Fight over global free trade erupts in France

by William Engdahl

An extraordinary debate has erupted within the French policy establishment, over the wisdom of the current push toward global "free trade" envisioned in the General Agreement on Tariffs and Trade (GATT) Uruguay Round. The front-line in this fight in France has been taken up by Nobel Prize economist Prof. Maurice Allais. Allais, in a two-part series in the Paris daily *Le Figaro,* attacks the axiomatic assumptions on which world political leaders have been convinced to eliminate whole sectors of national industry and agriculture, and rips their logic to shreds.

France is pursuing this national policy debate on an issue, free trade, which in Germany and most other European countries is still considered politically taboo. Senior French political figures say privately, after the approval of the North American Free Trade Agreement by the U.S. House of Representatives on Nov. 17, that a major political fight will be directed from France, aimed at winning Germany to the French camp in opposition to global free trade.

A fundamental error

Allais, an outspoken critic of the global speculation madness which has been tolerated by governments over the past two decades of financial liberalization and deregulation, made his intervention into the current European debate over economic and trade policy in the Nov. 16 *Le Figaro.* Titled "A Fundamental Error," Allais takes up the arguments developed by the World Bank and the Organization of Economic Cooperation and Development (OECD) in their study "Trade Liberalization: Global Economic Implications," which is being used to claim large benefits to the world economy from passage of the Uruguay Round.

"I want to warn against the conclusions of this study, which are based on a highly controversial model of world trade, above all on an incorrect estimation of the gains possible from global free trade," Allais states. "One should be terrified to realize that these are the very conclusions which have been reported to political decision-makers, conclusions fundamentally erroneous, and that the fate of tens of millions of men and women throughout the world is at stake."

Allais first rips the World Bank study, based on what it calls their RUNS Model (Rural-Urban North-South), a computer model with data for 22 countries and regions of the world. According to the RUNS simulation for the elimination of 30% of current world agriculture subsidies, the World Bank/OECD study predicts a "$213 billion gain in world trade beginning the year 2002."

But, Allais correctly points out, in a study with such enormous implications for the welfare of millions and even entire nations, the World Bank omits any data giving dollar numbers for each country today and in the year 2002 in terms of estimated income, exports, wages, etc. "The fact that the report does not give any of this essential data makes all critical analysis of its calculations impossible. Without any such data, on this basis alone the RUNS model and commentary has no validity or value," he insists.

After taking up the few assumptions the World Bank and OECD economists do make public, Allais points out that the model assumes no changes in relative currency parities between today and the year 2002 for the 22 countries. This he says, "is totally impermissible if one only considers the enormous fluctuation in the relation between the mark and the dollar."

Allais examines the World Bank/OECD assertion that the world economy would "gain" $213 billion, were nations to eliminate $300 billion in subsidies to agriculture. Pointing out that proper scientific measurement of the real costs of state subsidies to industry or agriculture is "one of the most difficult questions of economic anaylsis," he details his own work on this subject over a period of 50 years.

Pointing out that we cannot simply "add" or "subtract" a subsidy to productive enterprise in a national economy as if it were a Lego block in a child's model, Allais notes that such state subsidy actually goes to expand the total creation of real physical production in the overall national economy by making agricultural activity profitable in specific ways. Thus to calculate the "cost" of such subsidies, we must also look at how much consumption, production, tax revenue, etc. the "subsidized" farmers provide to the general economy. After all, it is not the same to substitute cheap farm imports from the Philippines or Argentina into Europe, from the standpoint of European national revenue accounts.

According to the model developed by Allais in the case of French agriculture, the world's second largest farm export country, in 1990, "the real cost is approximately 24 times less than the total cost of the subsidies, and about 170 times less than the total agricultural production of France. This cost is extremely small, only 0.0003% of the French GDP!"

Using World Bank numbers, Allais shows that far from the total agricultural and industrial gains of $250 billion in the year 2002, "we arrive at a totally different evaluation of feasible gains from lifting the subsidies. In reality we find the gains to be only $16 billion, that is, 16 times less than that of the World Bank," a gain of a mere 5% of the total value of the subsidies. "One can conclude that the method of the World Bank is totally erroneous and exaggerated by a factor anywhere from 100% to 1,000%," Allais concludes.

Also on Nov. 16, the former head of the French national economic research agency INSEE, Prof. Edmond Malinvaud, published a call in *Le Monde* by a number of French economists calling for an emergency "European New Deal" involving a government infrastructure and training program of $325 billion, a sum well beyond the recent infrastructure proposal of European Commission President Jacques Delors of $125 billion which is to be discussed at the European Community summit in December.

Three weeks earlier, the Balladur government broke with the free trade circles inside French industry, when he backed down to the protest strike by Air France workers against 4,000 job eliminations prior to the planned privatization selloff of the national airlines. Sources close to the government report that it fears a repeat of May 1968, that is, national strikes and protests by unemployed who see jobs being "sucked out" of the country to China, Mexico, and other cheap labor sites.

The invalid dogma of Ricardo

Opposition to the liberal free trade agenda of GATT is not restricted to France. Even in Britain, the country which started the push to global free trade back in 1846 with repeal of its "Corn Laws" agriculture protection, there is opposition. A commentary in the Nov. 14 *Sunday Telegraph*, entitled "Why Global Free Trade Is Bad for Britain," accurate argues that the "Theory of Comparative Advantage" developed in 1817 by Britain's David Ricardo to justify free trade, is irrelevant today.

Today's global unrestricted capital flows and ease of technology transfer mean that free trade will open the floodgates for capital and industry transfer from the industrial to the cheap labor areas as never before, argues the *Telegraph*. Under GATT's free trade model, it argues, "there is no way of being able to beat competitors who use the same technology, have ready access to technology and whose labor costs are more than 90% lower." Under GATT, "our national wealth, accumulated over centuries, will be transferred elsewhere."

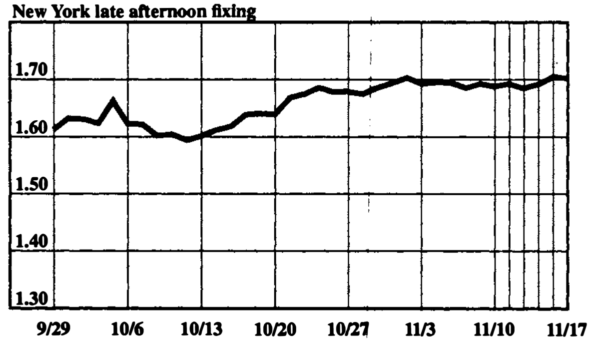
Columnist Will Hutton, writing in the Nov. 16 London *Guardian*, states, "tragically, GATT has been sucked into a nihilist free market revolution—careless of human institutions, common morality, the environment and integrity of society. . . . The world is drifting toward the calamity of its trading order collapsing."

The London-based newsletter of Morgan Stanley and Co. warned in a recent client advisory of the growing backlash from industrial European countries to the free trade globalization. "We are left with an inherently unstable situation. The tension point is the looming friction between the labor-absorbing strategies of economic development and the job-shedding process of industrial world restructuring. . . . My darkest fear is that a clash of some form or another is a growing possibility." The pyrrhic victory on NAFTA by the free trade forces in the U.S. Congress will bring such a clash that much nearer.

Currency Rates

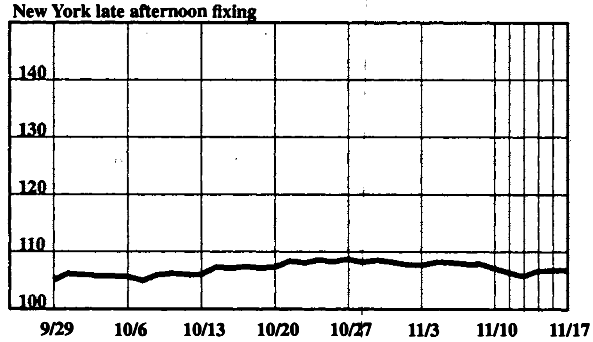
The dollar in deutschemarks

New York late afternoon fixing



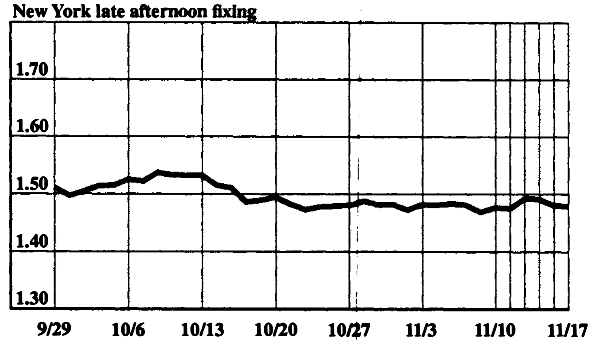
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing