Pathological Production?

These days, a novel item has been added to the menu of objections to free trade: the notion that an open market will supply consumers with things that aren't good for them. Examples abound: High-priced basketball shoes crafted in sweatshops. Fancy movie-spinoff toys, given away free with smiley-snacks. Fat- and additive-laden junk food, hawked with flashy music and video. Actual military vehicles, fitted with air conditioners and high-end sound systems. Save enough on your mass-produced chicken parts to buy the antibacterial soap you need to wash off the salmonella they contain. Enter a card number, and quietly gamble away your future. Surely the reader can think of many more.

Evidently many of the "goods" being offered for sale are actually quite bad. Others are sold to fix the damage created by other "goods." However, the standard measure of a society's overall output, the Gross Domestic Product, fails to take any of this into account. The GDP is the total value of all finished goods and services in the economy — pet rocks, car alarms, prisons, military hardware, David Cassidy records, you name it — everything purchased by consumers. Since free trade adds to the GDP, it also adds to the pile of crap offered to the poor consumer. This has led progressive-minded folk to seek an alternative index of economic growth — one that will only count as "good" the things that truly are. Redefining Progress, a progressive think-tank, has devised an index that they call the GPI — Genuine Progress Indicator. One of its main objectives is to help separate what is truly progress from what is just more junk:

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*Parenting becomes child care, visits on the porch become psychiatry and VCRs, the watchful eyes of neighbors become alarm systems and police officers, the kitchen table becomes McDonald's — up and down the line, the things people used to do for and with one another turn into things they have to buy. Day care adds more than $4 billion to the GDP; VCRs and kindred entertainment gear add almost $60 billion.... The GPI reveals that much of what we now call growth of GDP is really just one of three things in disguise: fixing blunders and social decay from the past, borrowing resources from the future, or shifting functions from the traditional realm of household and community to the realm of the monetized economy.***

People tend to identify "pathological production" by a process similar to that by which Supreme Court Justice Potter Stewart famously defined hard-core pornography, saying "I know it when I see it." But that is too vague a yardstick for public policy. What qualifies someone to decide what is worth buying — or, for that matter, worth counting? Some argue, for example, that money spent on fixing crashed cars should not be counted as part of economic well-being, because car accidents don't improve life for anyone. That may be true — but, anyone who has observed the bashed-up, smoke-spewing heaps driven around any third-world city can see the correlation between car maintenance and general prosperity. And, undoubtedly, VCRs can be used to unwholesomely pacify children — but does that mean their value shouldn't be counted among economic goods? One could just as easily say blenders are bad, because alcoholics use them to make daiquiris.

Probably, we all need to be saved from ourselves from time to time. But, most of us see that as a matter for families, communities and churches — such decisions are far too subjective to make sense as matters of law. And yet: look at the sick-

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**"If the GDP Is Up, Why Is America Down?" by Clifford Cobb, Ted Halstead, and Jonathan Rowe.* Atlantic Monthly, *October 1995*

ening tide of crap to which consumers are subjected! Wouldn't we all be better off without it?

The juggernaut of Wal-Mart — the world's largest retailer — has become for many people an emblem of what's wrong with today's "globalized" economy. They sell merchandise produced in sweatshops. They undersell and drive out local businesses, undermining local community. They pay, in many cases, wages that are actually below subsistence; many Wal-Mart employees depend on various forms of public assistance. In 2005 the US House Committee on Education and the Workforce estimated that a 200-employee Walmart store costs Federal taxpayers over $420,000 per year in welfare services afforded to its low-wage employees. But: they sell for less — and as bad as it might be to work there, they have no shortage of applicants. Activist campaigns in many communities have succeeded in establishing ordinances blocking Wal-Mart from locating there. Why, then, do plenty of other towns actively court Wal-Mart's business? The answer, of course, is that the more wages fall, the more consumers depend on stores that offer goods at the lowest prices. Also, once one such "big box" establishment is in place, drawing customers from a wide area, others tend to follow, bringing more economic activity into a community. Because of this, "big box" stores often enjoy various kinds of public subsidies.

The rise of Wal-Mart has come along with a long-term decline of real wages. The two processes are not unrelated. People lament the demise of "Main Street" and the high-quality stuff available there: organic food... medical care from kindly local doctors... artisan-crafted furniture... fascinating, durable toys. All of these things are still available, in those nice, homey main-street shops, at prices that working people cannot afford. As the market for high-quality goods and services shrinks, their prices go up still further, and the big-box alternative looks more attractive. However, if wages were higher and more people had good jobs, would people still shop in the big-box stores, or dine at the McGreasy drive-thrus?

When people have more to spend, and more free time in which to spend it, they tend to make fewer unwise decisions. Individual counter-examples can be cited, of course — rich folks with self-destructive habits — but in political economy our business is societal trends, not individual peccadilloes. And in every measure of social welfare and civic health, we see that the greatest freedom yields the best results. To cite a negative example: states raise large sums from taxes on cigarettes — a product whose consumers are preponderantly poor. Such "sin taxes" are popular, because they seem to help "protect" people from harming themselves by smoking. But it turns out that the demand for cigarettes is inelastic; higher taxes do very little to discourage smoking. What factors correlate with less smoking? Stable employment, and comfortable income.

However, it is painfully obvious that the benefits of economic growth are not distributed fairly; a third of the world's people live in abject poverty and lack any meaningful economic opportunity — while many more, in nominally prosperous communities, see their living standards erode, year by year. This injustice drives a wedge ever deeper between the rich and the poor as productivity increases. The perverse tendencies attributed to "growth" are not due to growth at all, but rather to unfair and destructive patterns of ownership.

Accounting For Nature

One other aspect of "free trade" that has come in for bitter condemnation in recent years has been the tendency to weaken environmental standards. Many see "economic growth" as a process that just cannot be sustained without ruining the Earth. To counteract our tendency to burn, dig and spew our planet to ruin, "ecological economists" demand that the value of "ecosystem services" — such as biodiversity, fertility, and the pollution-abating properties of forests and wetlands — be included in our estimations of economic progress and growth.

That seems like a good thing. However, these considerations are also open to charges of subjectivity. For example: few would argue that biodiversity is not important and worthwhile. But, consider the fact that many tropical species exist in extremely small ranges — not because their habitat has been shrunk by human invasion, but rather because the ecological niche occupied by a certain species of tree frog, say, happens to be only a few miles wide. How do we set an objective, economic value on preserving that species?

Some hard-core believers in the "free market" would argue that preserving that species of frog has no value whatever until people are willing to pay for it. That is true, of course, as far as it goes — but in such arguments it is often forgotten that the community plays a crucial, often decisive, role in whether — and how much — people are willing to pay for things. For example, if the government did not legally guarantee private property in land, people would not be willing to buy land — and in places where such laws are haphazardly enforced, real estate values are correspondingly low.

When the market price of a piece of land is adversely affected by a regulation that, say, protects the habitat of an endangered species, landowners are apt to cite the "takings clause" of the Fifth Amendment of the US Constituion, which prohibits the taking of private property for public use.* This is ironic, though, because although it is widely understood that much of land's market value is attributable to the benefits provided to it by the community, few landowners have offered to compensate the community for these "regulatory givings." The market value of land — natural opportunities — is created not by the land's "owner," but by the activity of the entire community. The private landholder doesn't have to approve of the community's activity, or even be aware of it: if the community decides that the existence of that tree frog is valuable, that is none of his affair. (He might end up profiting from it, though; if he's smart, he'll offer tourists a chance to glimpse the rare frog in the wild, for a fee — in which case, the mandated protection for the frog has conferred a high market value on what was a nondescript tract of forest!)

The problem with the assessment of ecosystem services is not that it isn't done, but that we allow the wrong people to do it. Private landowners take great care to assess — and maximize — the ecosystem services over which they have control. Unfortunately, they are not held accountable for everyone's equal right to them. The value of "ecosystem services" is a component of the overall value of land.

This means that in order for there to *be* a truly free market — and in order for ecosystem services to be fairly valued — the community *must* collect the rental value of land and natural opportunities. This is precisely that Henry George refers to as "true free trade." In essence, George points out that the economy we know is fundamentally unfree,

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**This "regulatory takings" issue remains controversial in US law, in terms of whether a partial taking of land value amounts to an unconstitutional taking of private property. Under NAFTA regulations, however, many partial devaluations due to regulation do require compensation. This is one clear example of how bilateral trade agreements such as NAFTA provide an easier time for foreign investors than for domestic ones.*

for *its normal state* is that of subsidy (for landowners) and penalty (on productive workers). If we were to remove every other "intervention," it would only serve to strengthen the existing system of coercion. That basic, underlying distortion is what makes our economy seem so perverse and unfriendly, both to people and to the earth.

Economic Growth

The very fact that many people are suspicious of "economic growth" is a sign of confusion. The goal of economic behavior is the satisfaction of human desires — and therefore, economic growth can only be something that allows greater satisfaction of desires, or satisfies the same desires with less exertion.

Economic growth is an aggregate phenomenon. An individual, or a social class, can become more wealthy, but that may be due to their appropriation of existing wealth, even as overall output is declining. The term "economic growth" is only considered meaningful in reference to national economies — and in today's shrinking world, a good case can be made for its only truly applying to the entire global economy.

People worry about growth because they envision our economy churning out an ever-growing pile of "stuff," on which we become dependent, and which must be packaged, marketed, shipped and disposed of. Yet if we remember that the purpose of economic activity is to satisfy human desires, we realize that this ominous picture is — fortunately — not accurate. Human desires are not, of course, restricted to material things. Many of the most important human desires are intellectual or spiritual, with no physical existence — and such desires become relatively more important as people's basic material needs are more regularly and fully satisfied.

Furthermore, there's no requirement that human desires must be assigned a monetary value in order to "count." For example, suppose a family had been paying for child care services because of the need to work long hours to earn a living. Then, suppose one of the parents got a better job, enabling the other parent to stay home with the kids. They could still have afforded child care, but their desire was to spend time with the kids. So, the family ends up satisfying more of their desires, even while spending less money. Considerations such as this show that the GDP, although a useful economic indicator, isn't sufficient as a measure of economic growth. It is not difficult to tally up the total of final transactions — but economic growth must include all things that increase the satisfaction of human desires, desires which are subjective — possibly different for every person.

Doesn't this imply that economic growth is, in the end, a phenomenon that defies measurement? Yes, it does — but that is less of a problem than it might appear. The conditions that lead to economic growth are well-known. The important thing for economic policy is that people have free and equitable access to the resources that enable them to satisfy their desires.

Economic growth is integral to human community. Societies that lack it are dysfunctional and declining. Perverse, destructive patterns of production are often blamed on "economic growth" — but their true causes are gross inequities in the distribution of wealth, and the privilege to consume and pollute the global commons without penalty. Moreover, these underlying distortions are the main reason why our economic indicators often give us confusing readings. When true free trade prevails, all manner of "market distortions" will get smoothed out.

This essay forms part of the reading for an online course entitled Applied Economics: Globalization and Trade, *which examines these issues in depth:* www.truefreetrade.org

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