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Panelists' Comments on Cobb's Paper

LUIS SUAREZ-VILLA*

I have two sets of comments relating to Professor Cobb's presentation. One set deals with Mexico and the issue of trade, the other comments are more general and deal with the conceptual basis of his paper.

I. MEXICO AND THE NORTH AMERICAN FREE TRADE AGREEMENT ("NAFTA")

To understand the Mexican Free Trade Agreement, one must understand the motivation for this agreement, the political economy of Mexico today, and the role of its political institutions. Much of the motivation for the Free Trade Agreement from the Mexican side comes from the PRI — the Institutional Revolutionary Party — and its desire to consolidate, or reconsolidate, its hold on power after the economic depression in Mexico during the 1980s. During this depression, the middle class was devastated. Poor people continued to suffer, as they have for generations. The depression really devastated the middle class in Mexico. By examining political economy we can better understand the motivation for free trade. This motivation stems not so much from free trade theory or free trade dogmas, but rather from political motivation rooted in the political powers and the political machine of the PRI in Mexico. However, in 1982 the PRI faced a very serious political crisis, when the political machine began to disintegrate. One of the results of that crisis was that Cárdenas later created the PRD. The free trade pact and its emphasis on growth and the possibilities that it will create jobs has already started to invigorate the Mexican economy. The recession has effectively ended, and the Mexican economy is growing about four times faster than that of the United States. With the influx of capital into the country, the depression no longer worries the officials in Mexico as significantly.

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The PRI is claiming credit for that turn around, of course. If the Mexican economy grows even further, as most people predict, and especially if NAFTA is approved, the PRI hopes to reconsolidate and to effectively build off its old power.

The growth in Mexico benefits the United States economy in two ways. One is the benefit to United States multinationals, and the other is the benefit to the people of the United States, the population at large. NAFTA offers many benefits to United States multinationals. United States multinationals benefit from the lower labor costs and lower production costs in Mexico. They can then ship their goods to United States markets and to some in Mexico as well. This alone does not, however, translate into a better future for the United States economy necessarily. For example, though British multinationals fare well outside Britain, the British economy has for a long time suffered from very serious problems. So we need to distinguish between the two. One is the benefit to United States multinationals and to United States capital, and the other is the benefit to the United States economy and to the people of the United States.

In terms of the more general, the conceptual basis of your paper, I agree with you on the point that growth is not the ultimate measure of success. I don't think that growth can be, or should be, an end in and of itself. I think that growth is, at best, a means to an end. Unfortunately, many mainstream economists see growth as an end in itself. I fully agree with your general idea of re-thinking what growth means and what it does for us.

Another one of your points, which I think is important, concerns the difference between qualitative factors and quantitative ones. These factors are intertwined with the issue of growth and what growth really means, or should mean. We must clarify that quantitative inferences are not necessarily better since there are also many qualitative bases that are also very important. I also agree with your point that we need better measures and more accurate means of measuring the national well-being for the United States population. I think that GNP and GDP are limited measures. I don't think they tell the whole story. They shortchange the qualitative implementation of progress and development.

There are several problems also, which I will address. Your proposed changes first view the overall economy, and then develop the micro perspective. I believe your paper should first examine the micro elements and then develop those to the macro. This system

works best because the changes you propose require behavioral change. They require changes in attitude, and behavior at the individual level, and these changes require examining the differences between the qualitative and the quantitative dilemma. Historically, cases in economic history have shown that in order to achieve certain qualitative standards, one must also have a certain level of development, which is traditionally assumed to be achievable only through growth.

Despite the many possible benefits of NAFTA, we need to think about alternatives to free trade. One alternative is to have a protected economy with limited access to foreign capital and limited access to foreign products. Economists claim that protected economies are captive markets which damage the consumers by restricting their possibilities of choice. We must examine the possibility of these theories. One of the symptoms of a captive economy protecting domestic corporations is that those companies become non-competitive. Furthermore, economists claim that those captive markets or protected economies also provide poorer quality of consumer goods, and at higher prices. The most important aspect of protectionism is its effect on innovation. Though your paper does not address innovation, many economists consider it to be the single most important force of economic development. Many who have written on development, especially Joseph Schumpeter's work, stress the importance of innovation. Scientific, technological, organizational, and institutional innovations certainly have to be included in the framework, and these innovations also affect those qualitative issues and the quantitative question of whether the growth is important or not. In any economy, especially the advanced economies, like those in the United States, Japan and Western Europe, innovation, and not growth, is a major cause of efficiency. However, many innovations also reduce the jobs in an economy. And the whole history of industrial development technology, and technological applications is that they have reduced jobs. For example, the steel industry employed the most efficient level of employment in its operations over the last eight years, and the new technology eliminated many jobs.

Finally, I think the free trade theory has a lot of faults, and I agree with some of your points. I don't think that the free trade theory should be adopted as dogma as much as it has been by certain political sectors, especially by the Bush and previous administrations. I think that one important requirement is to fine tune trade to include, rather than to adopt, the dogma as a given and as an ideal. NAFTA

should adjust to the reality of countries that impose obstacles to the free flow of American goods into their markets. I think that fine tuning of free trade is very important, at least for the short term. We must also link the issue of resource renewal with free trade, because the world is now understanding much of the global environmental impacts that are going to affect us in the next century. We are seeing the ozone layer being depleted, we are seeing the potential health effects it will have on people all over the world. So we need to link the question of trade, any trade, and the question of development to the issue of global resource renewal for all humanity.

ROBERT W. BENSON*

I'll make some comments first about what I call the deep structure of what I think is going on in Professor Cobb's paper and in cultural discourse. Then, I'll get more down to earth.

We live by metaphors. Someone once said metaphors start out to liberate the human mind, and wind up enslaving it instead. But we need metaphors as organizing frameworks to go through our daily lives on a personal basis, and to organize a political discourse on a larger cultural level. We tend to change as metaphors change, slowly, very slowly, over generations, decades, or centuries. And it occurs to me there's a profound metaphor shift or paradigm shift going on now.

Maybe one way to illustrate it is to relate briefly a short story by the late Argentine novelist Julio Cortázar, called *Southern Highway*. It is a story about a massive traffic jam on a Sunday afternoon outside of Paris on the Southern Highway. Everyone is trying to get back into Paris, and for some reason that's never explained, traffic just comes to a dead halt. As far as you see in all directions there are deadlocked cars. The traffic jam lasts for several days, actually, and during this time somebody dies, somebody commits suicide, people make love, form friendships, play with children, there are fights, and they begin to organize themselves after the first night, to take care of those who are not doing so well. They count the supplies, the water and food available to the cars. They send little bands of foragers off into the countryside to see if they can buy or steal some food supplies

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from the nearby farmers. There aren't many farmers, and those that are there organize and put up resistance by stoning the people from the highway. So they are forced to exist in a community of deadlocked automobiles. The people share, they organize, they create a governmental structure among themselves, they ration supplies, they live stably within their own small community for the time that they need to.

Then suddenly, on the third or fourth day, even though no one ever explained to any of them why they were in this traffic jam and no emergency authorities were able to reach them, suddenly the traffic jam breaks up and they find themselves speeding back into Paris. Once again, the people with whom they had recently been a community become faceless, anonymous, known only by the make of the cars that whiz by. And the protagonist of the story, recounting this, talks about the feeling when he is rushing finally back to Paris, the feeling of progress, fast toward clean sheets and showers and material comfort. And then, in the last paragraph, he is hit with a profound sense of despondency over the loss of community and friendship that he had recently been forced to engage in, during that traffic jam.

Although the story was written in the '70s, I believe that it's a nice metaphor for the shift that we're undergoing now. We are faced with environmental disasters much worse than mere traffic jams. The traffic jam is trivial, for example, compared to the ozone depletion, the threat of global warming, the loss of biodiversity, and the poisoning due to hazardous waste and toxins, and so forth. And we are sensing culturally that we are suddenly survivors on a small planet. We have been living our lives by a metaphor which is basically the Darwinian metaphor of progress, forward movement, that bigger is better, that growth, fast machines, and material comfort somehow mean progress and goodness. That metaphor is breaking up. We are forced to ask ourselves, what now, what is progress, what is well-being? And I think we're seeing new notions of community, notions of survival, notions of living within our own sustainable, available resources on a small planet. The Gaia metaphor, and the biosphere metaphor which allege that humans are just a part of a system, and everything we do affects the system and the system affects us, these metaphors of, let's call it the global village, are replacing the old Darwinian metaphor which has dominated our personal lives, our personal value systems, and the cultural discourse.

Now, how does that relate to Professor Cobb's paper and the

development of alternative measures of progress? Well, it seems that the GNP measure of growth is perfectly suitable for a Darwinian organized culture. It is particularly unsuitable, however, to measure things that we now are forced to measure, in terms of our own survival and welfare. So we're seeing lots of new indices being offered, and these indices, I think, are instruments of political discourse, not just ideas for economists, graduate students, and statisticians. They are probably the bread and butter of the economics profession, like personal injury cases for lawyers. But in addition to being that, they are also instruments of political discourse. And as instruments of political discourse, they are more important in forming public policy, than they are as the daily bread of economists. And so we're seeing a lot of these indices pop up. They have the political and cultural value of being quite shocking, of jolting us out of complacency, of making us realize that maybe the metaphor by which we were measuring ourselves is wrong. Professor Cobb's and Professor Daly's Index of Sustainable Economic Welfare (ISEW) is a superb addition to this political discourse.

I think that the results that Professor Cobb's and Professor Daly's ISEW index offer are themselves quite shocking. Assuming that there are no methodological problems with the index, the last ten years on the index, 1978 - 88, show no progress in terms of sustainable economic welfare. Although GNP goes up impressively in that period, they claim there was no progress. There was regress, we went backward.

You can also examine at other indices in other countries. In Taiwan, for example, in the period 1982 - 85 there was a 6.6% increase in GNP. But if you apply a very conservative deduction from those figures for only air and water pollution, it shows that actual growth was only 3.4%. Between 1986 and 1989, Taiwan claimed a GNP increase of 9.8%, but the environmental deduction would cut that value to 4.8%. The projection for the next five years in Taiwan is a GNP average increase of 7%, while the environmental deduction projected for only air and water pollution will be 7.3%. This means that there would be actually negative growth in Taiwan the next five years. Similarly, for Costa Rica, a model of Central American development, and maybe all Latin American development, Robert Repetto of the World Resources Institute has recently published a work called "Accounts Overdue" which looked at the growth of the last several years. He found that the GNP of Costa Rica was about 4.6%, a good figure for

Central America. He and his associates then set up a system of natural resource accounts, accounting mainly for the depletion of forests and the erosion of soils, and placed an economic dollar value on these losses. They showed that GNP growth of 4.6% would in fact be much less. They make the statement that 4.6% growth in the GNP of Costa Rica was really accomplished by drawing down the natural accounts, the natural capital accounts of forests and soils, so that the GNP figure gives no warning to public policy makers that the basis for Costa Rican growth was really being destroyed. The point I'm trying to make is that those figures are somehow jolting the discourse of public policy and are awakening society. And therefore I find the index offered by Professor Cobb to be quite beneficial in that way.

There are many other things I like about the index offered by Professor Cobb. However, I do find it to be rather conservative. I think Professor Cobb does not want to introduce too radical an approach, and so he presented a conservative index that nevertheless leads to radically jarring results. He is wisely trying to increase the acceptance of these indices by making his assumptions very conservative. He accepts the idea of *Homo Economicus*, by which each individual determines his or her own best welfare by making market place decisions. He does not challenge traditional economic wisdom on that point. However, I would. The traditional notion does not account for distributive justice. Some people start out being purchasers of economic welfare with more money and power than others, so I would not concede that the dollar sum of their choices is a good indicator of total well-being. Professor Cobb does have a calculation in his index to correct for distributive justice in response to that concern, but it strikes me as minimal.

Finally, I would suggest that other indicators are also needed. Professor Cobb has made it plain that his index is not an index of human development nor human well-being, health, or environment per se. It is, instead, an index of sustainable economic welfare. Other indices of health, child welfare, and education are also important. However, it is probably impossible to incorporate all of those figures into one single number to really measure whether we're making any progress or not.

I would like to conclude by suggesting ways of working on this problem. There are actual political and lawyer-like activities that one can do which would help, such as passing statutes in Congress, and requiring the Commerce Department to report data differently. That,

in fact, has just occurred, so some headway is being made. The United Nations and the World Bank and other lending institutions are beginning to change the statistics on which they base their decisions. Furthermore, the media, the education system, as well as the press and political discourse, also have their roles to play to help make the shift to a new metaphor by which we organize our lives. They might begin by following the path that Professor Cobb and his colleagues have blazed.