

Australia's recent economic catch-up owes as much to the opening of Australian markets to foreign competition and the forces of globalisation, as to domestic economic reform.

Like him, I have spent some time with Australian businessmen, directly and indirectly in Melbourne's business schools. The qualifications of corporate board members, and their similar ages and backgrounds, seem to influence their approach to business opportunities and to economic policies. Jones draws together important qualitative and quantitative evidence to support his views, though he draws heavily on journalistic references. The ABS data and Productivity Commission reports show that high growth in productivity recorded in the long upswing in economic activity since 1993 has come predominantly from small/medium-size firms, and from service sectors. This strong performance is the envy of many OECD and Asian economies. Undeniably, the drag from large firms and their predilection for protectionism remains a burden.

In chapter ten, Jones expresses concern about the human capital outflow from Australia. Yet this has always been a characteristic of adventurous Australians. Young graduates look for opportunities in large, high income economies, and international mobility is increasing. It is not all one way, however, because there is also an inflow of talent, largely from Asia. (Of course, this raises the politically sensitive issue of migration policy.) It would be surprising if mobile labour did not seek such opportunities. Indeed, in another breath, Jones acknowledges that Australian businesses need a spirit of adventure. Surely, the two should go together? Some comments in this chapter might be interpreted as being against free labour movements but they are intended to highlight the seriousness of shortcomings in the

Australian education system, about which there can be no disagreement.

Anxious that the economic benefits of globalisation are under-recognised, Eric Jones explains the costs of allowing spurious arguments to weaken the progress of economic interdependence. The important message of this volume is that conflicting opinions exist over any issue. There is no homogeneity that provides a unique policy response, which might in any case impede the momentum of social and economic progress. He shows that the world does not progress smoothly, but in fits and starts. Each hesitation must be confronted with a will, and with a reminder of history's lessons.

Reviewed by David Robertson

Free Trade Today

Jagdish Bhagwati

Princeton University Press, 2002,

144pp, US\$24.95,

ISBN 0691091560

WINSTON Churchill once famously quipped that if you had two economists in a room you would get two opinions. Unless of course, one of them was Lord Keynes, in which case you would get three. However, despite that legendary capacity to disagree, there is at least one major public policy issue on which economists record a remarkable degree of consensus—namely the mutual benefits flowing from free trade between nations.

A 1976 survey of American academic economists found just 3% who disagreed with the assertion that 'tariffs and quotas reduce economic welfare'. The only proposition to achieve a greater conformity of view was that 'a ceiling on rents reduces the quantity and quality of housing available' (2% disagreed).¹

In contrast to this strong endorsement by academic economists, moves towards free trade have generally struggled to win much support in the broader community, certainly in most of the industrialised world. Moreover, recent protests in Seattle and elsewhere against globalisation and the World Trade Organisation appear to signal a hardening of opinion against greater freedom of trade.

Economist Jagdish Bhagwati is one who believes that the Seattle protests indeed indicate a new wave of anti-free trade feeling, of a greater intensity and a modified type. His new book *Free Trade Today* is a spirited defence of the continued reduction and removal of trade barriers, particularly through multilateral processes rather than smaller trading blocs.

Professor Bhagwati argues that the traditional objections to free trade came from vested interests, usually representing domestic producers or workers whose industries are protected by import tariffs or quotas, whilst the defenders of free trade held the high moral ground by defending the 'general', rather than sectional, interest. However, the latest assault on free trade, featuring a range of non-government organisations and concerned citizens, is more focused on the impact of trade on human rights, international labour standards and the environment, particularly in low-wage developing countries. This is a challenge to the moral basis of free trade.

Free Trade Today could be seen as Professor Bhagwati's answer to this challenge. It takes the form of three thematic lectures. The first restates the theoretical case for free trade, and assesses the academic arguments advanced at various times in favour of some tariff protection. One such argument is based on the case where a country can exercise genuine market power by restricting trade, and can move the terms of trade in its favour, in much the same way a domestic

monopolist restricts supply of its product and raises the price to the profit maximising level. This is a rare case in practice, and even where it does pertain, the strategy risks the imposition of retaliatory tariffs by trading partners, with welfare losses all round.

Another traditional economic argument for tariff protection is the case where some domestic distortion or other (inflexible real wages in a particular industry, for example) leads to the perverse effect that increased trade reduces welfare, and some trade restriction can increase it. Bhagwati points out that in all such cases, the 'first best' result is the removal of the distortion itself, which (along with free trade) then operates to maximise economic well-being. By the completion of the first lecture, the case for free trade stands basically unscathed.

It is Bhagwati's second lecture which delves into the world of practical political argument, and tackles head on the issues of human rights, labour and environmental standards. He starts by citing the absence of any empirical evidence that free global trade leads to an environmental 'race to the bottom'. Further evidence is mounted that free trade need not reduce the wages of workers in industrialised countries and if anything, has improved the lot of the poorest countries, such as India since the early 1980s.

However, his central argument is based on an insight from the theory of economic policy. Specifically, he argues that you need as many instruments as you have policy targets. The mathematical metaphor is that you cannot solve a system of n equations in $n+1$ variables. Bhagwati's practical metaphor is that you cannot kill two birds with one stone.

So trade policy and the WTO can be used to reduce barriers and liberalise trade, but cannot be used to eradicate child labour or improve environmental standards in the Third

World. As a result, attempts to link social or moral agendas to trade issues, such as President Clinton's request to inject social standards into his quest for 'fast track' negotiating authority from Congress, lead to protectionism by stealth. The author describes it as 'protection with a moral mask'.

None of this is to imply that Professor Bhagwati does not support social and moral agendas. It is just that he sees them as unconnected to trade. In fact, he shows himself to be a great supporter of multi-lateral institutions beyond just the WTO. He speaks highly of the International Labor Organisation (ILO), and its role in focusing on core labour standards, child labour and the right to organise. He also advocates a policy of subjecting American companies to American environmental standards irrespective of the country in which they operate.

It is here that the argument has the potential to get confused. For example, trade unions could (and do) push for improved labour standards in the Third World via the ILO in a way which is not explicitly linked to trade, but which nonetheless stems from a protectionist motive. Australia's maritime union has a history of opposing the operation of foreign-crewed ships in Australian waters. Is this a concern for the plight of foreign seamen or for Australian jobs, wages and conditions?

However, Bhagwati's basic point holds: it is perfectly consistent to be concerned about the environment, about child labour and other human rights issues and nonetheless favour free trade as the best means to maximise welfare. If countries have their environmental and human rights houses in order, free trade is still the best policy. If they don't, then this is best addressed via other means. That

insight, if truly grasped, can help broaden the free trade coalition, by embracing those who are concerned about social and moral agendas and who generally support multilateral structures to further them.

Thus *Free Trade Today* tries to accommodate, as much as to dismiss, newly emerging concerns with free trade. As an aside, one wonders whether the stated case against continued tariff reduction in Australia today is of the more traditional type: protected industries, like automotive and TCF, have a greater incentive to lobby for continued protection than consumers have to lobby for lower prices.

Professor Bhagwati would presumably argue that the traditional arguments for trade protection have been disproven. What remains is to defend free trade against a new intellectual challenge—that arising from the Seattle WTO protest.

Free Trade Today is short and thoroughly readable, summarising the key argument in an easy, folksy manner. Some background in economics is helpful but by no means a prerequisite, since Professor Bhagwati employs a mix of theoretical and real-world arguments. Most importantly, he takes seriously the arguments of his opponents and is rarely glib, even though these three brief lectures necessarily skim over arguments which could justify detailed doctoral theses in their own right.

Reviewed by Michael Brennan

¹ J. Kearl, C. Pope, G. Whiting and L. Wimmer, 'What Economists Think? A Confusion of Economists', *American Economic Review* 69:1 (1979), 28-37

