

# Free trade, up to a point

*Western civilisation faces disaster in competing against low-wage economies*  
The Times, 5 March 1994

WHAT AN ASTOUNDING thing it is to watch a civilisation destroy itself because it is unable to re-examine the validity, under totally new circumstances, of an economic ideology.

You would have thought that most people could spot the winner in the following contest: two enterprises compete in the same market-place with the same products, both have access to identical technology and capital, but one employs labour ten times cheaper than the other. That describes the forthcoming competition between the British economy and those of the newly emerging countries.

This puzzle, believe it or not, is too difficult for the Government, the Opposition and the elites. So they obfuscate by saying that it does not really matter whether we lose because losing will allow us to start a completely different competition which will be much better for us. According to them, we should be willing to abandon the traditional industries which supply a large part of the nation's employment and move on to completely new activities which will create general prosperity.

It is on the basis of this reasoning that British and European industry will be forced to enter into an impossible contest, in which it will fail. The results will be devastating.

Let me explain. All of a sudden, nearly four billion people have entered the world economy including those from China, Indochina, India, Bangladesh and the nations which used to be part of the Soviet Union, those of Latin America, and so on. Overall, they offer a vast and fast-growing reservoir of under-employed, who, when they do find work, receive wages as much as 90 or 95 per cent less than those in Europe. That did not matter very much when these nations, usually for political reasons, kept themselves to themselves. But today their politics have changed and they have joined the world economy. As a result of the communications revolution and the elimination of exchange controls, technology and capital can be transferred to them instantaneously. And this is the moment which we have chosen to accelerate, through GATT, the movement towards global free trade, a system whereby everything can be manufactured anywhere in the world to be sold, without barriers, anywhere else.

Imagine the position of a normal British manufacturing enterprise producing normal products and employing a reasonable labour force - industries such as glassware, furniture, textiles, clothing, appliances or porcelain. Usually such companies will employ people whose total wage cost can represent up to 30 per cent of turnover. So a company that has annual sales of £500 million and is finding it difficult to make a satisfactory profit, will be able to transform its profit and loss account by simply transferring its manufacturing to a low-cost country. By maintaining only its head office and marketing organisation in the UK, it could save more than £100 million per annum. Graver still is the fact that if it fails to transfer its production but instead decides to compete against imported products manufactured in low-cost countries, then it is doomed to failure. No matter how much it restructures and 'downsizes' (the fashionable euphemism for job cuts), it cannot possibly compensate for labour costs which are 90 per cent cheaper.

Let me take you through a number of the standard rebuttals put forward by the globalisers:

- *'The growth of employment in the service industries will compensate.'*

Wrong. Already the big employers in the service sector are transferring their back offices to low-cost countries. By renting space on a communications satellite, relatively

cheaply, they can keep in touch with offices in distant lands. Indeed, a customer can already telephone a number in the United States and be transferred instantaneously, and without his being conscious of it, to an office in Bombay. The result is a 90 per cent saving for the service company.

There are some services, such as health and education, which cannot be transferred abroad but surely, we are able to understand that we cannot survive exclusively on activities which involve spending, however necessary they may be. We must earn before we spend.

- *'The high-tech industries will grow and we will prosper.'*

These industries might be able to compete because they employ very few people and so the cost of labour is not significant to them. But that, precisely, is the problem. If they employ so few people, how can they provide employment to the nation?

- *'You underestimate the capacity of a modern economy to create new industries producing new jobs.'*

In France, Maurice Allais, the Nobel Prize-winning economist, recently calculated that during the past 20 years the French economy, measured by its GNP, has grown by 80 per cent. During the same period, under-employment had grown by 800 per cent. And that was before the recent Uruguay Round of GATT, promoted by John Major as an economic panacea, and which, of course, will accelerate job destruction.

- *'We will enrich the workers in the newly emerging countries and they will buy our products.'*

The World Bank, in a report published in September 1992, answered that one: 'The levelling of wages will be overwhelmingly downward due to the rapid growth rate of under-employed populations in the Third World.'

- *'You forget that Britain exports more per person than any other country.'*

They forget that Britain runs a massive trade deficit, so it imports even more. That can only get very much worse with global free trade as products which, traditionally, had been manufactured at home are produced abroad.

- *'So you are for protectionism and you do not believe in free trade.'*

Wrong. I believe that free markets are absolutely necessary to improve efficiency, control prices, enforce innovation and encourage choice. But free markets must be composed of nations with economies which are reasonably homogeneous and which are willing to accept some financial disciplines. Otherwise the 'levelling of wages will be overwhelmingly downward' and the free market will be corrupted by competitive devaluations. We need regional not global free trade. The regions can enter into bilateral trade agreements when it suits them.

- *'But labour costs less in Britain than in other European countries.'*

That statement demonstrates that we have forgotten the purpose of the economy. In the great days of the United States, Henry Ford stated that he wanted to pay high wages to his employees so that they could become his customers and buy his cars. Today we are proud of the fact that we pay low wages! We have forgotten that the economy is a tool to serve the needs of society and not the reverse. As Aristotle wrote in his Ethics: 'The end of the medical art is health and that of economics is wealth.'

A direct consequence of all this will be the re-emergence of deep divisions within society. There will be those with savings, who will benefit. They can transfer their capital anywhere in the world and receive a better return as low cost employment improves profits. The larger companies can transfer their production and, as we have seen, massively

increase their earnings and capital value. But their ex-employees will suffer as will the smaller businesses which, unable to transfer their production, will go to the wall. The whole balance between capital and labour will be shattered as the cost of labour drops to reflect the new supply provided by nearly four billion people willing to work for a pittance.

What an irony that just as socialism has been discredited, the misinterpretation and misapplication of liberal ideas will create a new class war.