

Protect or perish

Goldsmith answers the EU Commission, Sunday Telegraph, 6th November 1994

THE EUROPEAN COMMISSION has taken the unusual step of issuing a statement attacking my views on global free trade and its instrument, GATT. Its document explains the totally different premises on which we base our conclusions. At the core is the Commission's assertion that 'all economic activity by definition is productive ...' Gross National Product is the measure of a nation's economic activity and its prosperity is generally expressed in terms of GNP. But GNP, and therefore the level of economic activity, is a faulty guide. An obvious example is when a calamity occurs, such as a hurricane or an earthquake. The immediate consequence is growth in GNP simply because economic activity is increased so as to repair the damage. If a great epidemic hits, economic activity grows as new hospitals are built and public-health workers are employed. Among the growth areas of economic activity are drug abuse, crime and cancer. In the US it is estimated that they contribute 7.4 per cent to the nation's GNP - in other words, to the nation's economic activity.

The belief that 'all economic activity, by definition, is productive' is asserted by those who can count or measure but who prefer to avoid thinking or understanding.

According to the Commission: 'In the case of France, there is no evidence that openness to trade has generated substantial unemployment.' In reality the evidence is overwhelming. Maurice Allais, the Nobel Prize-winning French economist, has demonstrated the close relationship between widespread unemployment and the European Community's progressive shift from a system of community preference (a free internal market with a single common tariff applicable to imports) to global free trade. Since this change in 1973, France's GNP has risen by 80 per cent. Yet a careful study of official figures reveals that true unemployment grew from 420,000 people to 5.1 million. What possible purpose can there be in almost doubling the size of a nation's economy if the result is that the number of those excluded from active economic life rises twelvefold?

The figures for Britain are equally alarming. According to the Central Statistical Office, Britain's GNP grew by 49.5 per cent between 1971 and 1991. Yet unemployment rose from 652,000 to 2,286,000 and the number of people living in poverty, as officially defined, grew from 6.6 million to 13.6 million.

The European Commission seems to have forgotten that the purpose of the economy is not to succeed in its own narrow terms but to serve the true needs of society - prosperity, social stability and contentment.

Answering my arguments that trade deficits impoverish a nation, the Commission states that 'outflows will over time match inflows. If the countries of Asia export more than they import, the excess cash will be invested abroad and ultimately this inflow will equal the outflow suffered by those with a trade deficit'. Their assumption appears to be that for strictly mathematical reasons a nation's accounts must balance. But when a foreign nation does direct its excess cash to a nation suffering a deficit, that money usually returns in the form of investments in assets or in fixed-interest debt. Those assets thereby become the property of a foreign owner and their earnings flow to that owner. To illustrate the consequences, imagine a game of poker in which you lose more cash than you possess. Instead of paying in cash, you hand over ownership of your house and you continue to live in it as a tenant paying rent. Are we seriously to believe that such a transaction has had a nil effect on your financial position?

In any event it is obvious that when a nation has an outflow of funds, those who receive them are free to invest them anywhere, wherever the return on capital looks more attractive.

The Commission continues: 'Sir James, by insisting upon the primacy of bilateral arrangements, proposes a system dominated by the powerful ... ' The opposite is the truth. With the growth of global free trade has come the growth of transnational corporations. They now account for one third of global output; their worldwide annual sales have reached \$4.8 trillion and the largest 100 multinationals control about a third of all foreign direct investment.

The reason for this extraordinary phenomenon is that following the fall of communism, four billion people have suddenly entered the world economy. They include the populations of China, India, Vietnam and Bangladesh, among many others. These nations have very high levels of unemployment and their citizens who do find jobs offer their labour for a tiny fraction of the pay earned by workers in the developed world. For example, 47 Vietnamese or 47 Filipinos can be employed for the cost of one person in a developed country such as France or the US.

Until recently, these four billion people lacked both technology and capital. Today, technology and capital can be transferred instantaneously anywhere in the world. The basic principle of global free trade is that anything can be manufactured anywhere to be sold anywhere else. The result is the creation of a global marketplace for labour, which means that workers in Britain will have to compete with hundreds of millions of people earning a pittance.

Obviously, from the point of view of transnational corporations things look very different. They will have access to unlimited labour for almost no pay. They can shift their production from their home base to move it to low-cost areas, thereby massively reducing their costs and increasing their profits. This is true not just for low-tech companies with large labour forces but also for high-tech companies and service industries. During the past few months Boeing, IBM and Advanced Micro Systems, among many others, have announced plans to transfer production to Asia. Swiss air already has transferred part of its clerical offices to India.

It is abundantly clear that transnational corporations are no longer linked to their national labour forces. The Commission seems to confuse the profitability of corporations with the health of the national economy.

Finally, the Commission responds to my statement that when you intensify methods of agriculture, the inevitable consequence is that you substantially reduce the number of people employed on the land and those who become redundant are forced into the cities. This is a recognised worldwide phenomenon ably explained by Jose Lutzenberger, Brazil's far-sighted former Minister of the Environment, who has shown how the slums in Brazil, known as favelas, have come about in this way.

The Commission denies this and asserts that 'the migration which swelled urban populations was the result of higher wages in the cities than the countryside'. The belief that the slum dwellers of the favelas of Rio de Janeiro are employed at all, let alone earning 'higher wages', further demonstrates how isolated from the real world the Brussels bureaucrats have become.