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Is free trade an "insurance" against financial turbulence?

By Alexandra Strickner and Christian Felber

Perhaps it is not surprising that WTO Director General, Pascal Lamy, never misses an opportunity to promote the potential benefits of increased trade liberalization. According to Lamy (and other free trade advocates), trade expansion is the solution to every major problem the world faces.

In the 1990s, we were told that trade expansion would enhance democracy. After the attack on the Twin Towers in September 2001, free trade was reinvented as an indispensable means to fight terrorism. In Bali last December, at the UN Climate Change conference, Lamy argued more trade in environmental goods will help to mitigate global warming, while simultaneously insisting that climate change objectives should not justify new trade barriers.

Most recently, at a Geneva Lecture on Global Economic Governance, Lamy lectured that free trade is the best "insurance policy" against turbulence in global financial markets. He claimed that for the past 60 years the global trading system "has underpinned an unprecedented period of economic growth and development."

Unfortunately, Pascal Lamy's historical analysis on the role of free trade as well as his proposal that trade expansion will help solve the financial instability does not stand up to the evidence. Over the last 60 years, the global trading system has been transformed. For much of the period in question, trade and capital both were highly regulated and anything but free.

For instance, Europe's economic reconstruction after World War II, supported by substantial financing from the U.S. via the Marshall Plan, was essentially about the reestablishment of domestic markets, not the creation of a liberal trade regime. The significant economic growth and development of many developing countries from the 1960s through the 1970s, in Asia, Latin America and Africa happened without liberal trade policies. In fact, it was during the first half of the 60 year period Lamy refers to that many countries experienced their highest growth rates and saw real improvements in the lives of millions of their people. At this time, currencies were fixed and not convertible, capital transfers were highly regulated and many commodity prices were managed.

Neither free trade between unequal partners nor the deregulation of capital contributes to economic stability. Starting with the breakdown of the European Currency System in 1992 and the Mexican financial crisis in 1994, the world has witnessed successive deep financial and consequently economic crises due to the massive, unregulated inflow and outflow of foreign capital. Financial deregulation has brought instability to domestic financial markets that can spread worldwide instantaneously.

The Institute for Agriculture and Trade Policy promotes resilient family farms, rural communities and ecosystems around the world through research and education, science and technology, and advocacy.

Lamy's praise for the WTO as a reasonable model of "global governance" is misguided. The WTO acts in isolation of the wider multilateral system. Governments use the organization as a refuge to avoid their obligations under conventions that protect human rights, standards for decent work, redistributive mechanisms for North-South equity, consumer rights, natural resources, the climate, human and animal health, and so much more.

In the WTO services negotiations, the EU and the U.S. have asked other WTO members to dismantle systems that regulate financial markets and the movement of capital. The EU and U.S. want to provide their highly sophisticated financial industry with global opportunities for speculative profits. This is not a legitimate objective for the WTO and the net result will be to increase turbulence in financial markets.

The world needs comprehensive regulation of financial markets and global trade to protect public welfare. Lamy is mistaken: the liberalization of trade and finance will not provide peace, wealth, healthy environments or financial stability. It is time for less ideology and a whole lot more pragmatism from our global economic leaders.

We need comprehensive regulation of financial markets and global trade relations. On the one hand: binding human rights, labour, social, tax, health, security, and transparency standards for international trade. Trade shall be a means of sustainable development, not an end in itself. On the other, financial flows should be de-accelerated by capital controls, credit limitation, fair taxation, and disincentives to short-term speculation.

Lamy's job is not to cheer on trade liberalization out of the misguided ideological belief that more trade is better. His job is to ensure that our global system of governance for trade responds to existing public policy commitments. Trade is an economic tool: it needs to be governed by pragmatism and flexibility. The stalled Doha Agenda at the WTO is an opening for change.

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