

# **Should Market Economists be Protesting the WTO Too?**

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An impressive gathering of activists united forces in Seattle at the end of last year to protest the World Trade Organization (WTO). Protest organizers did a phenomenal job, setting up teach-ins, workshops, lectures, civil disobedience actions and marches. The goal was not just to protest, but to educate. As Lori Wallach of Public Citizen said, the best strategy with the WTO is the Dracula strategy- drag the WTO into the light of day and it will wither and die. Unfortunately, in spite of this impressive effort to shed some light on the workings of the WTO, the national and international media focused primarily on the few dozen anarchist vandals and dismissed the rest of the protesters as some naïve, anti-trade fringe element. Too many otherwise educated people remain profoundly ignorant about the WTO (though thanks to the Seattle protests they have now at least heard of it), and accept the press' simplistic analysis. In light of Michael Moore's January 10 statement that the WTO will relaunch the Millennium round of the WTO, the education process must continue.

Complaints about the WTO are as broad as the demography of the groups who came to Seattle to protest it. Defenders of the WTO justify it on the grounds that international trade is more efficient than purely domestic production, and will bring the benefits of capitalism to the Less Developed Countries (LDCs). Without addressing the full range of complaints concerning the WTO, it can still easily be shown that it is both inefficient and unfair.

## **I. The WTO and Efficient Allocation**

The most commonly heard selling point for the WTO is that the division of production between countries according to their respective comparative advantages is inherently efficient. Considerable work has shown that 'gains from trade' depend on critical assumptions and conditions which cannot simply be taken for granted (for example, see P. Ekins et. al. 1994, Ropke 1994, and Daly and Goodland, 1994), and a number of which are currently absent or actively undermined by the WTO.

First is the assumption of perfect competition- a very large number of small firms producing nearly identical products- in the absence of which we cannot simply assume efficient resource allocation. WTO undermines this by favoring a small number of huge transnational corporations (TNCs) and protecting their monopolies on certain products. Few deny that enormous transnational corporations are benefiting enormously from trade liberalization, and are growing larger in the process. In fact, "global consolidation through mergers and acquisitions...has been most intense in the economics sectors in which WTO agreements have been completed- financial services and telecommunications." (Wallach p. 7) Even when market concentration does not lead to outright monopolies, it facilitates collusion. Archer Daniels Midland, which along with three other international grain companies controls a significant majority of global grain sales, was fined \$100 million for its recent efforts to suppress competition for lysine and citric acid, and plea bargained out of a potentially much larger fine for accusations of price fixing of high fructose corn syrup (On-Line News Hour, 1996)

The agreement on Trade Related Aspects of intellectual Property (TRIPS), requires all WTO signatories to protect intellectual property rights (IPRs) for 20 years (Wallach, p. 102)-

significantly longer than existing patent protections in most if not all signatory countries. IPRs essentially establish a monopoly on the good in question, and as Adam Smith points out, “the monopolists by keeping the market constantly understocked, by never fully supplying the effectual demand, sell their commodities much above the natural price... The price of monopoly is upon every occasion the highest which can be got.” (Smith, 1970 p. 164) “Monopoly, besides, is a great enemy to good management...” (Smith, 1970 p. 251), i.e. efficiency.

Second, free markets are inefficient at allocating public goods, which are non-excludable (one person can't keep another from using the good in question) and non-rival (one person's use does not prevent another person from using the good). While patent laws can artificially make technology excludable, knowledge by its very nature is non-rival. The marginal cost of information is essentially zero, and economic efficiency calls for a zero price, not “the highest price that can be got.” What's more, excessive patents can actually slow innovation. When corporations patent research techniques and methodologies, other scientists cannot use those techniques without paying royalties. This can increase the costs of R&D, and may slow the rate of technological advance.

Third, market efficiency requires that producers pay the costs of production. The problem of externalities - so well known that it hardly bears repeating - occurs when one actor's activity has an unintended impact on another actor's welfare, and that impact goes uncompensated. Increased trade requires increased transport, with externalized costs of fossil fuel combustion. Production of many goods cause serious and often poorly understood negative environmental externalities. For example, timber harvests can lead to biodiversity loss, erosion, drought and flooding, disruption in atmospheric gas exchange, and micro and macro climatic instability, among other impacts. Logging industry experts estimate that a “global free logging agreement” currently on the WTO agenda will increase the rate of extraction of timber resources which will obviously increase the severity of these externalities (Goldman et. al. 1999). In fact, the primary argument in favor of the WTO is that it will increase the rate of economic growth, thus threatening to overwhelm many of the planet's ecosystem life support functions, the direct externality of all.

Most insidious, whereas the General Agreement on Tariffs and Trade (GATT) permitted countries to protect their own environments (Ekins et. al., 1994) the WTO has the power to challenge national laws designed to reduce domestic externalities, and the ability to enforce their decisions. In theory, the WTO allows countries to protect their environment as well, but in fact, in every instance where one country has challenged another country's environmental laws under the WTO, the environmental laws have been declared barriers to trade (see Wallach and Sforza, 1999 for details).

Perhaps the greatest irony is that under GATT and the WTO, TNCs have grown so large that of the 100 largest economies in the world, 51 are the internal economies of transnational corporations. A corporation is a hierarchical, command and control structure, the antithesis of a free market (Korten, 1999). The vast majority of corporations show dramatically slower growth once they reach a certain size (Corporate Strategy Board, 1998), no doubt a result of the inevitable inefficiencies of excessive size. Paradoxically, a large corporation can offset economic inefficiencies of size through economically inefficient rent seeking behavior. A fine example is the recently publicized case of Schering-Plough's massive lobbying effort to extend the Claritin patent by three years. Among other beneficiaries, Schering Plough provided Orin Hatch with use of a company jet for his Presidential bid, and the Koop foundation with a cool million- needless to say both beneficiaries have been vociferous supporters of patent extension. It would appear that rent seeking behavior produces higher profits than research and development in new medicines.

## II. The WTO and Fair Distribution

By far the most cynical defense of the WTO is that its primary beneficiaries are the world's poor. The morning after protests disrupted the November 30 opening of the Seattle WTO talks, Michael Moore and Kofi Annan both commented that the world's poor would suffer from the Seattle protests. The first post-Seattle cover of *The Economist* showed several destitute Indian children with the title, "the real losers in Seattle." A reality check tells a different story.

Terms of trade for poorer countries fall when specialization and debt financed infrastructure investments lock them into a commodity export development path, then commodity prices fall due to excess supply or technological substitution (Ekins et. al. 1994; Ropke, 1994; Daly and Goodland, 1994).

In the countries undergoing rapid trade liberalization, not only has wage inequality increased, unskilled workers have also suffered often dramatic drops in real wages and declining industrial employment (Wallach and Sforza, 1999). In Latin America, the ratio of income between the richest and poorest 10% increased from 37 to 48 between 1993 and 1998, and over the last five years people living below poverty level has soared in the countries most avidly pursuing trade liberalization (Faiola, 1999.)

This trend is easily explained by the different incentives for export versus domestic industries. For export oriented industries to grow and remain competitive, they must minimize labor costs by keeping wages down. In the absence of international trade, industrial growth requires a domestic market- created when workers earn enough to purchase the goods and services they produce.

While the increase in absolute poverty is clearly the most distressing trend, increasing income inequality may be making people worse off as well. Once basic needs have been met, it appears that many people measure their over all welfare in relative terms- and feel themselves worse off as others become relatively better off (Frank, 1995; Galbraith, 1958).

The agreement on Trade Related Aspects of intellectual Property threatens to decrease fairness every bit as much as it undermines efficiency. Currently 97% of global patents are held by citizens of developed countries (DCs). Even within the LDCs, 80% of patents are held by citizens of DCs. Moreover, a study in Namibia found that the costs of new patents are "prohibitively expensive for poor communities." (Wallach and Sforza, 1999, p. 111) Wealthier nations, in contrast, have sufficient resources to patent medicinal plants used for millennia in LDCs, and have done so in a number of cases (Wallach and Sforza, 1999).

Providing theoretical support for the abundant empirical evidence, Herman Daly (1999) has shown that in the presence international capital mobility, the assumption that all nations will benefit from international trade no longer holds. One can still argue that trade will increase total economic production, but some countries may be losers.

Finally, we should listen to the experts themselves on the fairness question. Jagdish Bhagwati, one of the staunchest defenders of free trade, offers some revealing comments:

"Now, it is indeed possible to construct theoretical cases in which, paradoxically, the effect of trade liberalization on growth is perverse. Imagine that liberalization shifts the distribution of income in favor of groups that save less. Then, if the national saving rate is determined not by fiscal policy but by the market determined distribution of income, the liberalization will improve current income but may reduce its rate of growth (which reflects not just current productivity but also the rate of savings and investment.) *But surely there is no reason to consider such paradoxes relevant to the broad post-war experience.*" (Bhagwati, 1988, p. 7 emphasis added.)

While Bhagwati does not directly say so, it seems obvious that “groups that save less” are the poor, who by necessity spend all of their income on consumption. In other words, free trade will lead to growth as long as it does not redistribute income towards the poor, but luckily there is no need to worry about this happening.

Presumably, Bhagwati assumes trade induced growth creates a bigger pie for all to share. The problem with this assumption is that exponential growth cannot continue indefinitely on a planet of finite resources. For those of us who accept the finite planet hypothesis, growth now simply shifts the unfairness to future generations.

In summary, the WTO weakens the competitive market system, and does so at the cost of the poor. If the WTO cannot even meet its own criteria, it needs a turn around, not another round.

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