

## ***Have Faith in Free Trade— The Greatest Story Over Sold***

By Kevin Gallagher

In an effort to gain followers for his new trade agenda, President Bush recently declared that we have a “moral imperative” to grant his administration authority to negotiate new trade treaties. Beyond economic reasons, Bush preached that free trade advances the “universal values” of eradicating poverty, advancing human freedom, and cleaning the planet. But the evidence behind such claims makes it difficult to keep the faith.

Dani Rodrik, a leading trade economist, recently co-authored a study for the National Bureau of Economic Research that concluded that neither trade nor capital liberalization was strongly linked with development. “If anything,” wrote Rodrik, “the evidence for the 1990s indicates a positive relationship between import tariffs and economic growth.” Current proposals for free trade are “bad news for the world’s poor.”

Rodrik’s study echoes concerns expressed by the mounting criticism of the current free trade model of development whose conclusions regarding poverty and the environment directly undermine the logic behind the new administration’s free trade doctrines. The argument that trade equals development invokes the work of the late economist Simon Kuznets. In a classic 1955 paper that looked at a cross section of countries, Kuznets observed that inequality tended to increase at the early stages of economic growth, but decreases in later stages. This inverted U-shaped relationship, known as the Kuznets Curve, has been held up as the rationale to advise governments to “grow now, worry about the poor later.”

The Kuznets curve did not hold up to empirical scrutiny. World income inequality has been rising for almost two centuries. The United

Nations Development Program estimates that the ratio of GDP per capita for the richest and poorest countries in the world grew from 3:1 in 1820 to 72:1 by the 1990s. Inequality is growing within nations as well. Many countries, both rich and poor, have become dramatically more unequal in the past thirty years. Mexico’s Foreign Minister, Jorge Castaneda, cites the exacerbation of inequality in Mexico under NAFTA as one of the key reasons why his Latin American counterparts are skeptical about a Free Trade Area of the Americas (FTAA). An FTAA by 2005 and a decision next year by the World Trade Organization (WTO) to launch a new round of free trade negotiations are prominent features in the administration’s promised land of trade and development.

For advocates of liberalized trade, the pattern that Kuznets talked about—first things get worse, then they get better as countries grow—can also be spotted in the environmental arena. In the early 1990s economists also thought they had found an “Environmental Kuznets Curve,” showing that pollution would first intensify, but then later decline as growth continued. On this basis, a prominent economist and free trade advocate Jagdish Bhagwati argued that over time free trade “should generally help the environment, not harm it.”

The idea is that trade liberalization will lead multinational corporations to invest in developing countries and bring their cleaner environmental practices in the process. In addition, it is assumed that rising incomes will trigger newly affluent citizens to demand a cleaner environment.

Research in recent years, however, has cast doubt on the Environmental Kuznets Curve relationship. The pattern has held true for only

a few of the pollutants that have been studied. Significantly, in some of the cases where pollution eventually decreases, the decline does not begin until an extremely high income level has been reached.

Even assuming some validity to the Environmental Kuznets Curve, the question becomes: can developing economies endure decades of environmental degradation before acting to clean it up? If such nations eventually do take action, the Superfund-like cleanup policies they might enact won't cure those who have suffered (or passed away) from exposure to pollution, or bring back depleted mines, waterways, and forests.

Nor can the developing world import its way out of the problem. Many richer nations are "cleaner" because we now import pollution-intensive goods from poorer countries. A recent World Bank study shows that pollution-intensive industry is steadily decreasing in wealthier countries

while increasing in the developing countries. Unlike the U.S. and other industrialized countries, developing nations do not have the luxury of having poorer countries do their dirty work.

The U.S. needs to preach what it has practiced for over fifty years. The U.S. economy has become one of the strongest in the world because Americans have pursued economic growth in tandem with social programs and environmental protection. Divorcing economic policy from social and environmental policy is a contradiction that is becoming all too clear. The growing opposition to U.S. trade policy—whether from foreign trade negotiators, congressional members, or protestors at international trade meetings—clearly signals rising support for a trade policy with a human face.

If the president is serious about advancing a successful trade agenda, he should submit trade promotion

authority legislation with a strong, enforceable commitment to linking trade with social and environmental policy. Bush would do better to recognize that free trade does not automatically cure the world's ills. However, trade can be successfully packaged with social and environmental policies as part of a comprehensive plan for economic development. As long as trade is pitched as the rule of the heavens—and not a tool for sustainable development—we are more likely to see more trade conflicts, not trade agreements.

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