The GATT in the Hat

The trade deals 'magic' could make world prosperity disappear.
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IT IS EXTRAORDINARY that the General Agreement on Tariffs and Trade (GATT), the instrument of global free trade, could have been negotiated by successive US administrations without a full public and national debate. And now again, in the closing days of this Congress, the Clinton administration hopes to push through the latest set of multilateral trade agreements under GATT, the so-called Uruguay Round, the most ambitious to date.

By contrast, the North American Free Trade Agreement (NAFTA) was the subject of substantial and reasonably well-informed debate - yet NAFTA is insignificant compared to GATT. If fully successful, GATT - and its successor, the World Trade Organization, to be established by the Uruguay Round agreement - will ultimately create a free trade area not just with America's neighbors, Mexico and Canada, but with China, India, Vietnam, Bangladesh, indeed with the whole world. It is impossible to conceive of an international agreement with deeper and more widespread social consequences. The American public cannot afford to let its collective eyes glaze over at the mention of GATT.

In no sector will the social and economic consequences be more far-reaching than in agriculture. A principal purpose of GATT is to recast the world's agriculture in the name of efficiency and increased agricultural 'productivity.' Modern economists, more particularly those in favor of global free trade, claim that the best agricultural system is one that produces the maximum amount of food for the minimum price and employs the least number of people. But even in purely economic terms, that calculation is incomplete.

When you reduce the number of people employed on the land, those who become redundant are forced into cities. Therefore, you must add to the direct cost of producing food by intensive methods, the indirect costs of those who have been uprooted. As there are insufficient nonagricultural jobs throughout the world, there will be increased unemployment, with the consequent costs of welfare. As there is insufficient urban infrastructure, such as schools, hospitals and housing, there will be a need for substantial new capital expenditure.

Yet there is a deeper price. In a stable society when, as a result of changes in technology, some jobs are lost in a particular industry, the fundamental balance of society is not altered. Some declining enterprises necessarily suffer while other, more competitive, entities emerge. But loss of rural employment and migration from the countryside to the cities causes a fundamental and irreversible change. It has contributed to the destabilization of rural society and to the growth of vast urban concentrations from the First World to the Third. Within these huge urban groupings resides an alienated underclass whose cultural traditions have been extinguished and whose families have been reduced to dependency on public and private charity.

The cost of contributing to such social breakdown cannot be measured. As Jose Lutzenberger, the far-sighted former minister of the environment of Brazil, reminds us, the notorious slums of Brazil, known as favelas, were the direct result of the rural dislocations caused by the 'green revolution' of the 1950s, which through intensive farming, was supposed to end for all time famine throughout the world.

Maximizing agricultural output per person might have been an important consideration in the highly developed Western nations in which the cost of labor was great and standards of living were high. But we are entering a new world. Four billion people suddenly are joining the world economy. Until recently they had been held separate by their political systems, usually communist or socialist. They include the populations of China, India, Vietnam, Bangladesh and countries of the ex-Soviet Union among others. Their populations are growing fast and it is forecast that they will reach 6.5 billion in 35 years. It is estimated that in the world there are still 3.1 billion people living in the countryside. If GATT succeeds in imposing worldwide the sort of productivity achieved by the intensive agriculture of Canada and Australia, then it is easy to calculate that approximately 2 billion of these people will lose their livelihood. Rural communities throughout the world will be uprooted and swept into urban slums. If many cannot find jobs in an expanded industrial sector, mass migrations of displaced and tragic peoples will follow. They will be the GATT-refugees.

If global change is too vast to contemplate, consider the effects of GATT on one country. Vietnam is typical of the many nations making their first faltering steps toward joining the free world and the global economy. It has a population of 67 million of which 78 per cent live in the countryside (compared to 14.8 per cent in Australia, a major agricultural country). The current version of GATT would drive millions of poor Vietnamese from the fields into urban slums and create deep and long-lasting devastation.

This fundamental flaw in global free trade is understood by the people of many Third World nations, if not in the halls of Congress. In India in March and October 1993 and again in April 1994, for example, hundreds of thousands of demonstrators have publicly opposed GATT.

But GATT is not only of concern to landless Third World peasants. The developed world will suffer GATT-induced stresses of its own, in addition to the need to cope with refugee movements. The principle of global free trade is that anything can be manufactured anywhere in the world to be sold anywhere else. That means that the 4 billion new entrants into the world economy will be in direct competition with the work forces of the developed countries. This massive increase in the supply of extremely cheap labor is taking place at a time when technology can be transferred instantaneously anywhere in the world on the back of a microchip, and capital is free to be invested worldwide wherever the anticipated yields are highest.

Some high tech industries can survive under these circumstances because they are highly automated. For them, labor is a minor item in the overall cost of their products. But as soon as they need to increase employment, they are forced to move offshore. For example, IBM is moving its disk-drive business from America and Western Europe to low-labor-cost countries. According to the Wall Street Journal, 'IBM plans to establish this new site as a joint venture with an undetermined Asian partner and use non-IBM employees so that it will be easier ... to move to an even lower-cost region when warranted ... Moving from higher-cost regions to Asia cuts in half the cost of assembling the disk drive.' Even so, said an IBM executive, 'the moves will put IBM on only even footing with its competitors.' Boeing has also announced it will transfer to China parts production for certain of its planes.

In France, proponents of global free trade claim that exporting such high tech products as very fast trains, airplanes and satellites will create jobs on a large scale. Alas, this is not true. The recent $2.1 billion contract selling high-speed French trains to South Korea will result in the maintenance for four years of only 800 jobs in France: 535 for the main supplier and 265 for the subcontractors. Much of the work will be carried out in Korea employing Korean labor.

Supporters of global free trade argue that jobs in the service industries will replace lost employment in manufacturing. But even service industries will be subjected to substantial transfers of employment to low-cost areas. Today through satellites you can remain in constant contact with offices in distant lands. Swissair, for example, has recently transferred a significant part of its accounts department to India.

Developed countries need to begin thinking about their balances of trade in terms of employment as well as money. If we export $1 billion of goods and import products of the same value, we now conclude that our overseas trade is in balance. But if our exports are heavily weighted toward high- tech products, while our imports are labor intensive, we are importing unemployment - with large social costs not counted in the balance.

And global trade will not only increase unemployment in the developed world but exert downward pressure on wages because the value of labor will decline. Value-added is the increase of value obtained when you convert raw materials into a manufactured product. In a mature society such as our own, we have been able to develop - through generations of political debate, elections, strikes, lockouts and other conflicts - a general agreement as to how it should be shared between labor and capital. Global free trade will brutally shatter that agreement.

Nor should we expect that destroying employment and impoverishing the developed world will stabilize and enrich the population of the Third World. Let me quote an extract of a report by Herman Daly and Robert Goodland, published by the World Bank: the 'leveling of wages will be overwhelmingly downward due to the vast number and rapid growth rate of underemployed populations in the Third World. Northern laborers will get poorer, while Southern laborers will stay much the same.'

Of course, there will be those who will benefit from these extraordinary changes principally, companies with access to an almost inexhaustible supply of very cheap labor. But they will be like the winners in a poker game on the Titanic. The wounds inflicted on their nation will be too deep to be acceptable without brutal consequences.

Until wage levels and standards of living in the developing world can be brought into closer alignment with those of the West, we must replace the concept of global free trade by free and vigorously competitive regional markets. NAFTA and Europe are the two largest free trade areas ever created. Obviously both are more than big enough to ensure highly competitive internal markets. They would not cut themselves off from the world, but would welcome innovation from anywhere. Foreign corporations wishing to sell their products would build factories in America, employ Americans and bring with them their technology and capital. The same, of course, is true for the European economy. What is more, each region would be free to decide how it wishes to trade with other regions including developing countries, entering into bilateral agreements to the mutual advantage of each party.

Developing nations should also form free trade areas, as is currently the case in Latin America. These areas should consist of nations with economies reasonably similar in terms of development and wage structures. Of course, freedom of transfer of technology and capital would be maintained. Thus, corporations wishing to sell their products in these regions would produce locally, importing capital and technology and creating local employment. That is the way to create prosperity and stability in the developing world without destroying our own.