

Free trade, profits and the environment

Environmentalists have often joined the anti-free trade lobby, pointing to the current global trading system as a cause of many social and environmental problems. If we compare the world trading system now to fifty years ago it has certainly been "liberalised" in many areas, with the removal of trade barriers. International agreements, notably the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA) and the recently set up World Trade Organisation (WTO), have enshrined the principles of free trade in international law.

The environmental lobby rightly point out that free trade leaves no room for restrictions on imports of goods that have been produced by environmentally or socially damaging means such as causing pollution, paying low wages, oppressing indigenous peoples, etc (though capitalism never left much room for this, even in the days when trade was more restricted.) Still, a look at the reasons behind the tendency towards a free-trading world raises a further question: is free trade itself to blame for environmental damage or should this be seen as an inevitable outcome of our current economic system of production for profit?

Free Trade is the exchange of goods at their free market price, in the absence of distortions. Such distortions include tariffs (importers being forced to increase the price), import quotas (restriction on the amount a state will import) and export subsidies (selling exports at a deliberately lower price). They are often the result of what are known as "protectionist" measures (so-called because they are put in place by governments to protect domestic industries by improving their terms of trade).

The theory of the benefits of free trade is founded upon Ricardo's theory of "comparative advantage". He argued that a state can maximise its profits by specialising in those industries in which it has the greatest advantage in efficiency (i.e. profitability) relative to other states. This means that, even if State A is less profitable than State B in all sectors of the economy, the profits for both A and B will be maximised if each specialises in the areas in which it is best (or least bad) and trades with the other.

Ricardo's theory is supported by empirical evidence. For example, a recent study took a sample of 111 countries which were classed as either "open" or "closed" according to how far they had liberal trading conditions. It discovered much faster growth (i.e. more profits) among the "open" economies (*Economic Reform and the Process of Global Integration*, by Jeffrey Sachs and Andrew Warner, 1995).

Multinationals

It is not hard to see the benefits of free trade to the hugely powerful Transnational Corporations. These now account for one third of global output and their global annual sales have reached 4.8 trillion dollars (which is, incidentally, greater than the total level of international trade). The largest 100 multinational corporations alone control about one-third of all foreign direct investment. The world trading system can be seen as having adapted itself to meet their needs,

particularly in the last forty or fifty years.

There was, in the aftermath of the Second World War, an especially concerted effort by the US and Europe to establish freer worldwide trade. The liberalisation of capital and goods markets was an integral part of their strategy, and had indeed been a key war aim faced with the autarkic regional trading blocs pre-war Germany and Japan had built up.

The USA and Britain agreed to start cutting down on tariffs in 1944 as part of the famous Bretton Woods agreements. Further measures were then taken such as in 1949 when 30 percent of European trade was freed from restrictions.

Capitalism Since 1945 (edited by P. Armstrong, 1991) takes up the story:

"The reduction of tariff barriers after the formation of the EEC in 1958 increased trade by the order of 25-35%. Within EFTA, (the free trade zone formed by seven of the non-EEC European countries, including at that time the United Kingdom) lower barriers resulted in extra imports of around 10-15% for the countries concerned . . .

"Very high rates of tariff covering about 7% of goods in the United States and United Kingdom almost disappeared, and the proportion of trade (excluding agriculture and fuels) which attracted tariffs of 15 per cent or less rose from 54% to 85% in the USA, from 37% to 85% in the United Kingdom and from 71% to 97% for the EEC."

World trade grew by an average of 8.7 percent between 1963-72. This growth then slowed sharply from 1973 (it averaged 3.8 percent per year from 1973-88).

In 1973 the Trilateral Commission was founded, to continue the work of building what Holly Sklar in her book *Trilateralism* (1980) called the "new economic order".

The Trilateral Commission, she wrote, "planned and encouraged an utter restructuring of the world's political and economic agenda with much of its new power arrangements built to favour transnational corporate activity."

The objectives of the Commission were evident in their various reports and policy documents such as this call for the lifting of restrictions on capital mobility made in their publication *Towards a Regenerated Economic System*:

"countries that want economic development would be well-advised to welcome foreign firms on appropriate terms".

You do not need a degree in economics to work out what was meant by "appropriate" in this context. It is made abundantly clear in the following statement by David Rockefeller, one of the leading US politicians and business representatives on the Trilateral Commission:

"international bankers, corporations, and investors have little need for tariffs and other trade barriers. Their interest lies in finding the most efficient, profitable, productive, and convenient

spot for their investment".

George Ball, Undersecretary of State for Economic Affairs in the Kennedy Administration and a director of Lehman brothers Kuhn Loeb, a large investment house, told the British National Committee of the International Chamber of Commerce in 1967:

"In these twenty postwar years, we have come to recognise in action, though not always in words, that the political boundaries of nation-states are too narrow and constituted to define the scope and activities of modern business..."

No place for environmentalism

GATT, too, had an important role in the move towards trade liberalisation:

"Six rounds of General Agreements on Tariffs and Trade(GATT) negotiations, from 1947 to 1967, for example, brought tariffs on all dutiable US imports down from their 1932 high of 59.0% to 9.9% in 1970 (*Capitalism Since 1945*).

GATT was founded after the Second World War as an institution to regulate world trade. In the first forty years, GATT was concerned primarily with tariffs and related matters. At the beginning of the Uruguay round, a new set of concerns was introduced. Multinationals demanded to be free to invest anywhere in the world with no restrictions.

The original articles of GATT when it was founded in 1947 contain the basic principles that were gradually put into practice. Most notable were the following:

"Article One establishes the rule of 'Most Favoured Nation' - one country cannot discriminate between domestic products and 'like products' imported from another GATT country.

'Like products' were defined in 1971 to be limited to consideration of product characteristics; does not allow consideration of how product is produced or harvested.

Article Three contains the principle of 'National Treatment' which states that: 'one GATT country may not use tariffs, taxes or any regulations to provide different treatment to imports than it would provide to domestically produced goods'" (Lori Wallach in *The Case Against Free Trade*, Earth Island Press, 1993).

Environmentalists had hoped that Article 20 would allow for exceptions to the above principles in the case of environmental protection. This allowed for "measures necessary to protect human, animal and plant health or life", and for waivers "undertaken in pursuance of obligations under any intergovernmental commodity agreement". Environmentalists had hoped that these might be extended to international environmental agreements and protocols.

The well-publicised tuna-dolphin case, in which the Mexican government appealed against the US Marine Mammal Protection Act of 1972, put the hopes of environmentalists to the test. Wallach records what happened:

"In August 1991, a three-person, secret GATT dispute panel in Geneva ruled that the (1972 act)

was an illegal barrier to trade because it restricts importing tuna into the United States that are caught using techniques that kill large numbers of dolphins".

So, as Ralph Nader has put it, "GATT and NAFTA set out rules limiting countries' ability to exclude imports on the basis of labour, human rights, or environmental conditions in the country of production".

The judgement in the dolphin-tuna case was just one of the many such examples. The Agreements allow one country to challenge as infringing trade another country's environmental, health or safety laws. They therefore have the effect of "harmonising" environmental and safety standards, a euphemism for bringing those states with more stringent regulations down to the level of the least stringent.

The Uruguay Round of GATT, concluded in 1992, brought new economic sectors, most notably food, agriculture and services such as banking, insurance and shipping, within their remit. GATT was changed into the World Trade Organisation (WTO).

Drive for Profits

The move towards free trade can be clearly seen as an outcome of the drive for profits, as companies increasingly operate on a global basis and expect to be able to import and export goods at their free market price.

The anti-free trade lobby are right to point to the conflict between the drive towards free trade and environmental and social needs. After all, if the purpose of free trade is to increase profits, such a conclusion is quite predictable. As Larry Elliott puts it, writing in the *Guardian* (27 May):

"In reality, globalisation... represents the final triumph of capital over labour, since the corollary of the deregulation of finance is the shackling of trade unions. It means the national governments are left powerless in the face of multinationals who will relocate at the first whiff of interventionist policies".

Environmentalists do not usually dispute that the drive for profit underlies the move towards free trade. What they want instead is a "fairer" system of world trade in which environmental and social needs are taken into account. For example, Wallach refers to a "Group of 250" NGOs who wrote a letter to the US government, calling for sanctions to ensure compliance with regulations, funding for their enforcement, taxes and duties on environmentally damaging practices and so on.

In other words, they unreasonably expected that the goal of increasing profitability (which is what NAFTA and the WTO are all about) can be compromised under the profit system. But it can't. The profit system demands a trading system that allows profits to be maximised. To protect the environment it is the whole global profit system itself that must go.

(November 1996)