



“Summary of article by Herman E. Daly: The Perils of Free Trade” in Frontier Issues in Economic Thought, Volume 1: A Survey of Ecological Economics. Island Press: Washington DC, 1995. pp. 304-306

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The consensus among economists is that free trade based on international specialization is good, unless proven otherwise in specific cases. This article questions this consensus and argues that, as a general rule, countries should favor domestic production for domestic markets. Trade can be used when convenient, but not at the risk of environmental and societal disaster.

Economists are sometimes represented as being for free trade, and environmentalists as being against it, but this characterization does a disservice to the issue. The real question is what regulations and goals are legitimate. Free traders favor maximizing output and profits, without considering the hidden social and environmental costs. They argue that the damage that results from growth can be dealt with using the wealth it generates. Environmentalists and some economists, on the other hand, believe that the environmental costs of growth are increasing at a faster rate than the benefits, thus making us poorer when growth occurs, not richer.

The rationale for free trade rests on the notion of comparative advantage that was formulated in the 19th century by British economist David Ricardo. Ricardo argues that different countries with different technologies, customs and resources will have different costs to produce the same product. Therefore, if each country produces goods for which it has comparatively lower costs and trades with others, then all parties will benefit. Ricardo assumed that capital was immobile across countries, but this is no longer true. In fact, free traders encourage a policy of capital mobility as a development strategy, but their argument is based on a theory that assumes that capital is not mobile.

When countries specialize, they no longer have the option not to trade, so they become locked-in to free trade. This loss of independence can be a liability. Specialization also leads to a reduction in the occupational choices available in a country. Therefore, while diversity does lead to some reduction in efficiency, it is necessary for strong communities and nationhood. Proponents of free trade completely ignore the community dimensions of welfare. In addition, if high subsidies for the energy intensive transportation costs associated with international trade are factored in, then the gains from trade are even lower.

However, there are arguments against the free trade approach that are even more fundamental than those described above, including problems with respect to efficient allocation of resources, fair distribution of resources, and maintenance of a sustainable scale of resource use. Trade leads to inefficient allocation of resources on a global scale because it encourages trade with nations that do not internalize their costs. For example, competition can lower costs by lowering

standards rather than by increasing efficiency, as when companies move into nations with lower pollution control standards, lower worker safety standards, etc. One solution to this problem is for nations that do internalize their costs to impose tariffs on those that do not.

Problems of resource distribution arise because when capital moves from high-income to low-income countries it reduces wage levels in the high-income countries and increases income inequality there. Meanwhile, the tendency for wages to increase in the low-income countries due to capital inflows is thwarted by overpopulation and rapid population growth. Other groups in low-income countries may also suffer due to the effects of trade; for example, Mexican peasants will be the losers when low-price corn enters Mexico from the US as a result of NAFTA.

The third fundamental problem with the free trade argument has to do with the goal of a sustainable scale of total resource use. The steady-state economic paradigm suggests that the economy is an open subsystem in a finite, nongrowing ecosystem. There is therefore an optimal level of throughput for the economy, or in other words, there must be limits to economic growth. Free trade increases the growth of the economy, and therefore throughput increases as well. Moreover, free trade allows a country to exceed the regenerative and absorptive capacities of its ecosystem by "importing" these capacities, and it also makes comparisons of the costs and benefits of environmental exploitation difficult because they will be spatially separated. This will result in economies overshooting their optimal scales and postponing the day when they must face ecological limits.

For all of these reasons, the stance in favor of free trade should be reversed. If it is not, then we are headed for national disintegration.