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THE LEFT-WING CASE FOR FREE TRADE



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FOREWORD

Labour's 30-year-long support for the EU and Britain's membership of it has contributed to the expunging from the left's collective memory of the radical role supporting free trade has played in its history.

This was exquisitely symbolized for me the day after the terrorist attack on the Manchester Arena. Radio 5 had asked to meet me and another Labour MP next to the statue of John Bright in Albert Square just before the city's vigil for victims. My Labour colleague said "I guess you will know which one that statue is?" I did, and I also know the role John Bright, a Rochdale man and a Member of Parliament for Manchester, played in the anti-Corn Law league and the campaign for free trade.

This was one of the most effective and radical campaigns in the UK's history; it is amazing that his role and campaign are virtually unknown in the Labour Party, even in Manchester.

The arguments of Bright together with Cobden - that import tariffs on corn kept the price of bread high and the landed gentry rich - won the support of the embryonic Labour movement as well as the vast majority of people who were finding it difficult to make ends meet.

The campaign achieved its objective when Prime Minister Robert Peel started the abolition of the Corn Laws in the 1845 budget. The arguments and philosophy supporting this successful campaign led to the so-called Manchester School of Economics, which also espoused freedom of the press, anti-slavery, pacifism and separation of church and state. Manchester is the only town or city in the country to have its major meeting hall named after an idea: free trade.

It is extraordinary, given this history, that the Labour movement threw its weight behind the EU's protectionist project. As with the Corn Laws, the EU customs regime imposes tariffs on food imports, ensuring we pay 20 percent more than the price on the open world market. To add insult to injury we then pay huge subsidies to the wealthiest land owners like the barley barons of East Anglia. The very high tariffs imposed, for example, on citrus fruits and processed coffee mean we are essentially exporting poverty to Africa and some of the poorest parts of the globe. If understood more widely this would be a huge embarrassment to the left.

Professor Paton's paper is a timely reminder of this history and should make progressives think twice about supporting protectionist policies and entities.



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TRADE

THE BIG PICTURE



*THE REDUCTION IN GLOBAL
POVERTY AND FOOD
INSECURITY IN RECENT YEARS
IS ONE OF THE GREAT SUCCESS
STORIES OF OUR TIMES*

For too long, certain observers on the political left have got away with labelling free trade as a right-wing cause. This would be a surprise to many of our forebears in the progressive movement for whom it was obvious that trade was an effective way to move large numbers of people out of poverty. In recent years, free trade has come under fire from progressives worried about one or more of the many challenges facing modern economies: job losses in traditional industries; threats to labour market and environmental regulations; domination of developing countries by globalisation; giving excessive power and control to multinational corporations.

People are right to worry about these challenges. But they are largely wrong to suggest that restrictions on trade will help solve them. In most cases, the contributory role of free trade is limited or even non-existent. Indeed, in many cases, it can be the interference into free trade by large corporations which causes the problem. Just as important, policy interventions aimed at limiting trade, even if done with

good intentions, can exacerbate the issues, often with the poorest in society being particularly hurt.

Concerns over one or other of the important issues listed above can mean losing sight of the big picture. And when it comes to free trade, the big picture is vast indeed. Over the past 30 years or so, the world has become a significantly more open place as costs of transport and communication have plummeted. At the same time, many countries which were previously trying to operate closed, command economies have opened themselves up to trade. Since 1985, trade as a proportion of GDP has increased by about 50%,

despite a small reduction in the trade proportion in the past few years. The general trend towards easier trade both within and between countries has played its part in the biggest improvement in the economic wellbeing of the poorest people around the globe that the world has ever seen.

Understandably, we often focus on bad news and when it comes to global economic problems, this can often make it appear that things are constantly getting worse. But although of course we face significant problems and challenges, the reduction in global poverty and food insecurity in recent years is one of the great success stories of our times.

Since 1985, we have seen an increase in per capita global GDP (measured at constant prices) of about 60%, but this improvement has not come at the expense of the poorest people. Between 1985 and 2013 (the latest year for which data is currently available), the proportion of people in the world living in extreme poverty decreased from 39.3% to 10.7%.^[1] The world's population increased by nearly 3 billion over that period but, astonishingly, even the absolute number of people living in poverty has gone down from 1.9 billion to under 0.8 billion.

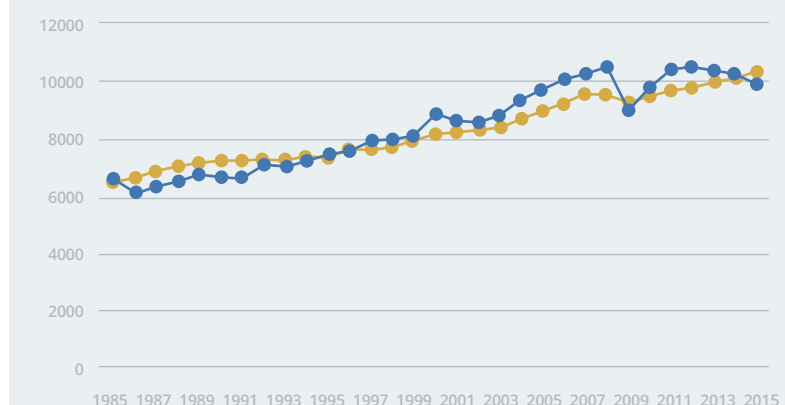
We see a similar picture when looking at food security. Between 1991 (the point at which consistent

[1] <http://databank.worldbank.org/data/home.aspx>

GLOBAL TRADE AND GDP 1985-2015

Source: World Bank <http://databank.worldbank.org/data/home.aspx>

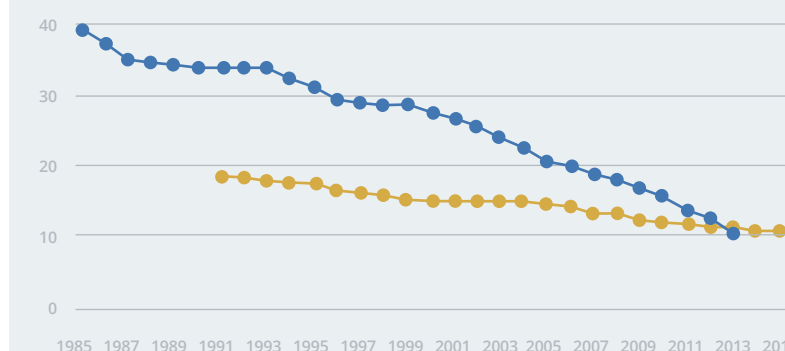
— GDP per capita (constant 2010 US\$)
— Trade (% of GDP)



GLOBAL POVERTY AND UNDERNOURISHMENT

Source: World Bank <http://databank.worldbank.org/data/home.aspx>

— Extreme poverty %
— Undernourishment (%)



data have been reported) and 2015, the proportion of people in the world estimated to suffer from undernourishment decreased from 18.6% to 10.8%, in absolute terms from about 1 billion in 1991 to 0.8 billion in 2015.

The rate of progress has varied across different regions. For example, Africa has generally seen slower progress towards eliminating poverty, but even there significant progress has still been made.^[2] Looking at the least developed countries of the world, GDP per person has gone up by 75.3%, a far quicker rate of increase than for the world as a whole.

It's not all good news. Although global inequality between countries has trended downwards in recent years, within country inequality has increased in many countries.^[3] Further, the latest evidence from the UN suggests food insecurity has started to edge up in the past couple of years.^[4] Strikingly, this worrying development has been preceded by an apparent reduction in openness to trade since about 2012.

Overall, it is clear that we have seen dramatic improvements in prosperity and poverty across the world in the past 20-30 years and there is no doubt that this global success story has been driven, in part at least, by the associated global trend for easier trade within and between countries. Those countries and regions which have moved away from an extreme of state-controlled commerce



MUCH OF THE GLOBAL RISE OF PROSPERITY HAS BEEN DRIVEN BY CHINA, A COUNTRY WHICH HAS NOT ONLY MOVED TO EMBRACE TRADE FROM A PHILOSOPHICAL AND POLITICAL POINT OF VIEW, BUT WHICH HAS ALSO INVESTED HEAVILY IN THE TRANSPORT, COMMUNICATION AND FINANCIAL INFRASTRUCTURE WHICH IS NEEDED TO FACILITATE MODERN TRADING RELATIONSHIPS.

and which have developed the necessary infrastructure to facilitate trade have almost without exception seen greater prosperity.

Much of the global rise of prosperity has been driven by China, a country which has not only moved to embrace trade from a philosophical and political point of view, but which has also invested heavily in the transport, communication and financial

infrastructure which is needed to facilitate modern trading relationships. In contrast, the countries where progress has been more limited are generally those such as North Korea, where an extreme version of state-control of the economy has been retained, or those such as Syria, South Sudan or the Democratic Republic of the Congo, in which conflict has destroyed the infrastructure on which trade relies.

Recent experience echoes economic lessons learnt over a much longer period of time. At different times in history, it has been the ability to trade driven by improved communication and transport networks which allowed communities to end their dependence on precarious systems of subsistence farming, highly sensitive to local climatic events. Amartya Sen long ago established that famines and starvation are generally not caused by overall food shortages but by poorly developed markets and distribution networks

(often rooted in conflict and corruption) which restrict trade and, hence, limit the ability of food redistribution to alleviate local interruptions to supply.^[5]

Does this mean that freer trade will always benefit everyone or that the left should support every so-called 'free-trade agreement'? Absolutely not. Evaluating the impact of freer trade on a range of outcomes such as inequality, industrial development and the environment is complex and much of the academic evidence is ambiguous. Further, trade

agreements between countries can be less to do with making the buying and selling of goods between groups of people easier and more to do with protecting the interests of particular groups, often large multinational corporations.

However, when engaging with these detailed arguments, it is vital that we never lose sight of the huge scale of poverty alleviation and economic growth which can, under the right circumstances, be delivered by trade within and between nations. •

[2] Pinkovskiy, M and X Sala-i-Martin (2014), 'Africa is on time', *Journal of Economic Growth*, 19: 311-38.

[3] Lakner, C and B Milanovic (2016), 'Global Income Distribution: from the fall of the Berlin Wall to the Great Recession', *World Bank Economic Review*, 30(2, Jan): 203-32. See also Ravallion, M (2017), 'Inequality and globalization: a review essay', *Society for the Study of Economic Inequality Working Paper Series*, ECINWEQ 435 <http://www.ecineq.org/milano/WP/ECINEQ2017-435.pdf>

[4] FAO (2017), *The state of food security and nutrition in the world: building resilience for peace and food security*, Rome: FAO <http://www.fao.org/3/a-17695e.pdf>

[5] Sen, A (1981), *Poverty and Famines: an essay on entitlement and deprivation*, Oxford: Clarendon Press.

THE PROGRESSIVE CASE FOR TRADE

Let's start at the beginning. Individuals and communities who buy and sell goods to and from each other tend to build up trust over time. As a result, trade has always been a way in which diverse communities grow to understand each other. Indeed, research evidence by political scientists concludes that trade plays an important role in reducing conflict and war between countries.^[6]

From an economic point of view, trade of one good or service for another improves prosperity because it allows each party to concentrate its resources on the product which it is relatively more efficient at producing. In this way, total production of both goods is higher than if each party tried to produce some of each. This is the classic comparative advantage principle introduced by David Ricardo back in 1817, and which economist Paul Samuelson famously declared to be the single most important theory in the whole of the social sciences which is both true and non-trivial.^[7]

Improving conditions for the poorest in society and producing a good level of public services in areas such as health, social security and education can only be done sustainably when we have sufficient resources generated by a successful economy. Generally speaking, barriers to trade such as tariffs or regulations aimed at limiting goods moving in one direction or another will limit the gains which can be made from trade.

[6] Hegre, H, JR Oneal and B Russett, 'Trade does promote peace: new simultaneous estimates of the reciprocal effects of trade and conflict', *Journal of Peace Research*, 47(6): 763-74.

[7] Dixit, A (2012), 'Paul Samuelson's legacy', *Annual Review of Economics*, 4: 1-31 <http://www.annualreviews.org/doi/abs/10.1146/annurev-economics-080511-110957>

It is not uncommon for people to believe that limiting imports through tariffs will benefit the home economy, and that the main reason not to impose import tariffs is that other countries will respond by putting tariffs on our exports. In fact, generally speaking, the costs from putting tariffs on goods will be felt largely by the home country. We must remember that we import goods because these are things our consumers want to use or that our producers need as inputs into their manufacturing process. Tariffs increase the price that has to be paid for those imported goods. That causes an immediate cost to the home economy.

There are also longer-run costs. Making imports more expensive protects less efficient home producers. This might be done for good reasons such as protecting jobs. However, the long-run effect is that those producers have less of an incentive to invest in improving productivity, resulting in eventual decline. Recent work by economists from the LSE examines the impact of increased import competition from China on European countries. They find strong evidence that increased trade led to significant increases in innovation and productivity amongst European firms.^[8]

Even though tariffs might be introduced with the intention of protecting workers, the long-run effect of the resulting lack of investment is that wages stay lower than they would otherwise have been. Not only do consumers pay more for their

goods than without tariffs, but the economy becomes dominated by low-wage, low-skilled industries.

In contrast, removing tariffs can give a significant boost to the economy through lower prices in the short run and a more productive, high-skilled, high-wage economy in the longer run. Both effects help to generate the tax receipts which are necessary to provide for the most vulnerable.

Now there are many specific issues which economists and

politicians come up with as reasons for limiting trade and these need to be taken seriously. But we must not forget that, whenever trade is restricted, there is the danger of reducing the productive capacity of the economy. As summarised by Harvard University economist Gregory Mankiw, "Few propositions command as much consensus among professional economists as that open world trade increases economic growth and raises living standards."^[9] •



"FEW PROPOSITIONS COMMAND AS MUCH CONSENSUS AMONG PROFESSIONAL ECONOMISTS AS THAT OPEN WORLD TRADE INCREASES ECONOMIC GROWTH AND RAISES LIVING STANDARDS"
- Harvard University economist
GREGORY MANKIW

[8] Bloom, N, M Draca and J Van Reenen (2016), 'Trade Induced Technical Change? The Impact of Chinese Imports on Innovation, IT and Productivity', *Review of Economic Studies*, 83: 87-117.

[9] Mankiw, G (2006), 'Outsourcing redux', *Greg Mankiw's Blog*, May <https://gregmankiw.blogspot.co.uk/2006/05/outsourcing-redux.html>



FREE TRADE AND THE LEFT SOME HISTORY

IT WAS RADICAL
NORTHERN MPS WHO
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PROTECTIONIST CORN
LAWS IN THE 1840S

The idea that people on the left should oppose free trade would come as something of a surprise to many historical progressive figures. David Ricardo himself was a campaigner against slavery and strongly in favour of other liberal democratic causes of the time. And, as Christopher Rowe has recently

and admirably documented, it was radical Northern MPs who led the campaign against the protectionist Corn Laws in the 1840s, whilst the leader of the National Agricultural Labourers' Union argued in 1884 that the "[t]he natural effect of Protection is to restrict trade, and restriction means less of everything for the working classes. This is proved

by actual experience. The darkest days in our history were those [of] Protection".^[10]

Later on, it was the Labour Party that stood squarely behind free trade in the 1920s and 1930s. Quite rightly, Labour politicians and many unions consistently rejected the Conservative policy of raising tariffs, aimed at protecting

domestic industries and alleviating high unemployment. They argued that such protectionism created high prices which, especially in the case of food, would hit the poor. Such an approach was not seen to be at odds with socialism. Indeed, the Party fought the 1923 election with a programme supporting both free trade and extensive nationalisation.^[11]

As late as 1997, the Labour Party manifesto argued against the excessive protectionism inherent in the EU's Customs Union and Common Agricultural Policy. Even more recently, many on the left who supported leaving the EU in the 2016 Referendum did so on the grounds that EU customs rules continue to disadvantage developing countries whilst

putting up the price of food and clothing for hard-pressed UK consumers.

It is time that the rich history of progressive support for free trade is re-discovered. That does not mean ignoring the reasonable arguments that can be made against unrestricted free trade, and it is to some of these that we now turn. •

[10] Rowe, C (2017) 'Free Trade - Left Behind?' IFT, Nov http://ifreetrade.org/article/free_trade_left_behind

[11] Ibid.

OBJECTIONS TO FREE TRADE

Objections to unrestricted trade are many and varied. In considering the merits of putting in place barriers to trade to help a particular group (e.g. workers in declining industries), we need to bear in mind the potential negative consequences for others (e.g. consumers). We also need to remember that protectionist measures may themselves have unintended consequences which can in some cases exacerbate the original problem.

EVEN IF ON AVERAGE PEOPLE ARE GETTING BETTER OFF, WE CANNOT IGNORE THE IMPACT ON INDIVIDUALS WHO ARE NEGATIVELY AFFECTED



Free trade and inequality

The effect on inequality both within and between countries goes to the heart of the concerns of many progressives about supporting freer trade. Although the theory of comparative advantage suggests there are gains from trade for both partners, the distribution of those gains will depend on the terms on which that trade takes place and, on this, economic theory is less certain.

Consider trade between a richer and poorer country. Even if both countries gain, if the richer country

benefits more, inequality between the countries will get bigger. Now it might be argued that, if the poorer country is becoming less poor in absolute terms, this is not a problem. But even if there is some merit to suggesting that eliminating absolute poverty is more important than decreasing inequality, such a response is unlikely to be entirely satisfactory for many of us who are keen to see progress in reducing the huge disparities of income levels between rich and poor countries.

Similarly, we cannot be certain how the gains from trade will be distributed within a country. For example, easier trade may lead to traditional industries in developed countries contracting and resources moving towards higher tech and service sectors. Even if the country as a whole gets richer, there may be particular groups or regions which get left behind and are worse off.

To some extent, this may be a short-run problem. Over time, we can expect workers from the contracting industries to retrain and move towards the newer sectors. Further, competitive pressure from trade should lead to firms improving productivity by investing in technology with the effect that wages increase in the long run. However, as Keynes famously said, "in the long run we are all dead". During that period of transition, particular areas may find themselves sucked into a cycle of long-term decline, even if

other areas are booming. Further, not all workers will be able to retrain. Even if on average people are getting better off, we cannot ignore the impact on individuals who are negatively affected.

What does the evidence actually say about the impact of freer trade on inequality? In fact, the research findings are ambiguous and inconclusive. A survey for the International Labour Organization concludes, "The... literature has shown that the effects of trade on wage inequality are... nuanced" and depend on the specific country in question, the nature of trade liberalization and/or the type of trade that countries engage in".^[12]

One noteworthy finding is that, when trade is found to increase wage inequality, this is often due to wage increases caused by productivity improvements in those sectors most affected by trade.^[13] Of course erecting trade barriers in the industries where wages had increased might well lead to lower inequality, but it would be an odd response. Far better to also look to increase productivity in the sectors where wages have been left behind. We must also remember that policy interventions to restrict trade can often create unintended negative consequences which may themselves increase inequality. For example, protecting local industries from competition in the form of imports may save

[12] Pavcnik, N (2011), 'Globalization and within-country income inequality' ch 7 in Bachetta, M and M Jansen, *Making Globalization Socially Sustainable*, Geneva; ILO http://www.wto.org/english/res_e/booksp_e/glob_soc_sus_e_chap7_e.pdf

[13] Ibid.

some jobs in the short run. But, protection from competition not only means higher prices for consumers (which in itself can create inequality) but also that companies have less incentive to invest and re-skill their workers. The result can be that the protected industries sink into long-term decline, wages stagnate and long-run job losses and inequality are actually worsened.

A case can be made for short-run strategic trade restrictions to allow local industries time to invest and develop. Indeed, when other countries are ‘dumping’

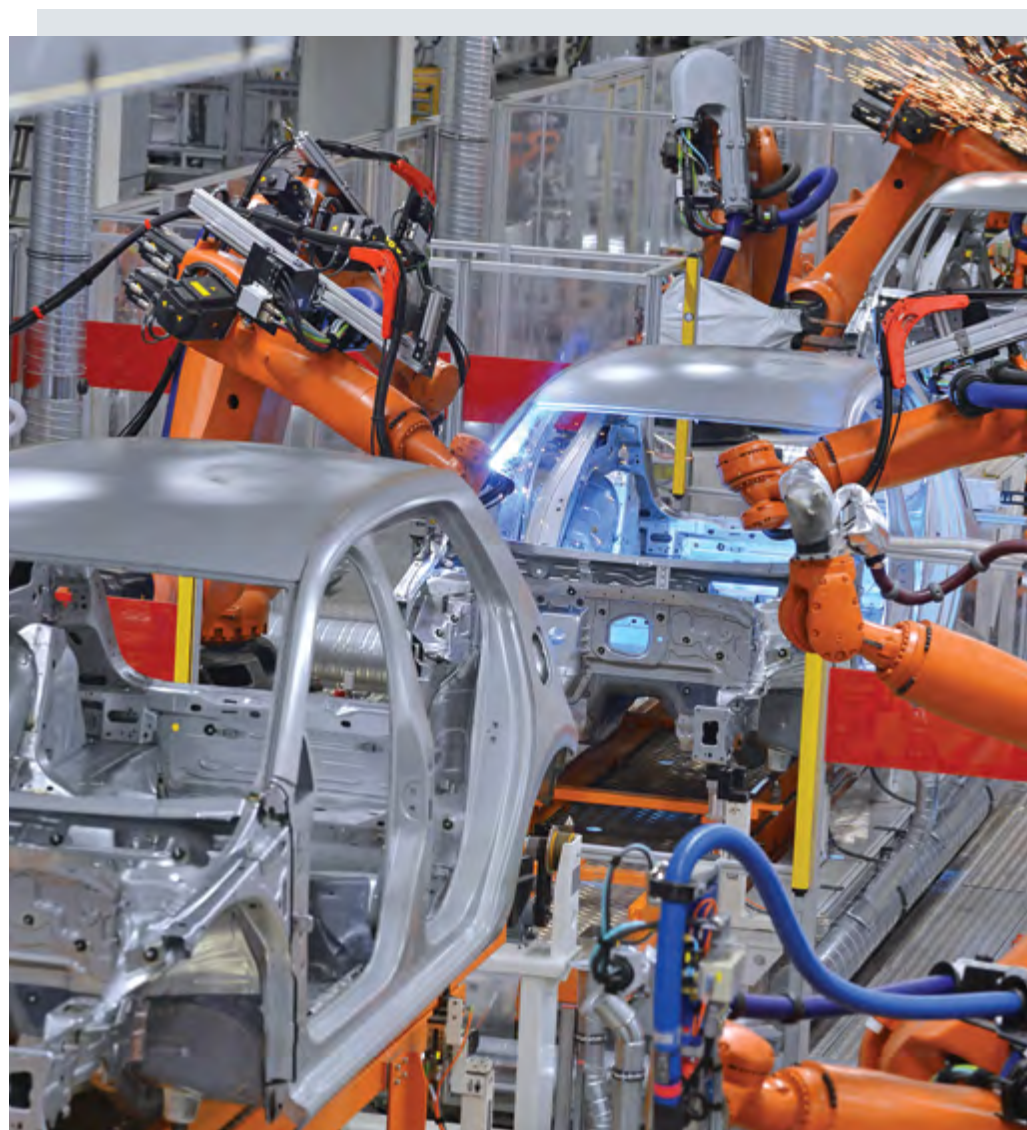
exports at prices below the cost of production, it is vital that robust action is taken. But this action should be targeted and time-limited. Generally, it is hard to determine when the ‘short run’ has ended and political pressures and lobbying can mean that what was intended as a temporary move ends up being in place permanently and the gains from trade are lost.

Looking from the other direction, when considering the removal of trade restrictions, for example tariffs, it is quite reasonable to proceed with caution and care. Lowering tariffs in stages rather than a one-off eradication

can help with the adjustment process.

That said, as far as possible, those on the left should be looking to take advantage of the benefits of freer trade in terms of lower prices and long-run improvements in productivity. They should aim to tackle the issues of industrial transformation and inequality not by restricting imports but by redistribution via the tax system and through targeted support for home industries such as investment in regional infrastructure, support for research and development, and facilitating education and retraining. •

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Free trade and workers' rights

The possibility that free trade will lead to competitive pressure which will erode workers' rights is at the heart of much of the opposition to free trade from the left. The worry is that when a country is exposed to the full force of import competition, governments and firms come under pressure to produce at the lowest possible cost. In turn, this may make it more difficult for a single country to maintain labour market regulations which can increase costs. Indeed, when trade is easy, a multinational company may be tempted to shift production from the highly regulated country, set up in a less highly regulated environment and then just export goods to the original country.

Whilst such a scenario is plausible, the empirical evidence suggests that trade liberalisation can have a range of effects on the enforcement of labour laws.^[14] Increased flows of goods and services, particularly through the supply chains of multinational companies, can actually lead to increased pressure to raise labour standards. Obvious examples are the ‘fair trade’ campaigns in which consumers in wealthier countries put pressure on multinational suppliers of coffee and other goods to improve worker standards in developing countries. Similarly, consumer concerns have spurred multinational clothing suppliers to work hard to eradicate the use of child labour in their supply chain.

Economists Eric Neumayer and Indra de Soysa formally test this effect and conclude that “countries that are more open to trade and/or have a higher stock of foreign direct investment also have a lower incidence of child labor”.^[15] Other research finds that increased competition from trade has helped to close the gender pay gap by reducing the ability of firms to discriminate.^[16] Relatedly, there is at least some evidence that restrictions to trade can play a causal role in increasing corruption within countries.^[17]

It is clear that suggesting that freer trade poses an inherent danger to workers' rights is at best an oversimplification of a complex issue. •

Free trade and the environment

Many people worry that free trade makes it more difficult to achieve environmental improvements. It is a concern worth taking seriously. As with the workers' rights issue, the concern is that pressures from having to compete with global rivals will cause businesses to cut corners and may also encourage governments to water down regulatory standards. A further worry is that trade will cause polluting industries to relocate to

countries where environmental standards are lower, the so-called ‘Pollution Haven Hypothesis’.

As with workers' rights, there are countervailing pressures. In the first place, consumer demand for better environmental standards tends to be a ‘luxury good’ in economic terms. This means that the richer people get, the more they care about the environment. Put simply, if your main concern is keeping your family from starvation, you are

less likely to care whether you are contributing to a little bit of extra pollution. To the extent that free trade contributes to greater economic prosperity it is likely to lead to improved environmental standards in the long run. Further, as with workers' rights, trade between countries may also contribute to higher standards in richer countries being ‘exported’ to poorer countries. So, for example, consumers of paper goods in the UK put pressure on their suppliers to ensure that Amazonian

[14] See, for example, Dewan, S and L Ronconi (2018), ‘U.S. Free trade agreements and the enforcement of labor law in Latin America’, *Industrial Relations: A Journal of Economy and Society*, 57 (1, Jan): 35-56.

[15] Neumayer, E and I de Soysa (2005), ‘Trade openness, Foreign Direct Investment and Child Labor’, *World Development*, 33(1): 43-63.

[16] See Black, SE and E Brainerd (2004), ‘Importing equality? The impact of globalization on gender discrimination’, *ILR Review*, 57 (4): 540-59 and also, Oostendorp, RH (2009), ‘Globalization and the Gender Wage Gap’, *The World Bank Economic Review*, 23 (1, Jan): 141-61.

[17] Torrez, J, ‘The effect of openness on corruption’, *The Journal of International Trade and Competitiveness*, 11(4): 387-403.

rainforests are not being exploited to make the good. Similarly, demand from US or European consumers for sustainably caught fish puts pressure on fishing fleets in both rich and poor countries to improve standards.

There is extensive empirical evidence examining the net effect of freer trade on environmental standards. Although there is evidence that stricter environmental standards can cause a reduction in trade, the reverse does not appear to be true. As a recent and exhaustive survey of the literature concludes, “there remains little evidence that trade liberalizations shift dirty good production to low income or weak regulation countries as suggested by the Pollution Haven Hypothesis.” Even better, there is some evidence that “trade liberalizations lower firm and perhaps even industry emissions”^[18].

That does not mean that free trade will never contribute to environmental problems. However, we also need to consider the effect of trade restrictions on the environment. As soon as discussions start about the best way to inhibit trade, the outcome is likely to be dependent on the relative power of vested interests who lobby regulators. We should not be surprised that in such negotiations, restrictions tend to

be skewed in a way that supports the interests of producers, often big global corporations, rather than workers and consumers.

We have seen this frequently within the European Union. Single Market regulations operate as protectionist measures to make it more difficult for producers from outside the EU to export their goods. The regulations are often the outcome of complicated and secretive lobbying and negotiations. Although there may be cases in which regulations prove to be a boon for the environment, in other cases we have seen regulations appear at the behest of big industry but which have led to environmental disasters. Obvious examples include the appalling long-term environmental effects of the Common Agricultural and Fisheries policies.^[19] In the late 1990s, we saw the EU strongly promoting diesel cars partly as a way of giving domestic producers an advantage over Japanese and US rivals. Unfortunately, we are still dealing with the disastrous environmental consequences.^[20]

More recently, the US has seen pressure from Suniva Inc., a failing renewable energy company, to impose tariffs on imported solar panels. Such a move might well protect some panel manufacturing jobs in the short run. However, by artificially raising prices of

solar panels, it would limit the development of solar energy in the US and threaten jobs in other parts of the industry such as manufacturing of other parts and installation. Little wonder that protectionist measures are being opposed both by the wider industry and unions.^[21]

There does not have to be a trade-off between trade and the environment. The sensible approach for those keen to see continued environmental improvement is to support free trade so that countries have the resources necessary to pay for better environments, but at the same time to work with partners across the world to drive up internationally agreed standards. •



The case of New Zealand agriculture

Starting in 1984, the Labour Government in New Zealand introduced far-reaching reforms including significant reductions in tariffs on imports and other barriers to trade. The reforms particularly affected agriculture and over a relatively short period of time, most existing subsidies and price support schemes for farmers were phased out.

The reforms raised all sorts of concerns and dire predictions, including the collapse of the rural economy and worsening environmental quality. In a 2006 report for the OECD, Vangelis Vitalis lays out how these predictions worked out.

The reforms certainly caused a big change in patterns of agriculture in New Zealand. There was a shift away from the dominant sheep

farming sector and towards dairy and horticulture (particularly apples, kiwifruit and wine). Farming incomes were hit in the short run, but had fully recovered within a few years. Productivity in all sectors increased dramatically and the net result was a huge boost to the agricultural sector and, indeed, to the New Zealand economy as a whole.

There were some short-term social problems. Some farmers were forced to leave the industry (though the total was about 1%, far less than

the 16% predicted when the reforms were announced), some farmers were forced onto social welfare and there were tragic reports of an increase in rural suicides. Such problems might have been alleviated had the Government been better prepared to provide short-run support. In the longer run, there was little effect on average farm size but, despite greater mechanisation and efficiency, there was no reduction in long-run farm employment.

The political consequences are also interesting. When announced, the reforms led to large-scale protests in rural communities. However, the success of the reforms led to an increase in support for the Labour Government in many rural areas and this contributed to Labour increasing its majority in the 1987 general election.

Perhaps the most striking effect of the reforms was their generally beneficial effect on a range of environmental outcomes. Greater efficiency led to more being produced on less land resulting in significant re-forestation, whilst fertiliser and pesticide use declined. On the downside, the shift towards dairy farming has had some adverse impacts on water quality through greater amounts of effluent, and this has attracted recent negative attention.

New Zealand has some unique features in terms of its size and geographical location which suggest a degree of caution before drawing generalisations. With that caveat, the reforms of the 1980s provide valuable lessons. They demonstrate how moves to freer trade can lead to long-run improvements in productivity, wages, economic growth and environmental outcomes. At the same time, they illustrate the importance of putting in place a high level of social support to protect individuals and communities who suffer from the consequences of change. •

[18] Cherniwchan, J, BR Copeland and M Scott Taylor (2017), 'Trade and the Environment: New Methods, Measurements, and Results', *Annual Review of Economics*, 9: 59-85, <http://www.annualreviews.org/doi/10.1146/annurev-economics-063016-103756>

[19] Schwägerl, C (2013), 'Will reform finally end the plunder of Europe's fisheries?' *Yale E360*, Feb http://e360.yale.edu/features/will_reform_finally_end_the_plunder_of_europes_fisheries

[20] Plumer, B (2015), 'Europe's love affair with diesel cars has been a disaster', *Vox*, Oct <http://www.vox.com/2015/10/15/9541789/volkswagen-europe-diesel-pollution>

[21] Cama, T (2017), 'Coalition launches to fight solar panel tariffs', *The Hill*, July <http://thehill.com/policy/energy-environment/343208-coalition-launches-to-fight-solar-panel-tariffs>

Vitalis, V (2006), 'Subsidy reform in the New Zealand agricultural sector', ch 3 in *Subsidy Reform and Sustainable Development: Economic, Environmental and Social Aspects*, OECD: Paris <http://www.oecd.org/greengrowth/subsidyreformandsustainabledevelopmenteconomicenvironmentalandsocialaspects.htm>

Morton, J (2017), 'Come take a dip, dairy industry tells Sir Tim Smit', *New Zealand Herald*, 1 Dec http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11951429

Free trade and developing countries

It is sometimes argued that restrictions on free trade are necessary to give poorer countries the space to develop their industries. Further, some suggest that the terms of trade imposed on poorer countries mean that the gains from trade are not experienced by the developing world. A particular concern is the fact that exports from many developing countries are dominated by commodities and agricultural products, the price of which tends to go down over time.

The first point to remember is that, under the theory of comparative advantage, both countries benefit from trade, even the country which has less productive capacity. There is no guarantee that the gains from trade are evenly distributed between the two countries, but, generally speaking, restrictions on trade will restrict the ability of the poorer country to develop. Indeed, lifting trade restrictions and encouraging foreign direct investment can increase that country's productive capacity and reduce its dependence on a small number of primary exports.

Recent work looking at Africa concludes that openness to trade does reduce poverty but conditional on three factors: high education levels, strong institutions and working financial markets. This underlines the central point: yes, it is true that trade does not always lead to

benefits for everyone. But trade does give everyone the *potential* to benefit. The solution then is not to restrict trade but indeed to make sure the conditions are put in place under which easier trade does benefit all sectors of society.

We need to consider the wider effects of trade restrictions and their implementation. Very often, trade restrictions implemented by richer countries operate directly against the interests of developing countries. The classic example is the Customs Union operated by the EU, which imposes high tariffs on goods coming in from developing countries. This not only increases prices for consumers in the EU at the behest of industry interest groups, but limits the ability of developing countries to sell their goods.

Supporters of EU protectionism sometimes point to the fact that the poorest countries in the world are exempt from the EU external tariff. But when you look at the details of this exemption, a murky picture emerges. Poorer countries can export goods tariff-free but only as long as they are not processed. But the economic value from processing foods is often far higher than relying on primary goods. The net result is that EU protectionist policies work to keep a steady flow of cheap imports of primary products to the benefit of big

European companies, which make money out of processing those goods and selling them on at higher margins. At the same time, developing countries find it difficult to expand their industrial capacity and to end their reliance on agricultural products.

For example, in December 2017, the Maldives Ambassador to the UK pointed out how the EU allows tuna from his country to be imported tariff-free, whilst processed tuna attracts a tariff of 24%. This is problematic for the Maldives, which would like to develop its own canning industry. But, of course, it works perfectly for the EU tuna canning industry which gets cheap inputs and remains protected from overseas competition.^[22]

To summarise, freer trade has the potential to be a significant driver of economic growth and prosperity for even the poorest nations. It is possible that, under certain conditions, trade can have negative effects for some sectors. The right response is unlikely to be supporting restrictions on trade which not only mean the long-run benefits of trade can never be achieved, but which, in practice, may also work directly against the interests of developing countries. A better solution is to support both trade but also measures such as investment in infrastructure and education which allow the benefits from trade to be felt by all. •

EU and Coffee

In his masterful essay "How the EU starves Africa into submission", the late Calestous Juma of Harvard University spells out

how protectionist trade policies by western countries can impact on the developing world using the example of the European Union tariff escalation policy.

The EU operates a customs union, in which products imported from non-EU countries are subject to tariffs which are often particularly high for food products. In some cases, tariffs are much higher on processed foods such as coffee beans than on the raw materials such as roasted coffee. This can make it particularly hard for developing countries to end reliance on primary products, whilst producers in the EU benefit from being able to import cheap primary

goods which they can process and sell on at higher margins.

In principle, the EU operates tariff exemptions for some of the poorest developing countries through its Everything but Arms (EBA) scheme. In practice, the detail of the exemptions can still make it difficult even for EBA countries to export processed goods.

As a result, Juma explains that "In 2014 Africa—the home of coffee—earned nearly \$2.4 billion from the crop. Germany, a leading processor, earned about \$3.8 billion from coffee re-exports.

The concern is not that Germany benefits from processing coffee. It is that Africa is punished by EU tariff barriers for doing so." •

Juma, Calestous (2015), 'How the EU starves Africa into submission', *CapX*, Oct
<https://capx.co/how-the-eu-starves-africa-into-submission/>



[22] Shiaan, A (2017), 'On behalf of the Maldives, I don't just respect the Brexit vote – I welcome it', *Brexit Central*, Dec
<http://brexitcentral.com/behalf-maldives-i-dont-just-respect-brexit-vote-i-welcome/>

Free trade agreements

Some of the biggest campaigns from the left have been against specific free trade agreements (FTAs), for example the proposed Transatlantic Trade and Investment Partnership (TTIP) between the US and EU, and the equally controversial Trans-Pacific Partnership agreement (TPP) proposed between the US and a number of other Pacific countries.

These types of agreements tend to involve both measures to ease trade such as lower or zero tariffs and regulatory harmonisation, but also a range of further measures, often including sector-specific regulations, environmental measures, new institutions to enforce the agreement and so on. Given their broad scope, a general stance of being in favour of free trade does not mean that any particular agreement should have the automatic support of the left.

Indeed, the inevitable outcome of many of these negotiations is that they are long, complicated and subject to lobbying by vested interests such as global corporations, industry representatives, trade unions, environmental groups and more. Almost inevitably some of the proposed measures will benefit ordinary workers but others are unlikely to be in their interests. Each agreement should be looked at on its own merits and assessed accordingly.

Taking the case of the TPP, the intention was to reduce trade

barriers between 12 countries. Part of the deal was to reduce tariffs but, at the insistence of large US corporations, the deal was expanded to enforce regulations on intellectual property rights across all countries in the agreement. Through expanded patent enforcement and copyright terms, huge pharmaceutical and entertainment companies would have increased their monopoly power and control over their respective industries. As it happens, the decision in January 2017 by Donald Trump to

opt out of the Treaty has allowed the other countries to remove the offending section meaning the residual deal focuses much more on measures genuinely aimed at making trade easier.^[23]

Similarly TTIP, which aimed to ease trade between the EU and the US, was a huge and sprawling agreement encompassing not only genuine free trade measures such as tariff reductions, but also a range of regulatory changes, many of which appeared to be designed for the benefit of

multinational corporations. For example, the proposed approach to 'regulatory co-operation' would have given statutory rights to big business to initiate new proposals for regulation in areas such as consumer and environmental standards with very limited democratic oversight.^[24]

The benefits of free trade can often be achieved in a much simpler manner. As noted earlier on page 9, many people assume that the main benefits of tariff-free trade accrue to the exporting country. But if we remember that we import goods and services because they are useful to us, it

becomes easier to understand that many of the benefits come from lowering tariffs on imports; these benefits include lower prices for consumers and producers, as well as increases in domestic productivity leading to long-run wage improvement.

This means that there is plenty of scope for countries to lower barriers to trade unilaterally without signing up to complex agreements. Of course, big businesses are often strongly opposed to unilateral tariff reduction as the tariffs provide protection from new entrants to the market, providing them with

easy profits (in the short run at least) whilst reducing the need for companies to invest in skilling up their workforce.

That does not mean there is never any advantage from free trade agreements. For example, mutual recognition of standards and regulations between partner countries can further free up the flow of goods and services. What is important is to avoid regulatory capture by global corporations and vested interests under the guise of unduly complex trade agreements that in reality do not correspond to free trade in any meaningful sense. •



MUTUAL RECOGNITION OF STANDARDS AND REGULATIONS BETWEEN PARTNER COUNTRIES CAN FURTHER FREE UP THE FLOW OF GOODS AND SERVICES

[23] Tucker, J (2017), 'How Trump inadvertently boosted free trade', *CapX*, Nov <https://capx.co/how-trump-inadvertently-boosted-free-trade/>

[24] Jewell, J (2015), 'Strange bedfellows unite to fight TTIP – but will it work?' *The Conversation* July, <https://theconversation.com/strange-bedfellows-unite-to-fight-ttip-but-will-it-work-44528> See also *Corporate Europe Observatory* (2016), 'EU's TTIP position: regulations to be made for and by big business', April <https://corporateeurope.org/international-trade/2016/04/eus-ttip-position-regulations-be-made-and-big-business>

CONCLUSIONS

In recent years, far too many people have bought into a misguided view that free trade is something the left should oppose as a matter of principle, seeing it as a way for global capital to lower wages, reduce labour market regulations and oppress developing countries.

In fact, opposing free trade itself can have these effects. Protectionist limitations on trade such as high tariffs often benefit producers by reducing competition, but hit consumers directly in the pocket through higher prices. As tariffs tend to be highest on goods such as food and clothing, which form a higher proportion of expenditure for those on the lowest incomes, the effect is felt most by the poor.

Various arguments are put forward for restricting trade and although each of them has some merit, the academic evidence that openness to trade increases inequality, weakens labour protections or worsens environmental protections is at best ambiguous. Many restrictions on trade, even

when put in place with the best intentions, can often have unintended consequences which hit the most vulnerable. Indeed, without the resources generated by trade, achievements in other socially important areas are likely to be much more difficult to accomplish.

That does not mean there is no role for regulation when it comes to trade, but interventions need to be carefully focused. Governments have a clear role in ensuring that robust measures are in place to tackle interference with genuine free trade such as dumping or anti-competitive practices, whether these stem from trade bodies, large corporations or other governments. Further, governments need to recognise the impact that rapid changes to trading conditions can have on individuals, industrial sectors and regions. It is sensible to control the pace of change (for example staggering tariff reductions over time) and to ensure that the rewards from trade are experienced by the whole economy both through

redistribution via the tax and benefit system and, crucially, through investment in education and training.

Those who campaign for more fundamental interventions to erect barriers to trade itself need to recognise the danger that the nature of those interventions will inevitably be shaped by those with the most power – multinational corporations that want to stop new entrants into a market, the political elites and other vested interests – with negative consequences for ordinary families and working people.

As we have seen, the benefits of free trade for ordinary workers were well understood by many in the labour movement in years gone by. It is time for those on the left to recognise again that, implemented sensibly, free trade can be a powerful tool for transforming poverty into prosperity in both developed and developing countries. There is no trade-off between free trade and economic justice – we need to be championing both. •



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The **IFT** launched in September 2017 at the UK Foreign & Commonwealth Office, with speeches by Foreign Secretary **Boris Johnson** and Trade Secretary **Liam Fox**.

IFT is a private, not-for-profit, non-partisan research institute making the intellectual and moral case for free trade. It is Britain's only research organisation dedicated solely to trade policy. It aims to capitalise on the opportunity Brexit has afforded Britain to liberalise its trade policy, by convincing three key audiences that more open trade will benefit the country (and, indeed our trading partners): policy-makers and legislators; businesses; the general public.

Its research covers unilateral trade policy, bilateral, regional and multilateral trade relationships, and sectoral issues.

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