world economy at large (read: the bottom line of banks in the developed world), IFI lending bailed out the likes of Chase and Citicorp (now Citigroup) by assuming the burden of failed loans to Third World countries. On the other hand, Latin America’s “debt restructuring still required these nations to pay a total of $116 billion to the developed world. Similarly, in 1995, then secretary of the Treasury Rubin together with current secretary Summers --rather than the IMF in this case-- set up the $50 billion bailout of Mexico (read: of firms like Merrill Lynch and Goldman Sachs).

After the Asian crisis began in mid-1997, any pretense of holding a laissez-faire line to financial capital completely evaporated. Here, even the Federal Reserve got into the picture, supervising the bailout of an over-leveraged hedge fund run by two Nobel prize winning economists (the Long-Term Capital Management Fund), and cutting interest rates three times in an attempt to prevent a global financial meltdown. Yet, in the interests of "free trade," banks in the developed world are still permitted to accept funds from offshore banking centers such as in the Cayman Islands. According to Jim Leach, chair of the House banking committee, soon after the IMF-US-European bailout of Russia, $70 billion in funds from accounts of the Russian elite were transferred to "banks" in the Pacific island of Nauru, population 11,000. Properly laundered, the funds then moved to the Bank of New York.[18]

"Free trade" as currently supported by organizations such as the WTO is decidedly one-sided in favor of business --as opposed to labor, or any other -- interests. In *Sharing the Wealth: Workers and the World Economy* [Norton, 1999], author Ethan B. Kapstein focuses on "the 100 million citizens in the industrial countries who are classified as living below the poverty line... the 35 million who are unemployed...[and the] 1.3 billion people in the developing world whose income level is under $1 per day." The current inequity in the voice of business vis-a-vis that of labor as it relates to trade and development assistance can be traced, according to Kapstein, to the time when the Bretton Woods system was created. At the time, it was envisioned that, alongside the IMF and the World Bank, there would coexist an International Trade Organization (ITO). The ITO's concern was to be the relationship between business and labor: trade *and* employment. In 1946, "the United States and its allies were pursuing a 'two-track' trade policy… On a separate track, negotiators were working on the General Agreement on Tariffs and Trade [the WTO's predecessor], whose simple purpose was to achieve multilateral agreement on trade-barrier reductions. This was meant to be a temporary instrument, and upon its establishment, the ITO would subsume the GATT’s functions, as well as tackle the broader issue of trade and employment." But the ITO never materialized, because of opposition by American business. According to the National Foreign Trade Council, a business lobbying group, the ITO "would operate inexorably to transform the free enterprise system of this country into a system of planned economy, with consequent initiative-destroying

regimentation, reduction in productive output and standards of living, and threat to the free institutions and liberties of the American people." In the face of such opposition, in 1950 Truman withdrew the ITO charter from Congressional consideration. As Kapstein sees it, "The failure to create the ITO thus meant that issues of trade and employment would not be formally joined at the level of international institutions. Instead, labor would have to rely upon the International Labor Organization to advance its objectives in multilateral discussions. Given the relative inefficiency of that organization, the practical result was that labor's voice was effectively stilled in discussion and debate over international economic policy."

One consequence of liberalization of trade and capital movements and the resultant rise in "global competitiveness" has been a concomitant fall in one of the most fundamental indexes of workers' welfare: job security. As the *United Nations Human Development Report, 1998*, states:

> In both poor countries and rich, dislocations from economic and corporate restructuring and dismantled social protection have meant heavy job losses and worsening employment conditions. Jobs and incomes have become more precarious. The pressures of global competition have led countries and employers to adopt more flexible labour policies, and work arrangements with no long-term commitment between employer and employee are on the rise. In Latin America, for example, reform in labor laws increased labour market flexibility, and more flexible contracts were introduced. By 1996 the share of workers without contracts or with new kinds of contracts increased to 30% in Chile, 36% in Argentina, 39% in Colombia and 41% in Peru... Belgium, France, Germany and the United Kingdom all weakened their worker dismissal laws. And the Netherlands, Spain and the United Kingdom decentralized wage bargaining.[19]

Ever wondered why practically every university in the U.S. has a School of Business (a thoroughly post-World War II invention), but a School of Labor is nowhere to be found? By a school of Labor I don't mean a technical school, nor one primarily concerned with labor-management relations -- although even these latter institutions are quite rare. I mean a school where there is ongoing research on ways to improve the quality of work life, carried with the same financial support and zeal as research for improving businesses' rate of profit. The fact that most of our waking hours as adults are spent in the world of work and that more of us are workers than businessmen would seem to lend some credence to this idea…

"Free" Trade and Efficiency

"Free trade" in the international economy today involves not only the movement of commodities across frontiers, but of financial capital as well. Without global capital movements, most of the "free trade" in goods and services today --as well as much economic activity in general-- would simply vanish. The world of international finance acts as the "brain" that controls the global movement of both capital and commodities.

But, until recently, the principle of laissez-faire in the international movement of capital has never taken ideological root the way it has for the international movement of goods. Even in mainstream economic theory, the benefits from trade in goods -- as expressed by the Ricardian law

of comparative advantage -- depend on the assumption that factors of production are immobile across frontiers.

As Herman Daly and John B. Cobb Jr. note in *For the Common Good*, trade with capital mobile is not what the founding fathers of laissez-faire had in mind -- or even wanted. The very paragraph where the "invisible hand doctrine" appears in Adam Smith's *Wealth of Nations* begins with this assumption: "By preferring the support of domestic to that of foreign industry, [the capitalist] intends only his own security..."[20]

More strongly, Ricardo writes,

> Experience... shews that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself with all his habits fixed, to a strange government and new laws, check the emigration of capital. *These feelings, which I should be sorry to see weakened*, induce most men of property to be satisfied with a low rate of profits in their own country...[21] [Emphasis added].

And even Keynes, who in the 1920s was all for laissez faire, had this to say about capital mobility and "free trade" in the 1930s:

> I sympathize... with those who would minimize, rather than with those who would maximize, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel -- these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; *and, above all, let finance be primarily national*[22] [Emphasis added].

The annual growth of international trade during the past fifty years has averaged about ten percent. This, coupled with the exponential growth of international capital movements in the past twenty years,[23] has made old notions of "free trade" based on comparative advantage quite quaint -- even if official textbookdom still preaches students and politicians the old clichés. As writers like Daly and Cobb point out, in the presence of full capital mobility international trade follows pretty much the same path as interregional trade within a nation: what governs it is more "absolute advantage" than "comparative advantage." Capital will move anywhere it can earn the highest risk-adjusted rate of return, making it theoretically possible for a whole nation to be left with no capital and no goods to export. Out-migration could render such countries the equivalent of ghost towns -- but on a national scale. In other words, "free trade" that extends to free capital movements may not only cut the national pie in an inequitable fashion, but it may lead to the reduction of that pie as well. This conclusion, in Imre Lakatos's terms, puts into question the "hard core" of the neoclassical research program's assumptions regarding the consequences of "free trade."

Ajit Singh, economics professor at Cambridge, is one among a rising number of voices within the discipline who have lately began to question the growth-inducing aspects of globalization -- defined as "free" trade **plus** "free" capital movements. In what Singh describes as the "golden age" of the fifties and the sixties, most industrial countries "operated under the ‘illiberal’ and ‘regulated’ regime of the social-market economy at the national level and controlled capital movement at the international level.” So how do the "free trade" eighties and nineties compare?

"--GDP growth...in industrial countries has been considerably lower than that achieved in the fifties and sixties.

--Economic growth has not only been lowered during the past two decades, it has also been more unstable, i.e., more subject to booms and busts.

--Productivity growth in the globalization period has been half of what it was in the golden age."[24]

The impressive rate of U.S. GDP growth in the past two years and talk of the "new economy" notwithstanding, the world's "free trade" diet over the past 20 years has not fattened up industrial economies at a rate that compares impressively with that when they were on a "social-market" regime.

Countries like Japan and Korea showed their fastest periods of economic growth under managed trade and capital controls. Their pursuit of "export-oriented growth" meant being "open" to exports and foreign technology, but "closed" to imports and direct foreign investment.

But those newly industrialized Asian nations that liberalized capital flows (Korea, Malaysia, Thailand, Indonesia) in the mid-nineties, were the same ones that saw their economies experience a virtual meltdown two years later. On the other hand, countries that retained considerable control over capital movements (China and India) were affected much less by the 1997 Asian economic crisis.

The same lesson applies to Latin American countries like Mexico and Brazil. Their long-term rate of economic growth under a "free trade regime has been about 3% per year, compared to double that during their *dirigiste* period from 1950-1980.) According to Singh, "the only important gainers [from liberalization of trade and capital movements in the eighties and nineties] are the multinationals and the big financial institutions… Both rich and poor countries would be considerably better off under a cooperative regime of managed trade, controlled capital movements and a social-market economy than under free trade, unfettered capital movements and market supremacy."[25]

And when it comes to happiness, (let us not forget that the Pareto Criterion of Efficiency or Optimality is a utilitarian one), free trade and market supremacy have failed to propel most Americans straight to the Point of Bliss. The percentage of Americans reporting they are happy peaked in the *dirigiste* golden age year of 1957!

If the above is true, then we may be unable to take care of the earlier concerns on equity through "appropriate compensatory redistributions." "Free trade" and unfettered capital movements may not only cut the pie badly but also prevent it from rising optimally! In economics, efficiency, of course, is less connected with issues of growth than with issues of "market failure." Does "free trade" and unfettered capital movements eliminate or at least reduce the scourge of negative and pervasive externalities? Undoubtedly, the best place to investigate this issue is the environment.

"Free" Trade versus the Environment

Few ideologues remain in the economics profession who would deny that "free trade" might have adverse effects on the environment. Even the WTO, in preparation for its battle in Seattle last November, conceded that "free trade" can harm the environment. In a special report it tried to assume the "middle ground" of rational realism, stating that

> Sweeping generalizations are common from both the trade and the environmental community, arguing that trade is either good for the environment, full stop, or bad for the environment, full stop, while the real-world linkages are presumably a little bit of both, or a shade of gray.[26]

This was a major concession by the WTO on its "hands-off" policy to trade. The "shade of gray" the WTO recognized, however, meant seeing environmental concerns as just one more special interest group -- to be balanced by concerns for special interests that profit from trade. It never occurred to the WTO crowd that a viable, sustainable ecological system is a *pre-condition* for efficient economic activity, rather than a competing objective.

With the WTO conference in Seattle in mind, *The Economist* ran a cover story in its October 9, 1999 issue with the provocative title of "Why Greens Should Love Free Trade." In its editorial, *The Economist*, like the WTO, grudgingly conceded that "in some specific cases trade can indeed damage the environment," since "*protecting the environment is as legitimate a goal as free trade*" [Emphasis added]. So, here we go again: the environment and "free trade" viewed as co-equals in the hierarchy of our values, as competing goals with their particular special-interest groups whose legitimate concerns must be equally respected. After all, each concern represents people whose welfare must be counted when considering how to make Pareto-efficient moves in public policy!

The environmental case against the WTO's "free trade" practices is a fairly long one. Some of the more glaring ones concern its refusal to accept sanctions imposed by a government because of how production --including waste disposal-- takes place. Some examples:

-- Environmental concerns in the conduct of free trade joined those for economic development and international equity in the distribution of costs and benefits as early as the 1980s. Developed nations like the U.S. were caught exporting toxic wastes (from Philadelphia incinerator ash to wastes from the Navy and the Department of Agriculture) to poor countries such as Guinea, India, Nigeria, and Zimbabwe.[27]
-- Mexico's complaint to GATT (the WTO's predecessor) in the early 1990s regarding the U.S.' ban on imports of tuna caught in nets that snared dolphins, and GATT's ruling against the U.S.
-- European Union prohibitions against the importing of hormone-treated beef, and concerns over genetically altered foods.
-- The WTO's support of claims by Venezuela and Brazil that the U.S. discriminated against oil imports from these countries on the grounds that they did not meet U.S. cleaner-gasoline standards.
-- The WTO's ruling against the U.S. ban on shrimp imports from India, Malaysia, Pakistan and Thailand, because their nets trapped threatened species of turtles as well.

The mainstream economic argument in favor of the WTO's rulings against environmental protectionist policies is that, after all, efficiency dictates that different nations should be allowed to decide "how to produce" based on what minimizes their social costs for any level of output.

Obviously, poor nations do not place much social value in protecting dolphins and turtles because such concerns are a relative luxury to them. Nor should one be concerned about a "race to the bottom" as nations competing globally with each other for exports, set lower and lower environmental standards to offer their companies an edge. As *The Economist* states, "it is not at all unfair for countries to choose different levels of environmental protection -- it is rather, an important part of their competitive advantage." It is the same argument that has also been used to justify poor nations becoming the dumping grounds of rich nations' toxic wastes.

After all, underdeveloped countries have a comparative advantage in the storage of garbage. What do you see next to the city dump? Luxury hotels? Of course not. But slums – now *they* would fit quite nicely and economically next to the communal garbage mound. It is all a matter of comparative advantage, you see.

Does one wish to make poor nations more supportive of their environment? The answer is obvious: more economic growth. Why? Because environmental goods are highly "income elastic." And economic growth can address supply-side concerns by encouraging the introduction of more sophisticated, anti-pollution technology, and by imposing tougher environmental laws (better supported by a richer, more environment-conscious electorate). The claim that grave environmental problems like holes in the ozone layer, greenhouse effects, and a massive wave of species extinction may have been less the result of *too little* rather than *too much* global economic growth, leaves the force of mainstream economists' arguments unaffected, of course. Even if people on the street seem increasingly –and ominously- to disagree…

"Free trade" as practiced today weakens environmental regulations by giving a competitive advantage to nation-states that do not force firms to internalize negative externalities by including in their prices the costs of environmental degradation that their economic activity generates. Protest against such practices seems to be more common among non-economists, who are not as easily blinded by the mystique of "free trade" and "comparative advantage." For example, Jonathan Kingdon, distinguished professor of zoology at Oxford University has this to say about the last "Uruguay round" of GATT (the General Agreement on Tariffs and Trade) which extended "free trade" to some 105 countries:

> One potential of GATT rules is to license plunder, another is to encourage pollution, and to label sustainable development and conservation as protectionism. GATT's sweeping powers can force small countries to open up their precious resources to international trade. By refusing to discriminate between products that are made with less destructive and less polluting methods and those that are not, GATT offers decisive advantages to those industries and nations that can bypass the real environmental costs of their products.[28]

Ignorance comes in many forms. One type is "closed ignorance," defined by Malte Faber as "the determined non-recognition of ignorance."[29] It is the type of ignorance that people steeped into a particular ideological perspective are most likely to suffer. It is the kind that prevents practitioners of science from recognizing anomalies – as in the famous card experiment where people refuse to see a red queen of spades flashed before their eyes – as Thomas Kuhn reports in his *Structure of Scientific Revolutions*. Economist, citizen, and consumer ignorance in the developed world about the nature of "free trade" which maintains their high standard of living leads to a sad discrepancy between professed values and business practice -- a gap which is often aided and abetted by

developed nations' governments. Yet, an opinion poll conducted in Japan as early as 10 years ago showed that only 8% of Japanese believed that environmental protection should be a goal secondary to that of economic growth, and even fewer approved multinational or Japanese corporate practices which impoverish tropical habitats and indigenous people.[30]

But it was a Japanese trading multinational, C. Itoh, which was responsible for the importation of 15 million cubic meters of timber from Sarawak, the Malaysian State in the island of Borneo. This Japanese trading company formed a partnership with a logging business -- owned by Sarawak's minister of the environment! -- with concessions to log 300,000 hectares of Sarawak land. Coincidentally, the Japanese government's "foreign aid" to Malaysia in that period (1987) ended up being spent on making logging roads on that same Sarawak land. The consequence of deforestation has been the devastation of indigenous tribal cultures which, under the leadership of the Penan tribe, attempted more or less unsuccessfully to stop the logging. To protect their subsistence economies, these tribes included in their petition to the government the request that exports of their declining stocks of rattan be banned unless value was added by their being woven into finished goods. But, of course, under current WTO[31] rules, while the wholesale export of tropical forests is perfectly okay, the tribal request on rattan constitutes a restriction on "free trade" and is therefore illegal![32]

Conclusion

When Ricardo came up with the law of comparative advantage, the world was quite different. Capital was largely immobile, and its owners still possessed some rudimentary sense of community. Dependency theorists analyzing neo-colonial practices that condemned whole economies into a permanent "banana republic" state of underdevelopment were yet to be born, mostly because old-fashioned colonialism was still profitable. Global warming and massive species extinction applied only to the end of the Cambrian era a few million years back. The difference between the poorest and the richest nation was still only 3x, and "equality of men" applied only to white, propertied males, 40 years of age and over. Global cultural diversity was threatened neither by Coca-colonization in goods nor by Californication in services. Yet the economics profession is still examining the fossil record and confusing the observer with the thing observed.

ENDNOTES

1. No definition of free trade appears in Karl E. Case and Ray C. Fair, *Principles of Economics* (4th edition, Prentice Hall: Upper Saddle River, N.J., 1996). Nor is there one in N. Gregory Mankiew's much ballyhooed *Principles of Economics*, (The Dryden Press: Fort Worth, 1997). The meaning of the concept is presumably thought to be self-evident.

2. McConnell and Brue, p.G-12.

3. George Stiglitz, *Economics*, 2nd edition, New York: W.W. Norton & Co., 1997, p. A9.

4. Samuelson and Nordhaus, p.973.

5. John Stuart Mill, *On Liberty*, Bobbs-Merrill Educational Publishing: Indianapolis, 1956 {originally, 1859], p.92.

6. Milton Freedman, *Capitalism and Freedom*, The University of Chicago Press, 1962, p.26.

7. See Joel Feinberg, *Social Philosophy*, Prentice Hall: Englewood Cliffs, N.J., 1973, especially Chapter 1. The conception of negative and positive freedoms originated with Isaiah Berlin (*Two Concepts of Liberty*, London: Oxford University Press, 1958). For an application of the two types of freedoms to the issue of human rights in East Asia, see James C. Hsiung, ed., *Human Rights in East Asia: A Cultural Perspective*, New York: Paragon House Publishers, 1985.

8. Even negative freedoms may need the government's protection -- for example, to prevent restrictive private practices such as "tie-in contracts" (as in the famous case of Kodak requiring that its film be developed by its own laboratories -- deemed to have violated the 1914 Clayton Act of the U.S.). Even conservatives such as Milton Friedman recognize a governmental role in supporting negative freedoms, such as through anti-trust legislation, for example. The same holds true for the negative freedoms protected by the government's police powers -- such as the freedom to walk the streets freely, for example.

9. *Business Week*, April 24, 2000, p.42.

10. *Business Week*, April 24, 2000, p.44.

11. United Nations Human Development Report 1999, p. 37.

12. Ibid

13. Millman, p.216.

14. *The Economist*, November 1997, p.110.

15. See *The Economist*, September 20, 1997, p. 116.

16. *Human Development Report 1999*, p.38-39.

17. The principle sometimes referred to as "Fordism" offers a direction for addressing these issues. Fordism is based on three factors: (1) the existence of economies of scale in the production process, which up until a relatively high level of output lower per unit costs the more units are produced; (2) the necessity for the working class to participate in the consumption of the commodity in question, if economies of scale are to be fully exploited; and, therefore, (3) the necessity for working class incomes to be high enough to afford purchasing the commodity in question. Henry Ford, the U.S. pioneer in automobile manufacturing, understood that if his "no-frills" cars were to find an adequate market (and, by extension, if recessions were to be avoided for lack of effective demand), wages must keep up with the overall increase in society's value of output. He tried to set the right example by doing so for his own workers. John M. Keynes' contribution was to show how the so-called "Say's Law of the Markets" (which claims that "supply creates its own demand" does NOT occur naturally in the short-run, and that capitalist economies must manipulate aggregate demand through appropriate macroeconomic policies. Fordism suggests that these policies must include a concern for the distribution of income and wealth.

18. William Greider, "Time to Rein in Global Finance." in *The Nation*, April 24, 2000, pp 13-20.

19. *United Nations Human Development Report 1998*, p. 37.

20. Adam Smith, p.423.

21. Ricardo, pp.136.

22. Quoted in Daly and Cobb, p.209.

23. In 1995 currency exchanges in New York, London and Tokyo handled $1.2 trillion daily, as compared to $190 billion a decade earlier. In emerging markets, the amount of private capital flows amounted to $336 billion in 1995, as compared to $50 billion a short five years earlier. See "Capital Goes Global," *The Economist*, October 25, 1997, p.87.

24. "Free Trade and the 'Starving Child' Defense: A Forum," *The Nation*, April 24, 2000, p.25.

25. Ibid, p.26.

26. "Why Greens Should Love Trade" *The Economist*, Oct.9-15, 1999.

27. For some early and particularly egregious examples, see Andrew Porterfield and David Weir, "The Export of U.S. Toxic Wastes," *The Nation*, Oct. 3, 1987, pp.340-344; Judy Christrup, "Clamping Down on the International Waste Trade," *Greenpeace*, Nov./ Dec. 1988.

28. Kingdon, p. 324.

29. See Malte Faber, Reiner Manstetten, and John L. R. Proops, “Humankind and the Environment: An Anatomy of Surprise and Ignorance,” *Environmental Values* 1 [3] [1992]: 217-242.

30. Kingdon, pp. 327-8.

31. GATT was first instituted in 1947 when the United States invited other nations for talks aimed at a multilateral agreement to reduce tariffs and other trade barriers. Altogether, GATT has gone through 8 "rounds," the last being the "Uruguay round" which began in 1986 and took over seven years to complete. By the end of this last round, GATT (which by now stood for the organization that implemented the international agreements on trade) was renamed WTO. WTO has the potential to become the "Commerce Department" of a world government.

32. See Kingdon, pp. 327-8.