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# "Summary of article by Herman Daly: From Adjustment to Sustainable Development: The Obstacle of Free Trade"

"Adjustment" is frequently used to describe economic policies prescribed by international authorities such as the IMF and the World Bank. By narrowly defining "adjustment" in terms of the doctrine of free trade, mainstream economists are charting a course for the world economy that is not sustainable. For the world economy to make the transition to a sustainable society, distribution and scale considerations have to take center stage in economic thinking. This chapter describes five reasons why focusing solely on free trade as an economic strategy is unsustainable and outlines a vision of a world where "development," not "growth," is society's goal.

## The Neoclassical View

In neoclassical economics, the adjustment of an economy to an efficient one involves three main objectives: the internalization of social and environmental costs into prices; the adjustment of macroeconomic conditions to attain monetary stability; and integration of national markets into the world trading system so as to increase global productivity. While the first two goals are essential to sustainable development in national economies, the third goal of economic integration can undercut both of them.

We have three fundamental economic problems: allocation, distribution, and scale. Neoclassical economics deals especially with allocation, but gives short thrift to distribution and ignores scale entirely. Allocation refers to the use of resources to produce goods and services. Distribution is the apportioning of goods and services produced among different people, and scale refers to the physical size of the economy relative to the ecosystem. Allocation can be efficient or inefficient, distribution can be just or unjust, scale can be sustainable or unsustainable, but relying on free trade alone can lead to unjust and unsustainable outcomes.

## Why Free Trade Conflicts with Sustainable Development

There are at least five reasons why free trade conflicts with national efforts to develop sustainably. Free trade impinges on nations' ability to: "get the prices right" by internalizing social and environmental costs; distribute resources in a just manner; foster community; balance and control the macro-economy; and keep the scale of the economy within ecological limits. Each of these reasons will be taken in turn.

First, there is clearly a conflict between free trade and a national policy of internalization of external costs. To take the simple case of trade between two nations, if one nation embarks on an effort to internalize environmental and social costs, and enters into trade with a nation that does not, the latter nation can enjoy an advantage in goods that incur high amounts of such costs. What is necessary, albeit very difficult, for arguments for free trade to have some salience, is for all trading nations to agree on common rules for internalizing external costs.

Even if the condition of multilateral agreement on rules for cost internalization was met, achieving a just level of distribution through free trade may be unsurmountable. Wage levels vary enormously more among the world's trading partners, due to different conditions of labor supply and population growth rates. For most traded goods, labor is still the major cost item and therefore a very significant influence on prices. Cheap labor therefore means an advantage in trade. When both capital and goods are internationally mobile, capital will migrate to low wage countries, creating a tendency for wages to equalize worldwide. Neoclassical economists do not fret over this outcome. They believe that wages will eventually equalize at a higher level because the gains from free trade will be so enormous. Such a thought can only be entertained by those who ignore the issue of scale.

It is ecologically impossible for a world population of over 6 billion people to consume resources at the same per capita rate as Americans and Europeans. The third reason why free trade conflicts with sustainable development is that it tends to break down community. Free trade increases "the separation of ownership and control and the forced mobility of labor which are so inimical to community." (163) With free trade, life and community can be made subject to distant decisions and events over which communities have no control.

Fourth, free trade interferes with macroeconomic stability by allowing nations to run up excessive debt. In an attempt to repay these debts there is an incentive for nations to embark upon unsustainable rates of exploitation of exportable resources and to take out yet more loans to get foreign exchange to pay old loans. These efforts often spiral into crisis:

"Efforts to pay back loans and still meet domestic obligations lead to government budget deficits and monetary creation with resulting inflation. Inflation, plus the need to export to pay off loans, leads to currency devaluations, giving rise to foreign exchange speculation, capital flight, and hot money movements, disrupting the macroeconomic stability that adjustment was supposed to foster." (164)

The fifth reason, alluded to earlier, is that free trade violates the criterion of sustainable scale. The world economy is an open subsystem of a closed, non-growing, and finite ecosystem. Sustainable development means living within the limits of this finite ecosystem. Free trade allows nations, regions, or localities to live beyond their own ecological capacities by importing those capacities from abroad. Within limits, this is reasonable and necessary. But carried to extremes, it become destructive to the global ecosystem. Trade does not remove carrying capacity; it just guarantees that nations will hit that global constrainst simultaneously rather then sequentially -in effect it converts differing local constraints into an aggregated global constraint.

**Development, Not Growth**

Underlying the five reasons why free trade conflicts with sustainable development is the concept of growth. The term "growth" means a quantitative increase in physical size by assimilation of materials. As has been demonstrated, the growth that often accompanies free trade eventually increases environmental and social costs faster than it increases production benefits. Growth is quite distinct from "development," which means a qualitative change, a realization of potential, or a transition to a better state.

What needs to be sustained is development, not growth. Sustainable development is "development without growth in the scale of the economy beyond some point that is within biospheric carrying capacity." (167) Such a perspective does not put an end to economics; on the contrary, it requires a more subtle and complex economics of better, not bigger.