

History of the environment and free trade economics essay

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Proponents of trade liberalization claim that freer trade might increase the quality of the environment. The writer of this paper will make arguments in favor and against tradable pollution permits. For example, the "polluter-pays principle," which is an worldwide environmental policy of the United States and other industrial nations. There are a few terms that essential to understand the arguments presented in this paper. First, there are externalities and cost internalization. Externalities are the economic term for the costs (environmental and social) of an economic activity, which are not suffered by the operator, but instead by the broader community. For example, if a silviculture operation contributes to species loss or habitat damage and these costs are not someway paid by the operator and thus exposed in the price of the final product. These will be paid by the wider community, such as locally, nationwide or even globally. These effects are known as externalities. The hypothetical idea that trade benefits all is partly based on the belief that externalities do not occur because prices reflect the true costs of production, such as the costs have been 'internalized'(Cornes & Sandler, 1996). This assumption is a misconception; the environment is being damaged, but costs are not internalized, thus trade is not benefiting all. Many now acknowledge that, for the trade system to work appropriately, costs must be internalized. Nevertheless, this acknowledgement has not been turned into reality because, mostly, the world trade system encourages competition to decrease costs, which may include actively externalizing cost, rather than encouraging the internalization, thus increasing of costs through taxes, regulations, or other means (Azariadis & Drazen, 1990). Another key term is known as trade and specialization. This is one of the key elements of

trade theory is that countries will specialize in producing those products, which they are reasonably better at making relative to other products and other nations. On the one hand, this specialization allows a nation to take advantage of economies of scale, such as larger scale operations producing goods more inexpensively, and become more competent. Moreover, such specialization can lead to other problems (Imbs, 2003). For example, if a nation is subject largely on exports of a small number of goods, changes in the international markets of those goods can have drastic influence on the nation in inquiry. Additionally, specialization of production can result in the specialized use of natural resources, such as monocultures, which impoverishes the natural environment (Imbs, 2004). The major issues that are leading to the argument that trade liberalization harms the environment are: trade liberalization tend to lead to a "race to the bottom" at the time of environmentally speaking, trade liberalization conflicts with ethically conscious environmental policies, trade liberalization reassures trade in goods that create global pollution "pollution havens (Tonelson, 2009)". The term global race to the bottom implies that an increasing global mobility of companies, which means that they can often move, or threaten to move, to wherever the costs of production are lowest. Such costs include environmental and social issues, such as the exploitation of cheap labour, often women. The use, by companies and/or governments, of the uncoded services to gain competitive advantage could lead to what has been called the global race to the bottom. Those of argue in favor state that companies will simply put this is competition between countries to lower, or keep low, social and environmental standards in order to be more 'competitive'.

Averting a 'race to the bottom' requires government involvement yet the world trade system aims to reduce government 'interference' in the international flow of goods, services and capital. While those who argue against trade liberalization state that this leads to the deterioration of environment. Modern development in the area of controlling the effects of negative externalities has been the establishment of tradable pollution permits, which can be used to regulate the degree of structural change and attempt to tackle the worst offenders. Those of argue in favor state that firms are permitted to buy and sell those rights. Then they could take these polluters to court for compensation, as the provision of property rights would give them individual's ownership rights and they can take the action rapidly. It will also increase the accountability. On the other hand, those of argue in against the provision state that it leads to the deterioration of environment, which also lead to another entry barrier. There are strong supporting arguments for those arguing in favor of the free trade. Classical economic analysis denotes that free trade grows the global level of output because free trade authorizes specialization among nations. Moreover, specialization allows nations to allocate their scarce resources to the production of any particular good and service for which that nation has a strong comparative advantage. Among the benefits of specialization, combined with economies of scale, escalation the global production, thus the likelihood of eliminating boundaries. A growth in the global production possibility frontier signifies that the whole quantity of commodities and services produced is highest under a free trade system. Not only are the absolute quantity of commodities and services higher, nevertheless, the particular combination of commodities

and services actually created will yield the highest probable utility to global buyers (Nader, 1993). Free trade policies are frequently associated with common laissez faire economic policies, which might allow for quicker growth. Laissez faire policies, the lack of government intervention in trade, spirit of entrepreneurship, and investment are frequently positively correlated with higher per capita income. On the other hand, those of argue in against the free trade state that neoliberal policies are leading to a global system of unsustainable production and consumption that benefits giant corporations but fails people (Di Maria, Smulders, & van der Werf, 2010). The natural resources that sustain livelihoods are being extracted and destroyed, while inequality between people and societies is increasing. Although a certain degree of international trade may be inevitable and even desirable, healthy and sustainable local economies and communities are the key to meeting people's basic needs. However, the current trade liberalization process in many ways is undermining them. Serious social and environmental impacts include: A failure to account for environmental and social degradation. A potential reduction in environmental and social standards. Specialization which increases monocultures and decreases diversity. Environmental damage caused by long-distance transport. Export-oriented growth which exacerbates all of the above. Incompatibility with some environmental protection measures. Increasing inequality between rich and poor countries, rich and poor people and women and men, all of which also exacerbate poverty and environmental degradation (Trebilcock, Howse, & Eliason, 2012). There are options to remedy this situation. Among them, some kind of government intervention is needed to make market more

efficient as the private sector is motivated by the profit only and don't seek efficiency as the prime objective. Thus the State is an indispensable instrument of economic development and it take undertake activities that would compensate for the market failure. Market failure is perceived as the inability of markets to allocate optimally resources over time. The regulatory role of the government might include: A) Determination of the circumstances under which individuals or groups would be allowed to enter certain lines of industry or avail of public facilities and gather resources. B) Regulating the behavior of Industrial or business through lawmaking such as the Federal Communications Commission (FCC) authority in United States has laid down fair rules for the telecommunication industry. C) Controlling the relationship between distinctive segments or interest groups in the economy so as to safeguard legal rights. By providing an analytical framework for the industries, private sector, externalities such as pollution etc., it consents economic development, structural change, and social welfare. It sets the national priorities such as defense and utilities, thus allocates scarce resource accordingly. In the case of an externality, which is a spill over from a financial activity. It is often referred to as a byproduct of the market mechanism, commonly known as supply equals demand. Negative externalities are frequently viewed as examples of market failure, furthermore, the market mechanism creates a level of consumption and production that is higher than society needs. A negative externality occurs when the byproduct is observed as having a social cost. For example, when a car is driven it pollutes the air. This air pollution can have very damaging effects on other people. Remarkably, individuals do not account for this in

the costs of driving, however society pays the costs of dealing with air pollution. Consequently, car pollution is a negative externality. Regulation or legislation implicates the government introducing legislation that regulates the externality to decrease it (biz/ed, 2001). How to correct is most controversial because there are various policies. First, there are the market solutions, in which there is a change in the costs of the activity to justify for the negative externality, which usually involves the use of charges, taxes, or subsidies. Secondly, there is the regulation or legislation approach. This approach involves the government introducing legislation that regulates the externality to decrease it. Finally there are property rights, in which some negative externalities, such as, pollution, if somebody had ownership rights to the air, sea etc., then they could take the emitters of pollution to court for compensation. The provision of property rights would give entities ownership rights on the sea, air etc (biz/ed, 2001).