



“Summary of article by Jagdish Bhagwati: The Case for Free Trade” in Frontier Issues in Economic Thought, Volume 1: A Survey of Ecological Economics. Island Press: Washington DC, 1995. pp. 302-304

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### **“Summary of article by Jagdish Bhagwati: The Case for Free Trade”**

Economists are disconcerted by the opposition - at times illogical and disregarding the facts - expressed by environmentalists to both free trade and the General Agreement on Tariffs and Trade (GATT). The disagreements between economists and environmentalists on the issue of free trade are perhaps inevitable, as there are clearly times when seeking maximum gains from trade conflicts with environmental protection objectives. Conflicts arise also because trade functions typically through open markets without government intervention, but for environmental protection to occur governments must often intervene to create special markets. An underlying philosophical difference also arises because environmentalists assert nature's autonomy, while most economists see nature in the service of humankind.

While some of the concerns of environmentalists are valid, others are baseless. For example, the fear that free trade must increase growth and growth harms the environment is baseless. In reality, growth enables governments to raise the taxes needed to support many government activities, including protection of the environment. Growth can increase both the demand for a good environment and the level of pollution. The net environmental effects therefore depend on the kind of growth. Gene M. Grossman and Alan B. Krueger<sup>1</sup> found that sulfur dioxide pollution fell as per capita income rose in cities around the world, except in areas where per capita income was less than \$5,000. In addition, rising incomes and freer trade enable countries to import pollution fighting technologies available elsewhere.

The genuine conflicts between economists and environmentalists are divided into two categories of environmental issues by economists: problems that are intrinsically domestic, and those that are transnational. The first category includes environmental problems for which the causes and effects arise wholly within a country, while transnational environmental problems occur when the causes or effects cross national boundaries. Some of the most important examples of transnational problems include acid rain and global warming.

Domestic environmental problems create international concern because differences in environmental standards can affect competitiveness. Business and labor unions worry that countries with lower environmental standards may gain a competitive edge, and so insist that these standards must be raised. Environmentalists fear that if countries with lower standards do not increase them, then standards may be lowered in high standard countries so that they can remain competitive. Environmentalists also view lower environmental standards in other countries as unfair subsidies, or "social dumping," and call for import duties to be levied on goods from these countries.

Environmentalists should realize, however, that even if two countries have the same environmental objectives they might attack different specific types of pollution. Different countries may also value environmental goods differently. The main consequence of different environmental standards and values is that each country will have less of those industries whose pollution it does not like. Since these are legitimate differences, trying to correct for different standards through import duties is not a logical or desirable approach. One step that might be taken, however, is for high-standard countries to insist that their industries maintain these standards even when they relocate abroad.

Environmentalists also oppose free trade because they wish to impose their values on other countries. For example, they have demanded that the US impose sanctions on Mexico based on Mexico's use of purse-seine nets for tuna fishing that kill dolphins. Such sanctions put the interests of dolphins ahead of those of the Mexican people. Also, once value systems start to intrude on free trade, there will be a never-ending stream of similar demands. The militant environmentalism being imposed on the South has led to accusations there that the North is indulging in "eco-imperialism," when in fact the North has the most adverse impacts on the environment. Rather than attempting to restrict free trade, environmentalists should use other methods such as lobbying countries with inadequate environmental standards, or organizing private boycotts of commodities from these countries.

Transnational problems require cooperative, multinational solutions that are both efficient and equitable. Any nation that is unwilling to join a multilateral environmental protocol must be given a chance to air their objections before trade sanctions are imposed. Promoting free trade and a protected environment simultaneously does pose problems, but none that are beyond resolution with goodwill and imaginative institutional innovation.

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1. Gene M. Grossman and Alan B. Krueger, "Environmental Impacts of a North American Free Trade Agreement," in *The Mexico-U.S. Free Trade Agreement*, ed. Peter M. Haber (The MIT Press, 1993).