Allais blasts OECD's free trade fraud

The following are excerpts from a two-part article by French Nobel Prize economist Maurice Allais, published in Le Figaro *Nov. 15-16. The article is a critique of an influential World/Bank OECD study, "Trade Liberalization: Global Economic Implications."*

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. . . .

How do we correctly evaluate the order of magnitude of real costs of agricultural subsidies? We must distinguish between the volume of subsidies and the *real cost* to the economy because the subsidies go to create real physical income to the economy. The proper evaluation of this real cost of subsidies is one of the most difficult questions of economic analysis. . . .

I use the illustration of the case of agricultural subsidies for France in 1990. The calculation leads us to conclude that in this case the real cost is approximately 24 times *less* than the total amount of the cost of subsidies, and about 170 times less than the total agricultural production of France. This cost is extremely small. It represents only 3 ten thousandths of 1% of the GDP of France!

This evaluation may at first amaze people, because current opinion has identified cost of subsidies with the total amount of subsidies to agriculture, that is, the total amount of revenue transfers to farmers. But these are totally incomparable quantities. . . .

One can conclude that the method of the World Bank/OECD study is totally erroneous, and this holds also for all evaluations the study makes of gains in world trade. Given the uncertainty of which I spoke in my first article regarding the basis data used by the World Bank, I must conclude that all evaluations presented in the World Bank study are exaggerated by a factor of between 100% and 1,000%. . . .

The World Bank and OECD bear much of the responsibility for the drive for trade liberalization. The World Bank prediction of enormous "gains" to the world economy is intended to influence political policy, using the mask of pseudo-science, which can only fool the naive. To make decisions which have great consquences for many tens of millions of people in the world based on such conclusions, would be ludicrous. The World Bank report is a gigantic mystification on behalf of a simplistic ideology, the ideology of dogmatic and uncontrolled free trade.

where the globalization process has been under way since the early 1980s. The process is even given a euphemistic name, "down-sizing," and inevitably produces a rise in the stock market each time a huge company such as General Motors or IBM announces draconian austerity steps. It also dramatically increases the burden to taxpayers of supporting a growing army of unemployed, and replacing their lost tax revenues.

Most of what investment has taken place in the world over the past two or more years, has gone to the cheap-labor havens of Southeast Asia, Guandong province in China, or special free trade zones such as Mexico's *maquiladoras,* at levels in excess of $40 billion annually, expected to reach $80 billion in several years.

But there is a qualitatively new feature to this investment. It is entirely different in character from the kind of investment large German or French or American companies made abroad in the 1960s or 1970s, where sources of needed raw materials were secured for domestic manufacture, or foreign market presence established in developing markets for advanced capital goods made in Europe.

Unlike the development of so-called multinational corporations over the past 30 years or so, the new "global corporation" has a view of both production and markets, entirely independent from any ties to a single country. The moment a particular location becomes unprofitable, it is either closed or forced to meet the profit levels of the most profitable low-wage production center. Skilled German machinists now must compete with Malaysian or Mexican workers who are willing to work with little or no health or pension benefits, no job security, at wages well below the equivalent of DM 19 ($11) per day, that is, DM 380 ($223) monthly. The traditional German excellence of small, highly skilled *Mittelstand* machine parts manufacturers, which supply large industry, is threatened existentially, with this new "out-sourcing" trend of industrial globalization.

The cumulative result of these pressures is that the industrial manufacturing base of the world economy is moving, wholesale, out of Europe, Japan, and North America, to relocate in these cheap-labor areas of the underdeveloped world. It is not only former East Germany which is facing deindustrialization; today it is western Germany, France, and the advanced industrial economies of the entire European Community, which are at the edge of a cataclysmic change whose end result will be deindustrialization. The recent decision of VW to close its modern auto production in America and to ship the parts to Shanghai, China to build new production facilities, is paradigmatic of this.

The economic liberalization of the past decade in less