

Why Global Free Trade is Bad for Britain

A GATT agreement would impoverish us all, article in the Sunday Telegraph, 14 November 1993

THE THEORY of free trade, as we know, is based on the work of the British economist, David Ricardo, published in 1817. It draws on two related concepts: specialisation and comparative advantage. The idea is that nations should concentrate on those activities they do best and for which they have an advantage relative to other countries. Such specialisation would allow each nation to expand what it does better than the others and to sell its specialised production through a system of free trade. In return it would import those products that it would no longer produce. Thus the volume of international trade would grow with the resultant benefits to productivity and to the world economy.

The theory was developed to satisfy economic conditions prevalent at the time. But today the world has changed dramatically. All of a sudden huge populations have entered the world economy, including those of countries such as China, Indochina, India, Bangladesh and the nations which used to be part of the Soviet Union. Many of these nations have a vast and fast-growing reservoir of extremely cheap labour. For example, the cost of labour per hour in manufacturing in China and Indonesia is about 95 per cent lower than in Germany and more than 90 per cent lower than in Britain. That did not much matter when such countries were isolated from the world economy and did not have access to technology and to capital.

But today, technology is readily transferable and capital moves freely and almost instantaneously to wherever it can earn the greatest return. So, if products manufactured in low-cost areas can be imported freely into high-cost areas, it follows automatically that technology and capital will flow fast to the low-cost areas. They will be the winners and capital flows to the winners.

So what will be the effects of global free trade on the developed nations? Where will their industries be able to find a comparative advantage? Obviously not in labour-intensive activities. There is no way of being able to beat competitors who use the same technology, have ready access to capital and whose labour costs are more than 90 per cent lower.

So we would have to concentrate on activities which use very low amounts of labour and which are highly mechanised. But that is hopeless because those are the very industries which even during the boom years consistently reduced their labour force. Thus the bulk of our people would be excluded from active life and, as we have already begun to witness, chronic unemployment would increase despite growth in the economy.

Some will suggest that we can replace lost industrial jobs by expanding services. Alas, if you do not make money, you cannot spend it. If we dismantle our industry, cripple our agriculture and increase still further our dependence on imports, then progressively our national wealth, accumulated over centuries, will be transferred elsewhere.

Others will suggest that we have a moral duty to open our frontiers even if it damages our economic interests. The answer to this can be found in a report published last September by the World Bank. Here is an extract: 'If by wise policy or blind luck, a country has managed to control its population growth, provide social insurance, high wages, reasonable working hours and other benefits to its working class (i.e., most of its citizens), should it allow these benefits to be competed down to the world average by unregulated trade? . . . This levelling of wages will be overwhelmingly downward due to the vast number and rapid growth rate of under-employed populations in the Third World.' Those who favour GATT claim that Third World nations are requesting it. But, in reality, it is their elites who seek it. As others have said, global free trade is a system whereby the poor in the rich countries subsidise the rich in the poor countries.

The proponents of GATT and the Uruguay Round declare that its successful conclusion is the key to world economic revival. But that is hyperbole or ignorance. Organisations such as the OECD and the World Bank, both of which favour GATT, estimate that should the Uruguay Round be concluded, annual world trade would expand by 213 billion dollars. But they add that that could only come about in 10 years' time. The Secretary General of the OECD explains that the report is

'highly theoretical'. And what is more, the estimated growth only amounts to about 0.7 per cent of world GNP.

How is it possible that we could be willing to envisage such an upheaval and such dangers to the stability of our society for such negligible and hypothetical economic benefits which in any case, if they ever materialised, would be more likely to flow to other countries than to Britain? The reason is that global free trade has become a sacred tenet of economic thought, a sort of moral dogma. Our so-called elites genuflect before it without analysis or thought.

When Britain repealed the Corn Laws in 1846, the circumstances were utterly different. Britain had launched the Industrial Revolution and was the world's dominant industrial power. The new industrial barons wanted abundant and cheap labour to man their factories, and therefore wanted to import cheap food from the colonies. This would destabilise the countryside as British farmers would be unable to compete. The farming population would be forced from the land into the towns. In the towns they could be fed cheaply and therefore paid less. What is more, the funds which flowed to the colonies as payment for food, were returned to England to buy industrial products produced by British factories which faced almost no international competition.

Today the position is reversed. Only about 1 per cent of the population still works on the land. The towns have become bloated problem areas. Industry can no longer offer sufficient employment and we have unacceptable chronic unemployment. What is more, the funds that leave the country to pay for imports are more likely to be spent in Japan than in the UK.

Yet, we cling unthinkingly to the same dogma. This is not to suggest that we do not need free trade: we do. But we do not need *global* free trade.

The purpose of free markets is to ensure sufficient competition to exercise constant downward pressure on prices, to force innovation and to encourage choice. Free trade is not a religion, it is a tool to provide a healthy economy and a stable society.

The European Community has a population of 345 million people which will expand as other European nations join. That is more than enough to ensure strong competition. It would be far larger than any free market that we have ever experienced. And it could negotiate bilateral trade agreements with other regions which could be balanced and mutually advantageous.

Different considerations will apply to close neighbours such as the nations of Eastern Europe. Progressively these must join us in a free trade area, but at a rhythm which does not destabilise them or us. We must learn from the experience of Germany where the West has been severely shaken and the East has become dependent and embittered.

Finally, it is absurd to suggest that that part of British industry which employs significant labour can compete by cutting costs. How can you reduce costs sufficiently to compete with enterprises using the same technology, which are well capitalised and which employ labour at a cost that is a fraction of ours? Surely it is not the policy of this government to reduce drastically Britain's standard of living merely to serve an economic dogma. Let it remember that the purpose of the economy is to serve the interests of society, not the reverse.