

FREE TRADE LEAGUE - NEWSLETTER No 5

Free Trade benefits all but advantages none.

Obama's View On Free Trade

Chicago is known by most financially minded readers in the UK as the home of the world's largest commodities market and also the home of Milton Friedman, whose theories on money supply changed the way governments thought about the economy.

Yet this capitalist image contrasts with the reality of local highly-unionised industries and an electorate that looks on state intervention as a norm, indeed sees it as part of its heritage as much of the south and west of Chicago is dominated by "the projects" the housing estates that Mayor Daley built in the 1960s, largely with the aim of corralling the city's poor African Americans. He did not foresee that concentrating blacks in these "projects" would one day provide the power base enabling Barack Obama to become the 44th US President.

President-elect Barack Obama's political roots lie in this area. It is an area where the top priorities of the voters are social equality and access to free health care along with avoiding overseas wars. So it is natural that on trade issues he should put protecting American jobs first and talk about NAFTA (an agreement signed by another Democrat Bill Clinton) as having "destroyed 1m American jobs."

Mr Obama is, however, a quick learner. Now that he is in power he may realise his main task is to stop the other Democrats who dominate Congress from trying to run the country in the interest of their particular local industries. There are already moves afoot to force through such veiled protectionism in the shape of "environmental clauses" that must now be incorporated in US trade agreements.

We in the UK must also recognise that the US, as a continental power, can afford to look inwards and to pursue protectionist policies. It already often does so, in spite of lip service to the 7-year-old-but-still-not-agreed Doha round of world trade talks.

President-elect Obama, in his attack on Nafta (North American Free Trade Agreement) said that entire US cities have been devastated by it and 1m jobs destroyed. It is not our task to defend Nafta. But the reality is that since Nafta started in 1993 US employment has risen by 27m. As for the US trade deficit with poor Mexico that is insignificant in relation to the size of the US economy.

Fortunately understanding of the Free Trade cause is alive and well in the USA. It was reassuring to hear defeated Republican candidate Senator John McCain espousing it. He reminded US voters that in the 1930s it was tariffs that turned the US recession into a global depression: "It sound like a lot of fun to bash China and others, but free

trade has been the engine of our economy. Free trade should be the continuing principle that guides this nation's economy." Let us hope that Mr Obama understands this as well.

REAL POLITIK

The EU Trade Commissioner Peter Mandelson has been brought back into British politics and enobled as Lord Mandelson of Foy and Hartlepool so that he can become Business Secretary. We assume that this is because Prime Minister Gordon Brown sees him as a man who can get things done and that there is no one else available in that category in Labour's ranks.

Mr Brown is on record as telling a House of Commons committee (July3) that the world is becoming "increasingly protectionist" and that Britain had to show it was capable of standing up to that. He also said that Mr Mandelson has his full backing in his row with Mr Sarkozy over moves to liberalise the EU.

We suppose that as Free Traders most would expect us to be grateful to and supportive of Lord Mandelson. But he is talking about negotiated trade agreements – "you do this and I will do that." The reality of this form of multilateralism always excludes some and thus ends up embittering relations. The FTL's aim is for a move to unilateral Free Trade for the UK. That would cement the position we already have as the most open market in the entire world.

In France M. Sarkozy wants more "community preference" in agriculture. Plus a larger CAP budget. His pretext is that this will "insulate" EU consumers from rising world food prices. Again it is not our wish to tell the French, for long a protectionist country by nature, how to run their affairs. But the reality is that Sarkozy wants the votes of French farmers. But these farmers are far from daft. Some are noting how New Zealand farm output has surged since it abandoned subsidies and went over to a Free Trade policy.

THE FAIR TRADE FAIRY

"Fair Trade" is such a clever play on words that we are not surprised when people look at us askance when we explain that studies show that adopting the unilateral Free Trade we advocate would be up to sixfold as beneficial for the impoverished emergent nations. When we further explain the way "Fair Trade" works and how in practice it is a form of protectionism they look at us in disbelief.

But back in the 1900s Joseph Chamberlain's Tariff Reform League (to fight which the FTL was formed) staged a little play in which they had the "Fair Trade Fairy" fighting the Free Trade Witch. We Free Traders consider ourselves still free to believe in fairies when and if we want to – but not in protectionists dressed up as fairies.

Free markets are never perfect – just as playing fields are never quite level. They are not even always right in predicting the future. But as a "mechanism" they work a lot better than other "isms" and do so without the need for executions and gulags.

FAIRTRADE “CRUSADERS” DO HARM

Sir Teddy Taylor, FTL chairman, on November 7 took part in a Fairtrade vs Free Trade debate at the Conservative club of East Anglia University at Norwich.

Here is an extract from what he had to say: “Although I do not doubt in any way the sincerity of those involved in promoting Fairtrade, I hope that these crusaders will also ask themselves what they are really achieving.

Having mentioned the word crusade, could I tell the students about my happy days at university when I studied the Crusades in Palestine. At that time there were millions in the Western world who thought that the Crusades were working for religious freedom and were a worthy cause. Vast sums of money and many lives were sacrificed willingly.

But all that was achieved was the creation and extension of hatred and destruction. If I had come here nine centuries ago to argue that the Crusades were unnecessary and the outcome would be a nightmare for all concerned I would no doubt have been stoned or perhaps burned alive for my evil arguments.

There may be some who feel about me in a similar way because of my attack on the Fairtrade crusade. But I hope that most of you will look at the issue carefully and ask if with the best of intentions we might be making a similar horrendous mistake.

What concerns me most of all about all this is that the people are being misled. Today we do ourselves and the Third World no good at all by promote state financed exercises that ignore the heart of our real problems.”

IT ONLY HURTS WHEN YOU MAKE ME LAUGH

How about that? If you had told George Orwell of 1984 fame that the UK government in 2008 would own most of the banks he would have thought you were pulling his leg.

If you had added that the exceptions would be a bank with 12m customers owned by the Spanish and another one-third owned by Middle East investors he would have dismissed you as crazy.

What puzzles us is the meek way in which everyone seems to accept that Mr Brown and Mr Darling have done well to “rescue” the banks. If even the bankers did not understand what risks they were running what hope is there for governments to do so? If you don’t believe government ownership will only make a bad situation worse then look at how France fared after Credit Lyonnais was nationalised in 1992.

The banking crisis is a symptom of deeper global structural problems. These problems make it unlikely that the measures so far adopted in the UK will provide a long-term solution. The measures so far taken are

only the equivalent of sticking plaster applied to stem the way in which trust is bleeding away.

What has this to do with Free Trade? Everything. Banking, currencies, debts are all about trade. Free Trade puts value behind a currency by enhancing the opportunities for its use. Save sterling (and our banks) by declaring Britain will move towards being a Free Trade market for the world now.

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NODAL WORLD
Globalisation is a much over hyped concept, just one force among many shaping our world.
Japanese management guru Kenichi Ohmae is said to have invented the word in the 1980s with his book "The Borderless World" which saw trade as dominated by a triad of the USA, Europe and Japan.
Now his latest book "The Next Global Stage" shifts the focus to the growth of local "nodes" of production. An example is Bollywood in India. Similar "nodes" would rapidly appear in the UK under a Free Trade regime.

A NEW BUSINESS PLAN NEEDED FOR THE UK

Extract from a lecture in September at the School of Economics by John Heffernan. “The current banking crisis has made the adoption by the UK of a unilateral Free Trade strategy a matter of urgency, not just for the benefit of this country but also for the continued growth of the global economy.

The risk now is that the collapse of confidence in banking will spread to the foreign exchange markets. Although the physical trade in goods represents only a fraction of the total FX turnover it is the pivot on which international currency values are ultimately based. The various national currencies are dependent on the existence of Free Trade to put international value behind their value in foreign exchange.

This makes it crucially important for global trade that there should be at least one open market on which national surpluses of production could be disposed at all times. And the UK is uniquely suited to fill that role in terms of time zones, geographical positioning, historic links and above all the current vibrancy of the various City of London markets in shipping, insurance, metals and equities.

Moreover London has the advantage that sterling, with its independence of the euro and the dollar, provided a counterparty currency acceptable to many countries producing exports of dollar-priced commodities. With the US likely to turn yet more protectionist in its policies it becomes crucial that the UK reaffirms its determination to remain the world’s primary Free Trade Nation – a role that Britain has held to ever since abolishing the Corn Laws. If such a policy involves some form of EU derogation for the UK it will have to be accepted for the common global good, just as the UK accepts that the CAP is continued because it is considered to be needed by French farmers.

The alternative is to see the world split up into multi-lateral trading blocs with their own currencies and with their values supported by protectionist tariffs. History has shown that this will increase global tensions, even lead to wars. True, few may yet understand the importance of Free Trade as the foundation of freedom, or even that trade is not a 50/50 business but a 99% win for both parties. My conviction is that “Trade Theory” is in its infancy and needs an economist of the stature of Keynes or Frederick Hayek to explain it more fully”.

Free Trade is not an ideology but a mechanism. The same applies to free markets.
This is a difference that is not understood by those who say that “capitalism and free markets” have failed.