

## FREE MARKET AND PROTECTIONISM IN A GLOBAL SCENARIO WITH INEQUALITY

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The Third Millennium of the Christian era has started with a project that is a true challenge for mankind today. This challenge consists in creating a common area, without boundaries, without restrictions, without discrimination, in which the whole human family can live and develop. A model for all types of relationships is needed. We will focus on those relationships of an economic nature between individuals, states and regions, developed in freedom, without interference from public authorities that could affect such freedom, using the technological tools that scientific and technical research have made available, and, above all, those in the field of information and communication. In short, we are talking about the concept of globalisation.

In essence, the immanent spirit of the globalisation project is not new; in fact, it has been present in economic behaviour from time immemorial. The desire to broaden the horizons of productive activity, to open new ways through which to distribute manufactured products or raw materials, has been a permanent feature of humanity. The Phoenician trade routes in the Mediterranean Sea provide a good example of this globalisation spirit. The silk route, the spice route and, of course, the Atlantic trade routes that came into being following the discovery of the New World clearly show man's desire to widen the geographical area within which he acts, to influence and be influenced in all types of relationships, including those that are economic in nature, that arise from contact with individuals and local social groups that are outside of the normal everyday field of reference.

Perhaps the new feature in the twenty-first century is society's awareness of the importance of the global project, as well as the role that each person is called to play in that project, as well as awareness of the current situation in which we find ourselves, with its possible concomitant risks, and the responsibility of each person in facing such risks.

*Trade, a relationship between people*

It is worth recalling a very obvious point at the outset: trade is a relationship between people. This is a relationship between individuals that connects the beginning and end of the economic process and which, at the same time, gives meaning to this process. In this way, trade is upheld as the most efficient means of transferring income from consumers on the demand side to producers on the supply side, the location of both parties and the distance between them being totally irrelevant.

Trade, on the other hand, is something natural and spontaneous. The commercial relationship starts as a logical consequence of even the slightest form of productive specialisation. Accordingly, there is nothing strange in the fact that in the sixteenth century the Salamanca School, composed of theologians and moralists, considered *real exchange*, commerce with a purpose, to be a legal practice, being illegal only the so-called '*dry exchanges*' because they generally led to usury.<sup>1</sup>

The greater the freedom trade has to develop in, the greater the resulting benefit for consumers. Free trade, without interference, drives nations, states and communities to concentrate their productive efforts on those goods and services for which they enjoy competitive advantages, letting other countries produce those which they are best suited to produce. This culminates in the process of exchange of one for the other, which leads to the greatest good for society as a whole.

Pope Leo XIII warned of the dangers arising when this power, concentrated in the hands of a few, damages market freedom:

The evil has been increased by rapacious usury, which... is... under a different form... the concentration of so many branches of trade in the hands of a few individuals, so that a small number of very rich men have been able to lay upon the masses of the poor a yoke little better than slavery itself.<sup>2</sup>

Eighty years later, the risk of the few dominating the many would once again be highlighted.

Under the driving forces of new systems of production, national frontiers are breaking down, and we can see new economic powers

<sup>1</sup> Friar Tomás de Mercado 'Suma de Tratos y Contratos'. Ed. Fernando Díaz, Sevilla 1571. He uses the expression 'dry exchanges' for those changes with no commercial end.

<sup>2</sup> Leo XIII, Encyclical Letter *Rerum Novarum*, 15 May 1891, n. 2.

emerging, the multinational enterprises, which by the concentration and flexibility of their means can conduct autonomous strategies which are largely independent of the national political powers and therefore not subject to control from the point of view of the common good. By extending their activities, these private organisations can lead to a new and abusive form of economic domination on the social, cultural, and even political level.<sup>3</sup>

The fact that the papal doctrine drew attention to these situations that were contrary to the will of God and which could lead to a trade structure based on the power of some to impose their objectives on the community in general, does not mean that the alternative is to limit these commercial relations, since when they operate correctly they encourage the participation of the whole human family for the common good of humanity.

... in recent years it was thought that the poorest countries would develop by isolating themselves from the world market and by depending only on their own resources. Recent experience has shown that countries which did this have suffered stagnation and recession, while the countries which experienced development were those which succeeded in taking part in the general interrelated economic activities at the international level.<sup>4</sup>

The result appears to be obvious. Exclusion cannot be contemplated but, at the same time, we cannot ignore the risk of possible situations of dominance that end up suffocating a community's ability to develop. A feature of this situation of dominance is protectionism in world trade. It goes without saying that all protectionism damages the efficient and beneficial structure of the free market.

Free trade to which we have referred, as a rule of improved productivity and greater welfare, has been constantly attacked by those who favour protectionism, an approach that can only be justified on the grounds of selfishness. The twentieth century provides a good example of the introduction of protectionist measures and their chaotic consequences.

The successive rounds of GATT and then the WTO have attempted to eliminate, or at least reduce, the protectionist impact of customs duties. And it is fair to say that universally there has been a substantial drop in the level of protectionism through customs duties. However, at the same time,

<sup>3</sup> Paul VI, Apostolic Letter *Octogesima Adveniens*, 14 May 1971, n. 44.

<sup>4</sup> John Paul II, Encyclical Letter *Centesimus Annus*, 01 May 1991, n. 33.

a new form of protectionism of a very different nature began to appear.<sup>5</sup> In this sense, Baldwin would say that 'The international trading economy is in the anomalous condition of diminishing tariff protection but of increasing use of non tariff trade-distorting measures'.<sup>6</sup>

The new protectionism is similar to customs duty protectionism in its ability to discriminate between national products and those coming from abroad. Nevertheless, it is different in the sense that the form of protection is less transparent and, therefore, more difficult to identify, at the same time as it is very easy to discriminate not only between national and foreign goods and services, but also between the different types of products being imported.<sup>7</sup>

This protectionism deserves a special mention if we consider that it protects those more developed countries from the products of less developed countries. The Common Agricultural Policy in the E.U. is an example of global discrimination against products from developing countries.

For this reason, the complaint of John Paul II on this point is especially relevant.

The *international trade system* today frequently discriminates against the products of the young industries of the developing countries and discourages the producers of raw materials.<sup>8</sup>

Faced with this reality, voices are raised on a daily basis proclaiming the free trade competitive system as being best able to deliver economic development and social welfare. Ironically, the states that make these claims are the same ones that apply protectionist measures. The voice of the Pope is eloquent, when he appeals:

Each local situation will show what reforms are most urgent and how they can be achieved. But those demanded by the situation of international imbalance... must not be forgotten.

<sup>5</sup> J.T. Raga, 'El nuevo proteccionismo y los países en desarrollo', in F. Fernández (ed.) 'Estudios sobre la Encíclica *Sollicitudo Rei Socialis*', Unión Editorial, Madrid 1990, pp. 471-491.

<sup>6</sup> Robert E. Baldwin, 'The New Protectionism: a Response to Shifts in National Economic Power', National Bureau of Economic Research, Working Paper 1823, Cambridge, Mass. 1986, p. 1.

<sup>7</sup> J.T. Raga, 'La dimensión internacional de la Economía', en Alfonso A. Cuadrón (coord.) 'Manual de Doctrina Social de la Iglesia', Chapter 26, Biblioteca de Autores Cristianos, Madrid 1993, p. 624.

<sup>8</sup> John Paul II, Encyclical Letter *Sollicitudo Rei Socialis*, 30 Dec. 1987, n. 43.

In this respect I wish to mention specifically: the *reform of the international trade system*, which is mortgaged to protectionism and increasing bilateralism.<sup>9</sup>

As we have seen, free trade and competition are far from being the rule; rather, they are the exception. At the same time as protectionism through customs duties goes down, examples of discriminatory protection abound, which are often accompanied by production subsidies as additional elements of discrimination and protection.

*Inequality: a fact*

We could discuss until blue in the face the way things would be if the economic model were started from scratch. The fact is that this is a historic moment, the start of the Third Millennium, and certain realities are impossible to ignore. The most alarming thing is the disparity existing between continents, countries and individuals, in their culture, their resources, their capacity to produce, their possibilities to contribute to human development itself, their living conditions, and so on. These are points that affect individuals at their most intimate level, leading them to question why these discrepancies exist. And, above all, how to reduce such inequality.

The theoretical model of a free and competitive economy holds that the available resources are used with greater efficiency and the needs of the population are met more adequately, thus providing the greatest level of utility possible. What would have occurred in the real world, had this economic model in fact existed, we cannot know, although even supposing that on a global basis a greater level of efficiency had been achieved, it would not have guaranteed a more equitable distribution of it.

In addition, however, we have already said that the model has been buried by countries and groups of countries interested in protecting their national populations against what could be considered an aggression against their economies. Thus, the model that applies in practice is one of protectionism rather than one of freedom.

As a result, inequality is a fact, one which humanity should be ashamed of. Paul VI condemned it in this way:

Flagrant inequalities exist in the economic, cultural, and political development of the nations: while some regions are heavily indus-

<sup>9</sup> John Paul II, Encyclical Letter *Sollicitudo Rei Socialis*, 30 Dec. 1987, n. 43.

trialised, others are still at the agricultural stage; while some countries enjoy prosperity, others are struggling against starvation; while some peoples have a high standard of culture, others are still engaged in eliminating illiteracy. From all sides, there rises a yearning for more justice and a desire for better guaranteed peace in mutual respect among individuals and peoples.<sup>10</sup>

Looking at the GNP p.c. data,<sup>11</sup> one must ask if an individual that possesses, on average, a gross income of US\$ 36,970 per year is capable of understanding what living with US\$ 100 per year actually means. Or, in other words, if the average Swiss, Japanese or Norwegian can understand, or at least imagine, what the life of the average inhabitant of Ethiopia, Burundi or the Democratic Republic of Congo is like. The difference is so great, that the risk exists of only being able to digest the data in a purely statistical way.

This information is more than just statistics. A consequence of the level of life that is determined by the previous information is the alarming differences in the highest and lowest infant mortality rates of different countries. It is hard to remain indifferent when confronted with the evidence that only three of each thousand children born in Japan or Sweden will not live beyond their first year, whereas one hundred and sixty-one children in Afghanistan and one hundred and forty-six children in Sierra Leone do not live to celebrate their first birthday.<sup>12</sup>

We are talking about children that are all conceived, whether in Japan, Sweden, Afghanistan or Sierra Leone, by the grace of God, without difference or distinction between them, since such differences are contrary to the will of the Creator.

Something similar occurs with life expectancy. A child born in Japan can expect, on average, to live to be eighty-one years old, while a Swiss or Swedish child can expect to live to be eighty. However, if fate dictates that a child is born in Zambia, it is unlikely that he will live for more than thir-

<sup>10</sup> Paul VI, Apostolic Letter *Octogesima Adveniens*, 14 May 1971, n. 2.

<sup>11</sup> See 'Informe sobre el Desarrollo Mundial 2003. Desarrollo sostenible en un mundo dinámico', Banco Internacional de Reconstrucción y Fomento/Banco Mundial. Washington, D.C. 2003, Coedición del banco Mundial, Mundi-Prensa Libros, S.A. y Alfaomega Colombiana, S.A.

<sup>12</sup> See United Nations, 'Statistical Yearbook', United Nations, Forty sixth issue, New York 2002.

ty-eight years, while in Sierra Leone, Malawi or Botswana if he is lucky he will live to celebrate his thirty-ninth birthday.<sup>13</sup>

There can be no justification for these differences on the grounds that a free and competitive economic system requires that there be no interference with economic activity or its system of distribution through the free market. In addition, we have already seen that, contrary to what is proclaimed, neither the economy nor trade are free.

It is precisely because the problem persists that John Paul II has been moved to lament that:

... one must denounce the existence of economic, financial, and social *mechanisms* which, although they are manipulated by people, often function almost automatically, thus accentuating the situation of wealth for some and the poverty for the rest.<sup>14</sup>

It is time for the careful analysis that the Holy Father calls for. We are talking about globalisation and equal treatment within the universal framework of economic freedom and competitiveness. That is the secret of globalisation, yet we are the first to act differently when we protect our economies against less-developed economies. But if we were to consider fully the problem of inequality, we would take a radically different approach to that taken today, precisely by attending to the obvious disparities which are our starting point.

Because, it is worth recording that:

In trade between developed and underdeveloped economies, conditions are too disparate and the degrees of genuine freedom available too unequal. In order that international trade be human and moral, social justice requires that it restore to the participants a certain equality of opportunity. This equality is a long-term objective, but to reach it, we must begin now to create true equality in discussions and negotiations.<sup>15</sup>

<sup>13</sup> See 'Informe sobre el Desarrollo Mundial 2003. Desarrollo sostenible en un mundo dinámico', Banco Internacional de Reconstrucción y Fomento/BANCO MUNDIAL, Washington, D.C. 2003, Coedición del banco Mundial, Mundi-Prensa Libros, S.A. y Alfaomega Colombiana, S.A.

<sup>14</sup> John Paul II, Encyclical Letter *Sollicitudo Rei Socialis*, 30 Dec. 1987, n. 16.

<sup>15</sup> Paul VI, Encyclical Letter *Populorum Progressio*, 26 March 1967, n. 61.

*An economic reflection, beyond economics*

It is perhaps worth recalling certain principles concerning man, economics as a human activity, the natural destination of goods, the disordered growth of wealth, dividing the world of equality into two sub-worlds, one rich, the other poor, and so on.

Whatever formula, whatever model that we try to apply, must be analysed in the light of its humanity. It is not true to argue that each and every structure serves faithfully the dignity of humanity. There is no scientific advance, no model of life, no discovery worthy of the name if its aim is not to consolidate the greatest recognition of the dignity of man. Man is more and above any other thing in the world of creation. From this perspective,

The economy in fact is only one aspect and one dimension of the whole of human activity. If economic life is absolutized... the reason is to be found... in the fact that the entire sociocultural system... been weakened, and ends by limiting itself to the production of goods and services alone.<sup>16</sup>

This absolutization of *homo oeconomicus* is enslaving man today. Making the economic phenomenon the centre around which human existence gravitates has reduced man to an animal that attempts unconsciously to cover those needs that are, materially, most important. For this type of man, brotherhood does not exist. Insensitive to the needs of others, he feels himself to be alone and by living for himself he even forgets the purpose of his own life and his role in the context of humanity.

For this reason it is necessary to analyse carefully why man is currently in this state and to discover his role in society. Nowadays, we need people capable of feeling outraged at the differences in the lives of individuals created equals.

... the present situation must be faced with courage and the injustices linked with it must be fought against and overcome... Urgent reforms should be undertaken without delay.<sup>17</sup>

At the very beginning, we stated that trade, and economic relations in general, occur between people, not between abstractions. Given this, the relationship between individuals and also between the nations where those people live, must be based on truth and freedom, not on force that humiliates the person who uses it and subjugates the person who suffers it.

<sup>16</sup> John Paul II, Encyclical Letter *Centesimus Annus*, 1 May 1991, n. 39.

<sup>17</sup> Paul VI, Encyclical Letter *Populorum Progressio*, 26 March 1967, n. 32.

Markets in countries with high potential demand – the rich countries – should be opened up to all products as a matter of urgency, but particularly to the products of those countries that have most difficulties, by eliminating the protectionist practices that are currently used. It is a sad reflection of the state of things that on 26 February 2001 the European Union approved a plan to open completely its markets to the products of the forty-eight less-developed countries in the world; yet, following the demands of France and Spain, this plan will not be effective until 2008.

Measures of this nature, at the same time – it should be recalled – as we are proclaiming the freedom of the market as the basis of the model of globalisation in which we are immersed, cannot be subjected to stalling behaviour adopted because of the specific interests of certain countries. The dismantling of the protectionist policies of rich countries aimed at the products of the poor countries must be carried out without further delay.

The establishment of the most-favoured nation clause, applied with greater generosity to all countries with weaker economies, together with a generous commitment to draw up and implement development models that are compatible with the productive capacities of each nation, are requirements of the universal common good.

Together with these measures that tend to address the short term, the great challenge of the developed world concerns education and training. Cooperation in this field is extremely urgent to improve the quality of *human capital*, its skills and capacity, to improve the living conditions of the population.

We must remember that both rich countries and international institutions have frequently opted for the easy, but not the most suitable, option. While poor countries need education, technology, infrastructure, health care, and in general new horizons that provide a glimmer of hope, rich countries and international institutions have preferred the comfortable way out of granting credits, even while being aware of their immediate volatility and the impossibility of their being paid back.

John Paul II commented on this process of indebtedness in the following way:

Recent years have also witnessed the worsening of international debt, a worrying trend which, like an insidious blanket, envelopes everybody, debtor and creditor countries, credit banks and international institutions.<sup>18</sup>

<sup>18</sup> John Paul II, Encyclical Letter *Sollicitudo Rei Socialis*, Appendix, 30 Dec. 1987, n. 10.

An indebtedness that, in general, ends up being a noose around the neck of the indebted country.

On this point the doctrine of the Church is also categorical:

The principle that debts must be paid is certainly just. However, it is not right to demand or expect payment when the effect would be the imposition of political choices leading to hunger and despair for entire peoples.<sup>19</sup>

### *A final appeal*

We are faced with a problem that is not new. We wish to build a world without boundaries, a globalised world. It would be a grave error while building this new world to forget the phenomenon that today affects human existence: inequality in the living conditions of peoples and individuals. The Christian message calls us to action: the anguished cries of the needy, both at home and abroad, can be heard louder and louder. The new problems of the end of the nineteenth century remain the new problems of today.

Today the principal fact that we must all recognise is that the social question has become worldwide... Today the peoples in hunger are making a dramatic appeal to the peoples blessed with abundance. The Church shudders at this cry of anguish and calls each one to give a loving response of charity to this brother's cry for help.<sup>20</sup>

This process of globalisation to which we are committed will only be possible if we develop at the same time the idea of interdependence, the idea of mutuality, in the sense of mutual interest, of community action.

We must be aware that we are starting this process on the basis of huge differences between the most favoured countries and those that lack even the most essential products. Equal treatment, based on reciprocity, may therefore be highly unjust. Supranational organizations have a great responsibility; and governments of both rich and poor countries are responsible for the task which faces us. However, their responsibility does not eliminate or diminish one bit the responsibility of individuals. It is the trust in the individual human being which makes us approach the problem from a different angle, conscious of our capacity for action.

<sup>19</sup> John Paul II, Encyclical Letter *Centesimus Annus*, 1 May 1991, n. 35.

<sup>20</sup> Paul VI, Encyclical Letter *Populorum Progressio*, 26 March 1967, n. 3.

The good Pope John XXIII correctly underlined that

Although in our day, the role assigned the State and public bodies has increased more and more... it is quite clear that there always will be a wide range of difficult situations, as well as hidden and grave needs, which the manifold providence of the State leaves untouched and of which it can in no way take account. Wherefore, there is always wide scope for humane action by private citizens and for Christian charity. Finally, it is evident that in stimulating efforts relating to spiritual welfare, the work done by individual men or by private civic groups has more value than what is done by public authorities.<sup>21</sup>

Indeed, there is always plenty of room for the personal exercise of pity and charity and for this reason we must not forget our responsibilities. We have already said that poverty is not a list of cold statistics, even though we find ourselves obliged to present the information concerning poverty in this way. Poverty means people suffering, faced with the need to provide themselves with basic necessities, incapable of being able to do so and dying at the limit of scarcity. Our model, meanwhile, is designed on the basis of globalisation.

The greater our degree of commitment to solidarity on a global level, the more meaningful this globalisation will be. In short, it is the immediate result of brotherhood, of solidarity as a way of life, of solidarity as a virtue.

On the path... toward the overcoming of the moral obstacles to development, it is already possible to point to the *positive* and *moral value* of the growing awareness of *interdependence* among individuals and nations...

It is above all a question of *interdependence*, sensed as a *system determining* relationships in the contemporary world, in its economic, cultural, political, and religious elements, and accepted as a *moral category*. When interdependence becomes recognised in this way, the correlative response as a moral and social attitude, as a 'virtue', is *solidarity*. This then is not a feeling of vague compassion or shallow distress at the misfortunes of so many people, both near and far. On the contrary, it is a *firm and persevering determination* to commit oneself to the *common good*; that is to say to the good of all and of each individual, because we are *all* really responsible *for all*.<sup>22</sup>

<sup>21</sup> John XXIII, Encyclical Letter *Mater et Magistra*, 15 May 1961, n. 120.

<sup>22</sup> John Paul II, Encyclical Letter *Sollicitudo Rei Socialis*, 30 Dec. 1987, n. 38.

It is true that in the world in which we live and given the model that we wish to build, the role of material means and technology, particularly new information and communication technology, is primordial. This was also the case in the past as regards scientific and technical progress. What is unacceptable is that our reverential attitude towards material means, or, still worse, our fascination for the instruments that technology places in our hands, leaves us with little time for brotherhood. It is clear that the global world to which we aspire will either be constructed for the whole human family or, quite simply, it will not be the great work of humanity that many hope for.

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