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After the WTO Ministerial Conference in Seattle in December 1999, the Cordell Hull Institute was asked to organize three papers for a symposium of the Japan Automobile Manufacturers Association on "Protectionism in a Booming Economy".

The three papers were later published in *The JAMA Forum*, Tokyo, February 2000.



Reproduced here is the paper by **Victoria Curzon Price** (above).

About the Author

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BOOM AND PROTECTIONISM...

"Ethical" Protectionism and its Proponents

Victoria Curzon Price

TAXING or even forbidding imports from other nations is the norm, both over time and over space and free trade has never been adopted on a broad scale for very long. This fact has long puzzled economists, most of whom would argue that protection reduces most people's incomes. Since economists take the view (shared with many other observers of human behavior) that people generally prefer higher incomes to lower ones, they have been at a loss to explain the popularity of policies which run against this general interest in higher living standards.

From the 1960s onwards, however, the branch of economics known as "public choice" came to our rescue¹. Thanks to this approach, we began to analyze the policy pendulum which went from more or less protectionism to more or less free trade and back again, as being the result of a political struggle between the winners and losers of this or that policy. We thought we understood the politics of protectionism much better and could explain why in some cases we accepted the challenge of freer trade, and in others we shot ourselves in the foot by lopping off billions from our potential incomes through protectionist measures. Little did we know how little we knew.

Trade policy used to be low-key, uninteresting stuff, information on which was to be found only in the back pages of fairly specialized papers. Since the failed WTO ministerial meeting in Seattle in December 1999, however, it has become the subject of high politics. The anti-WTO demonstrators in Seattle have succeeded in involving public opinion in what was already a fairly politicized game. They have brought to a head a problem that had been simmering for some time: the ethical dimension of trade (or rather, its lack of an ethical dimension). The true protectionists among us are delighted. What a fantastic argument to bring on board! Protectionism is ethical! Who would have thought it? What luck.

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With her late husband, Gerard Curzon, she also wrote *The Management on Trade Relations in the GATT* (1976), *Multinational Enterprises in a Hostile World* (1977) and several other titles.

This article is divided into two unequal parts. In the first part, I shall briefly review the history of protectionism, in order to bring out the mix of motives that have presided over its evolution from the Middle Ages to Seattle, make a few rash generalizations from this historical experience, and show that the protectionist virus is ubiquitous, contagious and mutant. Sometimes free trade flourishes, but never for very long. In the second part, I shall try to extract the least hysterical points from the media hype and evaluate the intellectual content and practical effect of the latest mutation of the virus: the "ethical" argument for protection.

TYPES OF PROTECTION OVER TIME

In the earliest forms of protection under pure mercantilism, restrictions on foreign trade were simply part of a monarch's foreign policy. There was no notion of a sphere of civil liberty, in which people could be free to produce and trade, unhampered by the loving supervision of the agents of the state. Mercantilism constituted a set of beliefs that "government must direct society in all its activities, including economic ones, with national strength as its goal."² Protection was just a part, even a small part, of the mercantilist program, in which political and economic issues were totally confounded. The purpose of the policy was certainly not to maximize the incomes of the subjects of the king, but to maximize the king's income, and in this it may possibly have been successful. But it was certainly not a formula for prosperity for the masses and it proved incompatible with the modern economy based on the division of labor, specialization and economies of scale, which demanded ever wider markets.

The end of mercantilism and feudalism in Europe, the beginning of the industrial revolution and the first stirrings of democracy and constitutional government, more or less coincide from the mid to the end of the 18th century. The American and French revolutions began a phase of nation-building based on the citizenry which lasts to this day. Alexander Hamilton was able to wax eloquent on the subject of freeing commerce between the thirteen states, but had no difficulty at all in arguing simultaneously for protection against Europe: "Let the Thirteen States, bound together in a strict and indissoluble union, concur in erecting one great American system, superior to the control of all transatlantic force or influence, and able to dictate the terms of the connection between the old and the new world!"³ During this phase, European nations also tore down internal barriers to trade and erected external ones⁴. Taxes on trade coincided with political frontiers for the first time in history and in one case - the Zollverein - even exceeded them. The German princely states, led by Prussia, were precursors in freeing up regional trade while maintaining external protection⁵. Protection as an instrument of nation-building was born.

By the mid-9th century, ordinary people had gained a great deal of freedom, including the right to act economically, keep the profits,

and trade with foreigners. But even constitutional monarchies and republics needed revenue and one of the main reasons for maintaining or introducing tariffs was simply that they were a convenient fiscal device (witness for instance the French tariff of 1871). This mundane motive is still important in developing countries today.

The 19th century also saw the first instance of protection of a "sensitive" sector, when European tariffs were raised against cheap American grain from 1873 on. Its purpose was to protect the factors of production "farm labor" and "land owners" from the overwhelming advantage of abundant and fertile American land. Exactly the same type of factor-protection re-appeared in the 20th century when, in the 1960s, first the USA, then Europe, protected their textile and clothing industries against cheap Japanese and Asian products. The purpose was to protect the factor of production "developed-country textile labor" from the overwhelming advantage of abundant and productive textile labor in developing countries. The term "overwhelming" is used in both cases to underline the relatively few cases when international trade produces discontinuities based on absolute rather than relative advantage, and where the outcome of competition implies a massive geographic re-location of economic activity to another part of the globe. Most of the time, an advantage is not overwhelming, off-setting factors exist, and international trade causes only marginal expansions and contractions in various sectors. To place Japanese automobiles on the list of "sensitive" products, for instance, is pure humbug, for factor prices in Japan are very similar to those of Europe or North America.

The end of the 19th century also saw the first attempts at infant-industry, import-substituting protection, which proved rather successful (at least in Germany from 1879 and in France from 1881) possibly leading some nationalistic leaders to believe that national economic self-sufficiency was achievable and wars could be easily waged. In any event, European leaders all leaped joyfully into the World War I, each believing that their troops would soon be home, victorious. So much for the illusions nurtured by national self-sufficiency.

Infant-industry protection continues to this day, but in its scale-economy-export-oriented form. Developing countries are not the only ones to practice it. In European countries it has mutated into "industrial policy", "picking the winners", or "strategic trade policy" - a selective support system for research, development and technological progress in various sectors (for instance, the Airbus project).

The same period also witnessed the first break-down of free trade through neglect: first a harmless fiscal tariff (France, 1871), then a bit of agricultural protection (from 1873 onwards in most of continental Europe), then a spot of infant-industry protection (from

1879 onwards), and very soon, tariffs rose and spread all over the place to such an extent that "by the outbreak of war in 1914 almost the whole of continental Europe was in the grip of a protectionist system"⁶.

The collapse of two great eastern European empires after 1918 gave birth to many politically insignificant nation states, jealous of their new-found identity and eager to express their independence with policies designed to foster economic self-sufficiency. This period produced many instances of protectionism as an instrument of nation-building, but it all ended in tears, as the nations were usually far too small for firms to even approach the minimum scale of efficient production. We went through the whole process again after 1960, as de-colonization created a whole new set of mostly small and weak nations, and again it ended in tears for the same reason. This is why export-oriented industrial policies are so popular in developing countries, and why they need WTO to protect their access to rich-country markets.

Numerous post-1918 economic conferences to re-establish freer trade and base lower levels of protection on the simple, transparent, market-friendly tariff failed utterly, and the world entered the Great Depression bristling with all sorts of non-tariff barriers to trade⁷. It therefore did not take much to start a real trade war, which the United States effortlessly accomplished with the Smoot-Hawley Act of 1930. This raised US tariffs steeply, a move which was immediately met with similar tariff hikes in the rest of the world. This episode of rapid and widespread increase in protection through retaliation reduced trade to one-third its pre-crisis level and probably was the single most important factor which turned the 1929 recession into the Great Depression.

In the 1930s protectionism as a tool of nationalism, and the hopeless mixing up of economics and politics, as in the Middle Ages, reached a paroxysm, hopefully never to be seen again. On two occasions (after 1879 and after 1930), the history of protectionism shows how a relatively free and open system can degenerate through action, retaliation and counter-action, until the channels of trade are completely blocked up. We have no recent example of this occurring on a large scale, but the lesson of history is that once the tide turns towards protection, it is extremely difficult to reverse it.

In the 1970s and 1980s protection in developed countries took the form of non-tariff barriers, because governments had gradually given up the freedom to use tariffs as they pleased in successive GATT rounds. This protection can be very simply explained with reference to public choice theory.⁸ It was of great help to politically influential sectors, usually with large work forces concentrated in crucial industrial constituencies, while dispersed consumers never really noticed that they were paying. This type of protection, while not new (after all, the 1870s protectionist

Bismarkian alliance of "iron and rye", or the 1840s free-trade campaign of Cobden and Bright based on setting urban against farming interests, are both nice examples of public-choice theory at work) became particularly virulent in the developed countries in the last years of the 20th century, as the old distinction between "right" and "left" lost its meaning and democracy degenerated into an unprincipled scramble for power on the part of undifferentiated political parties.

But the picture was not all bleak. Quite the contrary, many sectors were comparatively free of state interference, trade grew, international investments expanded, people were on the whole freer than ever before to seize entrepreneurial opportunities the world over. Trade policy was developed behind closed doors, by technocrats. At times they worked for protectionist lobbies; at times they worked for the general good by opening markets and increasing opportunities to trade. In the GATT, even non-tariff barriers were beginning to be dealt with, such as the use of standards and regulations as a means of keeping foreign goods out of one's country. In the transformation of the GATT into WTO, sovereign states even agreed to submit trade disputes to a quasi-legal form of arbitration.

To summarize, protectionism has, in the past, been an instrument of high-key foreign policy, nation-building and international rivalry; a plaything of lower-key domestic politics for income redistribution between rival interest groups; and a (usually unsuccessful) instrument of economic development and industrial policy. On two occasions in the last two centuries, governments have moved away from protection towards free trade, but without conviction or staying power. Every move forward is hesitant, as though fraught with danger, which of course it is, given the fact that the winners are often many and dispersed and the losers few and vocal. On the other hand, when governments move backwards towards greater protection, they do so with alacrity. A dynamic is set in motion, resulting in wider and deeper protectionist measures than were originally bargained for, because retaliation sets in and protagonists settle down to a good game of tit for tat.

Given that fairly free international trade is a fragile institution at best, a simple rule to minimize the risk of a breakdown would be to avoid mixing up commercial policy with politics. It is hard enough to hold the line with rival interest groups trying to evade competition.

The current rather messy mixture of liberalism and protection, order and disorder, produced by fifty years of GATT/ WTO co-operation has nevertheless proved enough to unleash many trade opportunities - so much so that public opinion is now thoroughly alarmed about the whole matter. The process has been magnified by the increasing convertibility of currencies (ever since 1958 for current transactions), ever freer capital movements⁹ and falling

transport and communication costs. Indeed, it is probable that liberalization on the monetary front and technological factors together account for more of the increase in international trade than the successive GATT/WTO rounds of trade liberalization. Be this as it may, it is a fact that international trade grew from \$100 billion in 1960 to \$6,374 billion in 1996 (not adjusted for inflation), representing a jump from 10% to 22% of world GNP¹⁰. We could thus say that it doubled in relative importance in the space of 30 years. But from 1980 to 1997, foreign direct investment grew much faster, by a factor of 15¹¹; and international portfolio investment expanded faster still¹². We also are told that merely converting one currency into another creates a daily turnover on international exchanges of \$1,500 billion¹³ - a huge figure on an annualized basis of \$450,000 billion (not counting Sundays), 70 times the value of world trade. Finally, the sum of international mergers has grown from virtually nothing in the 1980s to over \$2,500 billion in 1998¹⁴. Whether sufficient underlying freedom to trade has generated these vast financial flows, or whether they enjoy a life of their own, is not at issue here. The mere fact that they coexist has created a hugely dynamic, interactive system which has attracted the attention of the media, excited public opinion and provided an ideal platform for various prophets, soothsayers, doomsters and the like. They came to Seattle to express their disgust for the dynamic, open system which our fearless leaders hardly knew they were creating.

ETHICAL PROTECTIONISM

Two "new" items were on the agenda at Seattle: the addition of a social clause and the legitimacy (or not) of environmentally motivated trade restrictions. The political pressure for linking these issues to international trade came from two broad sources: traditional protectionists on the one hand, and a new set of players on the international trade scene - morally-driven human and environmental rights groups.

Adding a Social Clause to WTO

Traditional protectionists have often based their case on the "cheap labor argument". It is our old friend, protection of a "sensitive" sector because of some overwhelming factor advantage overseas. Today, employees in rich countries in traded goods sectors are constantly under competitive threat from rapidly industrializing countries, just as European farmers in the latter part of the 19th century were threatened by cheap American grain. They would dearly like to obtain outright protection, but that seems difficult. So they have come up with an indirect proposal: why not include minimum labor standards as a "must" in the WTO, thus forcing developing country members to adopt expensive work-place regulations - or face trade sanctions legitimized by the newly created WTO dispute-settlement system. How could one possibly object to such a good thing as improved working

conditions in poor countries? The result of this proposal would be a more "level playing field": either developing countries raise the cost of labor by adopting these minimum labor standards, or they face trade barriers. Labor in rich countries would be protected either way.

Nobody would take this proposal very seriously, were it not for the fact that it is officially sponsored by France and the United States and has received the personal endorsement of President Clinton. Only children believe in Father Christmas, and no sensible person could possibly believe that one can really raise people's real incomes by decree.

Nor does the "level playing field" or "fair" trade versus free trade concept have any intellectual standing. It is just a catchy slogan. International trade, business deals and markets thrive on differences. If we all bore the same costs, used the same technologies and produced the same things, there would be no point in trading at all. Business is all about discovering differences, however small, and inventing new ones. By trading on the basis of differences, the differences themselves become less extreme, prices converge, initial profits get competed away, and the true entrepreneur is now looking for new differences. The social gain (quite different from the entrepreneurial profit) comes in the form of lower prices for things which used to be rare and dear. The sporting metaphor is inappropriate because everybody wins at the game of trade - the rich, the poor, the productive and the unproductive. Some people's noses may be put out of joint because of competition, but that is another question. In the game of trade, the only level playing field of any relevance is equality before the reality of competition. It is those who dislike competition (and who can blame them sometimes?) who seek protection from it. But if they are successful, the whole of society suffers.

The traditional protectionists have received support from certain genuinely morally concerned groups (known as NGOs, or non-governmental organizations, which have recognized standing in certain UN fora) fighting for the abolition of slavery, child labor, "decent" working conditions, freedom of association, etc. These NGOs have suddenly discovered that the WTO has a quasi-judicial dispute-settlement system, with real teeth (trade sanctions). Tired of seeing no progress in the International Labor Office (no teeth at all) or UNICEF (no enforcement mechanism either), they are now pressing for their particular item on the moral agenda to be placed in the lap of WTO. This would be a monumental mistake, for several reasons.

First, and most important, it should be clear that what is proposed is to legalize trade sanctions against a developing country's exports, should it be found wanting with regard to a "correct" social minimum. Developing countries are, naturally, outraged.

Who is so arrogant as to decide such matters on their behalf? Is this not just familiar protectionism by developed countries in a moral disguise? One can only sympathize with this reaction.

Secondly, any trade sanctions thus imposed would provoke immediate retaliation, because they would be deemed illegitimate. The world trade system would not survive such a dangerous mixture of economics and politics; it would quickly unravel.

The solution is quite obvious. To the extent that people are sincere in advocating « core labor standards », they should do everything possible to promote economic growth in poor nations. For example, writing off \$100 billion, or two-thirds of the official debts of the world's poorest countries, decided upon at the IMF 1999 annual meeting, or opening new trade access to developed country markets, are arguably much more likely to improve economic and social conditions than forcing poor countries, under threat of trade sanctions, to adopt Western-style laws on the freedom of association, or the minimum age for work.

This is not to say that concerned groups should do nothing. Quite the contrary, thanks to the Internet, they can monitor multinationals in developing countries, publicize unethical work practices, persuade consumers in rich countries to share their concerns by adopting politically correct consumption patterns, shame multinationals into improving their record, and so forth. Pressure groups can probably do more to change things, and at a much lower risk, by appealing directly to the public, than by trying to get governments to act on their behalf.

Environmental Concerns

We meet the "level playing field" again in the environmental sphere. Industrialists complain that they cannot meet strict environmental standards while remaining in competition with firms in poor countries with much lower requirements, or none at all. They threaten to move their polluting activities abroad. But if they do so, this is surely to be welcomed: rich societies get rid of the polluting industries, which is what they want, and poorer countries attract them, which is also what they want, since they are at a stage of economic development where extra income is of greater value than a cleaner environment. When they are richer, they will enact their own environmental legislation. People in rich countries who suggest that our polluting firms need protection from imports to help pay for pollution-abatement measures, are trying to have their cake and eat it: they want cleaner air and the jobs provided by the polluting activity. But in this they are wasting resources and preventing poor countries from developing, arguably making the world environment much worse in the long run.

It is nevertheless true that strict environmental protection laws to which all must submit, like high social security charges and strict

labor standards, all add to costs, and industrialists in rich countries never tire of complaining that this reduces their ability to remain internationally "competitive". This argument is also intellectually barren, since such general regulations affect all classes of economic activity, and have no effect on the structure of comparative advantage, except to discourage in a general way labor-intensive and pollution-intensive industries, which are exactly the type of activities most appropriate for developing countries. Gold-plated social and environmental laws and regulations are "paid" for out of general productivity growth, and the more successful and economy is (in economic terms) the more it can afford to enact and enforce such measures.

The general sentiment nevertheless remains that competition from developing countries with lower standards is unfair and should be offset by protectionism. For some time already, traditional protectionists have managed to catch the attention of public opinion with such heavily loaded terms as "social dumping", "eco-dumping" and the much feared "race to the bottom". And it is here that traditional protectionists suddenly found unexpected allies in the many environmental groups that turned up in Seattle in December 1999. With their good intentions and high moral standards, they have shifted the political balance in favor of protection, to the detriment of all. They take the argument one step further.

Trade Destroys the Environment

Environmental groups make the following claim: international trade is destroying the environment directly by generating unnecessary transport, and indirectly by increasing global production. In the purple prose of Thilo Bode, executive director of Greenpeace International "The modern economy is a fire-breathing vampire of petroleum which is slowly cooking our planet". This is worthy of a total crusade, and in the view of Greenpeace, constitutes an absolute value. The economic approach, however, recognize no absolute priorities, only preferences which compete with each other for scarce resources. It has no objection to devoting resources to protecting the environment per se, but will always ask what alternative goods have to be sacrificed: Food for the hungry? Medicines for the sick? Education for children? The list of human needs is endless, and the environment is only part of it. It follows from the economic approach that the answer to a better environment is the creation of more resources, not fewer. And what produces more resources? Why, freer trade, of course. Economists and environmentalists cannot see eye to eye on this question.

WTO Works in the Interest of Immoral Giant Corporations

Environmental groups make an additional claim: the WTO exists to further the interests of powerful, uncontrollable, monopolistic, a-

national and a-moral corporations which bear no obligations to the societies in which they operate and which pollute the environment for their own profit. Several issues are involved in this list of complaints. Let us start with the ethical objection to global markets. Here we are at the heart of the new "ethical" argument for protection, and even for the total rejection of the WTO system. We shall not dwell on, but must nevertheless make, the obvious point that this is really a complaint against the market, or capitalist, system per se, of which multinational corporations and the WTO are only a part.

But people who worry about capitalism's lack of ethical content are missing the point. It is not capitalism, or its institutions, that are lacking in ethical content, but man himself. "Capitalism" is just a word to describe a certain set of institutions, a certain category of actions which we undertake, in the modern world, to feed and clothe our families and get on with our lives. Indeed "capitalism" has nothing to do with free markets per se. The communist system needed capital too, and produced plenty of unethical behavior. In fact, unethical behavior easily pre-dates modern "capitalism". So when the morally outraged complain of the selfish behavior of modern free market capitalists (i.e. the wicked multinationals) they are simply saying that they would prefer a world made up of better people. So would we all. But we know where trying to improve human nature leads us.

There is no denying some frankly immoral aspects of markets. As far as I can see, of the seven deadly sins, only ire, intemperance and lust are not an integral part of the economic process: envy causes us to try to better ourselves; sloth leads us to seek labor-saving innovations; avarice motivates us to save, invest and accumulate wealth well beyond what we really need; and pride keeps us going. But the iconoclastic idea that private vices lead to public benefits is both old and respectable, for it goes back to Thomas Aquinas, long before it was taken up by Bernard Mandeville and Adam Smith. The grasping, selfish, opportunistic multinational is led, via the profit motive, to do the best it can to satisfy people's needs. It sometimes makes mistakes (Monsanto may have miscalculated what people really wanted in terms of genetically modified maize - we shall see), but on the whole the system works quite well (MacDonald's and Coca Cola seem to meet a real need).

There is no denying that large firms like getting larger, and will exercise their market power to do so if they can. For this reason, it is important to keep competition alive, and no better policy exists for this than free and open markets. But at least they are contributing to providing the world with a steady stream of generally beneficial innovations, permitting more people to live longer than ever before. Of course, one could object that there are too many human beings on the face of the earth, etc. etc., but that would be shifting the terms of the debate.

There is also no denying that opportunistic human beings will pollute the environment if they think they can get away with it. The problem is certainly not confined to multinationals, but concerns small firms and consumers just as much. One used to think that the only way out was to turn merely immoral behavior into criminal behavior, by passing the appropriate legislation, applying fines and penalties or drawing up the appropriate international convention. Today, however, a more spontaneous solution is at hand. Monitoring of unethical behavior by private institutions, as already mentioned, is probably much more efficient than using the coercive powers of the state to enforce better standards of conduct. It has already scored some noted victories: over Shell in the Brent Spar case, over Asian sweat shops under contract to Nike, and in the development of "ethical" mutual funds for morally concerned investors. The cost of monitoring used to be prohibitive, but the Internet radically reduces information and transaction costs and makes it easier for civil society to monitor unethical behavior. If the Internet made it easier for all sorts of NGOs and other groups to organize and converge on Seattle, it also provides some of the answers to the issues they raised.

Returning to the claim that the WTO exists to further the interests of monopolistic corporations, the economist would argue that nothing could be further from the truth, since free trade and open markets encourage competition, which is the very opposite of monopoly and market power. It is true that today's firms are huge, that mega-mergers can create mammoth corporations with stock-market valuations of over \$100 billion. But the old complaint from the left of the political spectrum that this implies that multinationals are more powerful than governments, because their worth, or their turnover, exceeds the GNP of many countries, is misplaced. For sure they are powerful, but the nature of that power in an open and competitive environment is transient. In a competitive situation, they obtain their market share and their high stock-market valuation through persuasion, not force. In preventing those becoming monopolies and really exercising market power, the WTO is a friend, not a foe.

WTO is Undemocratic

Environmental groups also complain that WTO is undemocratic. It prevents citizens who want to protect their environment (or culture, or society for that matter) from taking appropriate measures (i.e. by stemming the international flow of foreign goods and money). Thus they hear to their astonishment and dismay that according to a WTO panel, the European Union is not allowed to forbid the imports of American beef produced with the help of growth hormones. They object to the law as established by WTO, and to the non-transparent nature of its judicial proceedings.

In this last matter, they have a point. The main difference between the old GATT and the new WTO lies in its dispute-settlement

procedures. In the new system parties commit themselves to respect the outcome of the process of arbitration, or suffer trade sanctions. In the old system, disputes would simmer on for years and years and would finally be discreetly negotiated away in one of the "rounds". The new system is more expeditious and legally based, but the traditional culture of diplomatic discretion remains. However, justice must be seen to be done, and to be legitimate, a judicial system must be an open one. WTO needs to address this problem if it is not to lay itself open to justified criticism.

It is also true that as the GATT/WTO system tackled the non-tariff barriers that had grown up as tariffs came down, mainly taking the form of different technical standards and regulations, commercial policy shifted away from border measures towards internal, domestic legislation. It inevitably became tied up with domestic politics, a factor which may help to account for growing anti-WTO sentiment. In fact, we may indeed have reached the end of the political road as far as controlling this type of non-tariff barrier is concerned. The solution lies in the private sector: as industrialists rush to bring new products and new technologies to the market, the standards and regulations which they will generate will be global, not national or regional, as they were in the 19th and 20th centuries. Firms themselves will insist on global standards whenever possible.

For the remainder, the WTO does not exist independently of its members, a great many of which are well-established democracies. It is certainly not a world government in the making. It is what its members wish it to be. Any country can withdraw at any time. The reason it continues to attract members is that international trade and economic growth go together, and like it or not, that is what most people want. Dare I suggest that it is the environmental absolutists who are undemocratic and who represent a small minority?

Finally, what can be more democratic than open markets? From the consumer's point of view, to be able to choose from many alternatives rather than few, to express preferences freely by voting with one's wallet, to force firms to follow the desires of the many by exposing them to competition, to benefit from low prices due to competition, seems to me to be about as democratic as one can get. From the firm's point of view, to be able to choose from many alternatives rather than few, to be free to find the best and cheapest ways to respond to consumers' demands, also seems to me to be not only efficient, but fair. Here, the WTO is a friend of the many and the poor, more than of the few and the rich.

WTO Promotes Uniformity and Crushes the Small, the Weak, the Poor

Another complaint is that the WTO represents a centralizing tendency, in which small countries, weak regions, local cultures,



The **mockingbird** is the state bird of Tennessee. Cordell Hull represented a district of Tennessee in the Congress of the United States, and was elected a senator from there, before becoming U.S. Secretary of State (1933-44).

Trade Policy Analyses

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minorities and mere citizens are crushed, their identities smothered by mass culture, giant corporations, and the blind dictatorship of the masses, all in the name of free trade.

However, the WTO represents nothing but a set of rules which civilized nations have agreed to live by. It protects weak nations against arbitrary actions by the strong (strong nations have no need for a world trade order - it is the small ones that need it desperately). If people fret over the "loss of sovereignty" or the "external discipline" of WTO trade law, they should remember that it is something of a miracle that super-powers should agree to submit to such discipline. Real imperialism would replace the current system, were it to collapse, and it would be much less agreeable. In particular, developing countries have much to gain from the maintenance of an open and global trade system, and much to lose from its collapse. Far from being in thrall to great power interests, the WTO represents the exact opposite.

Intellectuals and elites tend to denigrate mass culture and laugh at Disney-MacDonald's-Hollywood products, which happen to originate, conveniently, in the United States. So people in Europe, in particular, can indulge in intellectual snobbery and anti-American sentiment at the same time. But people who respect individual choice and do not try to impose their tastes on others are not particularly disturbed by this mass culture. Nobody forces them to consume it, and the global market provides enough cultural diversity for most tastes. Who are these arbiters of good taste to declare that others should not eat fast food and enjoy Mickey Mouse cartoons, while they prefer to eat in three star restaurants and go to the opera? The open trade system surely represents a cultural enrichment, not an impoverishment. People who argue the opposite are nostalgic, yearning for the good old days. But what were the good old days?

Culture is not static, independent of international influences. All our cultures are hybrids, and have been influencing each other for centuries. While it seems clear that a "global culture" is indeed emerging, the opposite is also happening: Catalan is replacing Castilian in parts of Spain; Welsh is being kept lovingly alive; Scotland is enjoying a new freedom to express its identity; the Canton of Jura, in Switzerland, is a recent creation. Ethnic minorities prove remarkably resilient to assimilation. In fact globalization seems to inspire people to invest ever more effort in maintaining and enriching their local cultures. So I fear people who use culture as an argument for protection are either mistaken or just using a clever argument to achieve political ends.

CONCLUSION

What happened at Seattle was significant, not because the NGOs and diverse rioters brought cogent arguments to bear against the WTO and the process of globalization, but because they attracted

analysis and public discussion of issues in interational economic relations.

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the attention of the media and played on the fears and prejudices of the public. From now on, international commercial policy will no longer be a matter of diplomats, technocrats and politicians forging complex and delicate multilateral agreements which balance out the forces of protection against the forces of free trade (a world of rational, politically active producers versus rationally ignorant consumers). The general public is no longer "rationally ignorant". Quite the contrary, the general public is alert, misinformed and definitely on the anti-trade side of the political balance. No democratically elected politician will wish to risk his career in pursuit of such a lost cause as the Millennium Round of the WTO. The protectionist virus, always present and always adaptable, has mutated in a dangerous and unexpected manner. Things will never be quite the same again.

In the immediate future, the challenge will be to prevent a downward spiral from taking hold, leading us backwards towards a new protectionist phase and a new great depression. For the anti-WTO demonstrators in Seattle have succeeded in concocting a novel brew of politics and trade, the outcome of which is unpredictable. If we fail to hold the line, the anti-WTO demonstrators at Seattle, like turkeys shouting for Christmas, will only have succeeded in making the poor poorer and the environment dirtier.

1. James M. Buchanan, Robert D. Tollison and Gordon Tullock (eds), *Toward a Theory of the Rent-Seeking Society*, Texas A&M University Press, College Station, 1980, contains most of the seminal texts in this field.

2. Max Beloff, "Introduction", in Alexander Hamilton, James Madison and John Jay, *The Federalist or, the new Constitution*, Blackwell, Oxford, 1948, p.iii

3. Idem, p.54.

4. W.O. Henderson, *The Genesis of the Common Market*, Frank Cass & Co. London 1962.

5. Wilhelm Röpke, *German Commercial Policy*, Longmans, London etc. 1934, p.9.

6. Gerard Curzon, *Multilateral Commercial Diplomacy*, Michael Joseph, London, 1965, p. 19.

7. Curzon, op. cit.p. 22.

8. Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies and Theft", *Western Economic Journal*, Vol. V, 1967, pp. 224-232.

9. Some countries have never maintained exchange controls on capital movements (Switzerland, USA), some countries removed them soon after World War II (Germany), and many more waited until the 1990s (France, Italy, Spain). In the UK they were abolished in 1979, one of the first reforms of the Thatcher government.

10. GATT/WTO, *International Trade*, (various issues).

11. UNCTAD, *World Investment Report* (various issues)

^{12.} According to research by the Bank of International Settlements, international transactions in shares and bonds in such countries as the US, Japan, Germany and Italy had by 1997 reached between twice and seven times GNP. See BIS, *68th Annual Report*, Basle, June 1998, p.100.

^{13.} *Idem*

^{14.} *The Economist*, October 16, 1999, p. 97. No other aspect of globalisation generates more media hype, for international mergers attract both xenophobic and anti-capitalist sentiment. If the merger is accompanied by job losses and re-location of production to a developing country, as it often is, emotion can rise to hysterical levels. This may be another reason for the sudden politisation of the WTO, which is vaguely led responsible for such atrocities.